DJ IA	Nasdaq	S & P 500	Russell 2000	MSCI EAFE	Crude Oil	Euro	10 yr Treas.	Fed.Fund Rate	Prime Rate
36,338.30	15,644.97	4,766.18	2,245.31	10,462.77	75.21	0.8793	1.52	0.00-0.25	3.25

Money Manager Newsletter
December 31, 2021
Investment Consulting Group, Inc.

"Washington Is Run By People Who Think There Is A 1% Difference Between 2% Growth and 3% Growth"

~George Will~

I still expect that the S&P 500 will continue to rise to new record highs. My targets for the index are 5200 for next year, and 5500 for 2023. The Fed may decide to taper faster in response to higher-than-expected inflation. It would still be adding liquidity, though at a slower pace, to the economy's punch bowl, which already has plenty of liquidity from previous rounds of the Fed's largess. Consider the following:

1.) Bank Deposits. Total deposits at all commercial banks are up $4.4 trillion.

2.) Personal saving totaled $2.5 trillion.

3.) Excess M2 prior to the pandemic suggests that M2 exceeded that trend by about $2.5 trillion during October 2021.

4.) Monetary velocity. We know that GDP's monetary velocity ratio (i.e., nominal GDP divided by M2) is at a record low. So, there's plenty of cash available to fund more nominal GDP growth.

Less widely followed is the ratio of the market capitalization of the S&P 500 to M2. This measure of the S&P 500's monetary velocity was 1.8 during October, slightly below its peak before the bear market of the Great Financial Crisis but still well below its peak before the tech bubble's bear market at the start of the millennium. Stocks aren't cheap, but there's certainly plenty of liquidity available to drive stock prices higher. Yardeni Research
(M2 is cash, checking accounts, savings accounts, money market sums, and bank CD's)

A new analysis from Nordpass of password usage found that the most commonly used password is "123456," used 103,170,552 times. Other popular passwords include "123456789" and "password" and the enigmatic "qwerty." Distressingly, Nordpass calculated that 73 percent of the most common 200 passwords of 2020 could be cracked in less than one second, a figure that in 2021 stands at 84.5 percent of the list. The data was drawn from a 4-terabyte database covering around 50 countries, which also helped them determine a bit of local flavor to the easily-guessed passwords, including "steelers" in the U.S., "liverpool" in the U.K., "marsielle" in France and "guinness" in Ireland. Dhavani Solani, Vice

What a profound little paragraph….Stated way back in 1931 and it says it all "You cannot legislate the poor into freedom by legislating the wealthy out of freedom. What one person receives without working for, another person must work for without receiving. The government cannot give to anybody anything that the government does not first take from somebody else. When half of the people get the idea that they do not have to work because the other half is going to take care of them, and when the other half gets the idea that it does no good to work because somebody else is going to get what they work for, that my dear friend, is about the end of any nation. You cannot multiply wealth by dividing it." Dr. Adrian Rogers, 1931

Donald Henry Rumsfeld, secretary of defense in both Soviet and modern eras, died on June 29th, age 88. A favorite came from Al Capone, another tough talker from Chicago: "You'll get more with a kind word and a gun than with a kind word alone." They needed to beat the Soviets, not make nice. "Absence of evidence is not evidence of absence." Why had they seemed blind to conditions on the ground? "There are known knowns...known unknowns...and unknown unknowns", he said defiantly. The Economist

When the market hit its low, the forward P/E (price/earnings) multiple of the S&P500 dropped to 12.7 P/Es usually go a lot lower during recessions. But the Fed came in so quickly with "QE (quantitative easing) forever" that the forward P/E surged to 22 by May 2020. The market anticipated that (QE) would revive the economy quickly. Since last spring the forward P/E has held its own around 22, which is extremely high historically, but now is warranted given Fed policy. What's really driven the market is that earnings have been absolutely on fire. I'm assuming that forward P/E will remain historically high at around 22, and that at the end of next year, analysts will anticipate 2023 earnings could be $230 per share. Analysts on average expect the S&P 500 to post $200.51 a share in operating earnings this year and $218.92 a share in 2022. Again, the market looks ahead. When you multiply $230 a share by 22, you get 5060. I've been bullish since the bottom of 2009, and generally speaking, the markets kept pace. Why is 22 P/E the new Normal? Because there's a tremendous amount of liquidity in the system. All the liquidity provided since the start of the pandemic hasn't been spent. The money supply is roughly $5 trillion higher today than it was right before the pandemic. Anything you'd avoid? Don't ask me about Bitcoin. I need earnings, dividends, rent, some income to discount. Governments are waking up the risks cryptocurrencies pose to their monopoly control of the money supply. Ed Yardeni—Barron's

Oakmark International Fund does not have exposure to Evergrande or any other property companies in China. In terms of China exposure, the Oakmark International Fund owns Alibaba (~2% of the Fund), as well as Tencent indirectly via Prosus (~3% of the Fund). China's current 5 year plan is highly focused on innovation in areas like semiconductors, cloud computing, and artificial intelligence, which in alignment with China's large technology companies. Investment team incorporates a higher discount rate for China tech companies, which creates a higher valuation hurdle to invest. Despite this, the team is finding value in select companies in China. We believe recent regulatory uncertainty has impacted stock prices more than it has intrinsic values which allowed the team to opportunistically add to the positions in China. Matthew Gibbons—Natixis

Most of us make the same mistake with our money over and over: We buy high out of greed and sell low out of fear, despite knowing on an intellectual level that it is a very bad idea. The easiest way to see this behavior in action is to watch money flow in and out of mutual funds. Let's go back to early 2000. The dot-com market had reached a fevered pitch. People were using their home equity to buy tech stocks right after the NASDAQ had a single-year return of better than 80 percent! Then, in January 2000, investors put close to $44 billion dollars into stock mutual funds, according to the Investment Company Institute, shattering the previous one-month record of $28.5 billion. We all know the story from there. Carl Richards—Behavior Gap

Milton Friedman once said that the "society that puts equality before freedom will end up with neither". He was right, Illiberal progressives think they have a blueprint for freeing oppressed groups. In reality theirs is a formula for the oppression of individuals and, in that, it is not so very different from the plans of the populist right. In their different ways both extremes put power before process, ends before means and the interests of the group before the freedom of the individual. The Economist

As for being different this time, it is different every time. The question is in what way and to what extent. Tom McCellan

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We live in a world of competition. If we were talking about level playing field economics, then I wouldn't view global competitiveness as a zero-sum game. Technological advances and creative genius would enable the U.S. and our partners to continue to expand value while having a positive impact on quality of life. However, competitors on the world stage seek to gain improved stature at our expense to achieve their strategic ends. For some time now, Americans have watched geopolitical competitors, particularly China, emerge as increasing threats. To effectively innovate and compete in the 21st century, we must leverage America's core strengths: her people, her genius, and her depth of character. We must also leverage capitalism, which has consistently led to victory. Make no mistake: The economic and national security threat is real. Continuing to delay the onward movement of industry will deepen our risk and decrease our ability to extricate ourselves in the future. But we are sill America. We will remain engaged globally, support our allies, and continue to encourage China and other nations to operate on a level playing field, but we must shore up our businesses to face the realities of the 21st century. Technological innovations stemming from our private sector now will allow us to do both at once. Dan Coats—Barron's

Here's how capitalism works. Pay attention if you took the social justice version of Econ 101.
SIPPC: Save, Invest, Produce, Profit, Consume. Save means postponing consumption, money and time. Only then you can invest, especially your human capital, in something productive. Usually this means doing more with less, being efficient and effective. This is when innovation happens. Andy Kessler—WSJ

From 30,000 feet, the COVID lockdown and re-opening played out pretty much like we thought. GDP collapsed in the first half of 2020, then exploded in the third quarter. Fourth quarter data, when it's released in January, will show 2021 had the fastest GDP growth, and highest inflation, since the 1980's. As a reminder, this is not a normal business cycle and shouldn't be treated like one. We have never locked down businesses, we have never seen such a rapid peacetime expansion of federal spending, and we have rarely seen such a high increase in the M2 measure of money. Shutting down the economy destroys supply chains because they work best with a free flow of information. And paying people not to work after the economy is open makes it worse. Small businesses have suffered much more than large companies. Real GDP will still end 2021 lower than it would have if COVID had never happened. The massive nature of government interference in the economy since March 2020 has made us all Keynesians. Some of our economic peers are now saying 2022 growth will be slower than it otherwise would have been because Joe Manchin has said "no" on the Build Back Better plan. Their forecast argues that fewer government handouts will reduce spending and therefore GDP growth. Fewer handouts will lead to a reduction in deficit spending. However, with 11 million job openings, it will likely lead to more actual employment. Any slower growth from less government spending will be offset by more growth from the private sector, which will help supply chains. Without BBB, tax rates will not rise, which is a positive for longer-term growth. We expect real GDP to rise at about a 3.0% rate in 2022. Why slower than 2021? Because 2021 was artificially boosted by big deficit spending. Why not slower than 3.0%? Because small businesses will bounce back and the BBB tax hikes and distortionary spending are now less likely. The Consumer Price Index will be up in the 6.5 - 7.0% range this year. We think inflation will run 4.0% or more. We expect oil prices will move higher. Look for solid job growth to continue. Job openings remain plentiful and, slowly but surely, some of the people who have left the labor market should get pulled back in by rising wages. Don't get too excited, though; at that pace, at the end of 2022, we'll be barely 700,000 jobs above the pre-COVID level. The unemployment rate should get down to the 3.5% the Federal Reserve expects by the end of 2022, equaling the pre-COVID rate, but it'll be with much lower labor force participation, so 3.5% is not as impressive as it sounds.
First Trust

12/31/2021	"Current P/E" / "20 Year Avg. P/E"		
	Value	Blend	Growth
Large	15.8/13.7	21.2/15.5	30.6/18.5
Mid	15.7/14.5	19.4/16.4	33.7/20.4
Small	15.9/17.0	23.4/21.4	43.3/35.5
J.P. Morgan Asset Management			

Remember how I always say, "Line up 12 economists for their prediction on interest rates? Here we go:

Economy	2022 US GDP Growth	2022 Core PCE Inflation
Edward Yardeni—Yardeni Res.	3.3%	3.6%
Diane Swonk—Grant Thornton	4.3%	2.6%
Aneta Markowska—Jeffries	5.0%	2.8%

Fixed Income	YE 2022 10 Year Treasury	YE 2022 Fed Funds Rate Target
Andy McCormick—T. Rowe Price	2.25%	0.75-1.0%
Gargi Chaudhuri—BlackRock	2.05%	0.50-0.75%
Dan Ivascyn—Pimco	1.75-2.0%	0.50-0.75%

Stocks	YE 2022 S&P 500 Target	YE 2022 S&P 500 EPS Growth
Saira Malik—Nuveen	5100	9%
Mike Wilson—Morgan Stanley	4400	10%
Savita Subramanian—BofA Sec.	4600	6.5%

Donald Stanforth

To remove the emotion around investment decisions, the Smead team uses eight criteria, starting with five that aren't negotiable: Companies need to meet an economic need, have a distinct competitive advantage and track record of profitability, generate free cash, and trade at a significant discount to their intrinsic value. The team also considers the health of a company's balance sheet, its history of shareholder-friendly decisions, and strong insider ownership. They invoked Warren Buffett's twist on a Mae West Quotation, "Too much of a good thing can be wonderful."

Treasury Market Yields	12/31/2021	12/31/2020	12/31/2019
2 Year	0.73%	0.13%	1.58%
5 Year	1.26%	0.36%	1.69%
10 Year	1.52%	0.93%	1.92%
30 Year	1.90%	1.65%	2.39%
SP 500	1.26%	1.60%	1.82%
Commodities			
Oil ($bal)	$75.21	$48.52	$61.06
Gold ($/oz.)	$1827.50	$1893.10	$1519.50
CRB Index	$232.37	$167.80	$185.79