DJ IA	Nasdaq	S & P 500	Russell 2000	MSCI EAFE	Crude Oil	Euro	10 yr Treas.	Fed.Fund Rate	Prime Rate
33,147.25	10,466.48	3,839.50	1,761.25	8,996.59	80.26	0.9374	3.88	4.25-4.50	7.50

Money Manager Newsletter
December 31, 2022
Investment Consulting Group, Inc.

"If Fears Drives Your Investment Decisions You Are Doomed. You Will Never Have Wealth. Never Make Important Decisions When You're Influenced By Fear Or Alcohol"

~Donald R. Stanforth, President Investment Consulting Group, Inc.~

The Cashless Revolution

The days of hard cash may be numbered. Having invented paper money more than 1,000 years ago, China is now leading the charge into credit-card free online payments. It is also developing its own digital currency, one that could allow the state to observe and control every financial transaction. A credit card payments system, UnionPay, a monopoly part-owned by the People's Bank of China, was launched only in 2002, and it was slow to provide payment services to the nation's fledgling internet companies. Tencent[1], a Shenzhen-based social networking firm, found a way around this problem. The following year, Alibaba[2], a rapidly growing e-commerce site run by Jack Ma, introduced its own online payments system, Alipay. Alibaba's customers were able to link their bank accounts directly to Alipay. The financial-technology revolution was further assisted by the rapid adoption of smartphones in China, creating a vast domestic market for mobile payments. On a visit to Tencent's headquarters in 2012, Mr. Xi was struck by the "abundant data" gathered by the firm, asking its boss: "How do we adapt the internet to manage society?" We know now that Mr. Xi's own answer was to develop a social credit system, which uses information technology to control the actions of refractory Chinese nationals, preventing them from taking high speed trains or traveling abroad, for instance. When Covid struck in early 2020, fintech was adapted to facilitate lockdowns and issue individualized stay at home orders. Where will this cashless revolution take us? It's too soon to say. Friedrich Hayek once said that money was "one of the greatest instruments of freedom ever invented by man." A centralized digital currency may turn out to be the most effective instrument for social control ever created.

Edward Chancellor

1. Tencent is described as a "social networking company" and a good comparison would be something like Facebook's Whatsapp; an instant messaging service. However, unlike Whatsapp, Tencent grew into much more. When you're dealing with a unitary government, having supreme control and visibility to your population is very handy, and knowing what your citizens were saying was just the start. In addition to it's "QQ" messaging service, Tencent produces video games, invests in foreign companies (a la EPIC games, which owns Fortnite, or the Chinese portion of Roblox—ask your kids), they are a film distributor and production company, music and video streaming (combine Spotify and Netflix), e-commerce provider (services similar to a combined eBay and PayPal), a search engine (which it absolutely did NOT copy from Google…), a healthcare and insurance company, a "data processing" company ({shrug}), and a 21 million square foot (~.75 square mile) urban development it has named "Net City".

*2. Alibaba is described as an "e-commerce site" which would best be compared to Amazon. It also does cloud computing (data warehouses such as Amazon Web Services), has invested **heavily** in facial recognition software (accused of helping support the Uyghur Muslim genocide in China), Alipay (second largest processor behind only Visa), entertainment services (Ticketmaster), and internet services.*

12/31/2022	"Current P/E" / "20 Year Avg. P/E"		
	Value	Blend	Growth
Large	13.9/13.7	16.7/15.5	21.1/18.6
Mid	13.4/14.4	15.3/16.3	21.0/20.3
Small	15.3/16.8	19.1/21.3	25.3/35.6
J.P. Morgan Asset Management			

On November 11th, 2022, there was a large bankruptcy in the cryptocurrency world. FTX (a trading platform) and their CEO Sam Bankman-Fried (commonly abbreviated as SBF) announced the company's collapse and bankruptcy. FTX touted itself as an almost "cryptocurrency bank", but it turns out that was far from the truth. FTX, apparently from the very beginning, was using client funds to leverage their investments. It's simple—the company used client funds to invest elsewhere. When the currencies FTX invested in went down, clients couldn't get their money back. Several outlets have described it as a "run on the bank". SBF claims he had no idea what was going on and is feigning ignorance. But here's the problem:

- The client agreement stated their funds could not be used in this way. A bank can't use what's in a safety deposit box for any reason. It's supposed to literally be a locked box. The same limit was supposed to apply to an account at FTX.
- SBF is the CEO of a company. "I didn't know" isn't an acceptable statement. This happened under his watch. He keeps running around saying "I didn't know!" Apparently his lawyer parents are not offering good legal advice.
- Several of his top executives have already accepted plea deals to testify against him. He recently pled "not guilty and posted bond of $250,000,000. I wonder where he got that money. Supposedly "His parents helped".

Ross Stanforth, Vice President—Investment Consulting Group, Inc.

"The lows are in, and I think we are starting a new bull market."

Jim Paulsen—Leuthold Group Chief Investment Strategist

"Wealth or income is not a pie. More for one doesn't mean there is less for you." Donald Stanforth, President — Investment Consulting Group, Inc.

"A year ago the outlook was considered flawless, and I think we're going to reach a point where they consider it hopeless. And that's when you get the big buys."

Howard Marks—Oaktree Capital Group co-founder Howard Marks

Treasury Market Yields	12/31/2022	12/31/2021	12/31/2020
2 Year	4.41%	0.73%	0.13%
5 Year	3.99%	1.26%	0.36%
10 Year	3.88%	1.52%	0.93%
30 Year	3.97%	1.90%	1.65%
SP 500	1.77%	1.26%	1.60%
Commodities			
Oil ($bal)	$80.26	$75.21	$48.52
Gold ($/oz.)	$1819.70	$1827.50	$1893.10
CRB Index	$277.75	$232.37	$167.80

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Something to Ponder: An observation by George Carlin:

The paradox of our time in history is that we have taller buildings but shorter tempers, wider freeways, but narrower viewpoints. We spend more, but have less, we buy more, but enjoy less. We have bigger houses and smaller families, more conveniences, but less time. We have more degrees but less sense, more knowledge, but less judgment, more experts, yet more problems, more medicine, but less wellness.

We drink too much, smoke too much, spend too recklessly, laugh too little, drive too fast, get too angry, stay up too late, get up too tired, read too little, watch TV too much, and pray too seldom.

We have multiplied our possessions, but reduced our values. We talk too much, love too seldom, and hate too often.

We've learned how to make a living, but not a life. We've added years to life not life to years. We've been all the way to the moon and back, but have trouble crossing the street to meet a new neighbor. We conquered outer space but not inner space. We've done larger things, but not better things.

We've cleaned up the air, but polluted the soul. We've conquered the atom, but not our prejudice. We write more, but learn less. We plan more, but accomplish less. We've learned to rush, but not to wait. We build more computers to hold more information, to produce more copies than ever, but we communicate less and less.

Jerome Powell reportedly told associates he has not changed his view. The biggest mistake the Fed could make would be to fail to get inflation under control. Chris Low, Chief Economist—FHN Financial

The Fed is now clearly focused on price stability and fighting inflation. The shift also has contributed significantly to market volatility, as a the interest rate market has adjusted pricing for subsequent Federal Open Market Committee (FOMC) meetings following each inflation reading. This process may not be over, and monthly inflation data is volatile. At the same time inflation looks to have peaked; even with the recent upside surprises versus consensus, the June level in headline CPI and the March high in core PCE were not breached . It is important to note the global differences in policy and the related ramifications. For example, currency volatility has accelerated, and the strength of the dollar could pose risks to global stability, as the ongoing volatility in the U.K. and, to a lesser extent Japan, is showing. For the U.S., the concern in the market is somewhat less focused on the specific magnitude of additional Fed hikes this year, but rather the fear that the Fed will need to keep rates high given overly persistent inflation with a slower growth trajectory. This backdrop prompts the worry of the Fed triggering a severe recession, essentially committing a "policy error." This is the main risk to our more sanguine view on the state of the U.S. economy than some in the media and academic circles. Holly H. MacDonald, Chief Investment Officer—Bessemer Trust

Toyota Skeptical Of Going All-EV

Toyota Motor Corp. President Akio Toyoda said he is among the auto industry's silent majority in questioning whether electric vehicles should be pursued exclusively. There is a growing uneasiness about how quickly car companies can transition. Auto makers are making big bets on fully electric vehicles. Challenges are mounting, particularly in securing parts and raw materials for batteries. While major rivals, including General Motors Co. and Honda Motor Co., have set dates for when their lineups will be all-EV, Toyota has stuck to a strategy of investing in a diverse lineup of vehicles that includes hydrogen powered cars and hybrids, which combine batteries with gas engines. It is also developing zero-emission vehicles powered by hydrogen. "Because the right answer is still unclear, we shouldn't limit ourselves to just one option." Traditional auto makers like Toyota, Ford and GM are also facing new competition from startups like Rivian Automotive Inc. and Lucid Group Inc., which make EVs exclusively. Auto makers have a much broader base of customers, including many living in rural areas and developing economies with unreliable electricity supplies. Gas engine businesses are still driving the bulk of profit needed to fund the costly shift to electric vehicles. The infrastructure to charge electric vehicles, meanwhile, is still lacking in the U.S. and many other parts of the world, making owning an EV still a challenge for many types of consumers. River Davis and Sean McLain—WSJ 12/19/2022

Investors fretted about further Fed tightening and a recession in 2023. Among the earliest reads on the economy are the regional business surveys conducted by five of the Fed's 12 district banks. The average of their composite business activity indexes was –10.4. That might freak out recession fearing investors on Tuesday, January 3, when the M-PMI will be released. However, a couple of days later, the NM-PMI report should show that index remained above 50.0. We already know that the weakness in goods demand has been offset by strength in services demand. The easing of supply chain problems along with weakening demand for goods is continuing to put downward pressure on the regional prices paid and prices received indexes. Goods inflation continues to moderate. This all suggests that the terminal rate of the federal funds rate should occur sooner and be lower than some fear.

There are lots of 2023 market outlooks stories out there, mostly focused on global recession and more pain ahead. All of that makes sense, but the peak of tightening will come at some point this year. Markets are forward looking, so expect stocks to bottom and rates to drop at some point in 2023. As for the economic outlook, in big picture terms, we agree with IMF Chief Kristalina Georgieva that the world, including emerging markets, will fall into recession this year. But recession should tame inflation, paving the way for easier policy and recovery late in the year. Bill Dudley's Bloomberg Opinion column focusses on what could go wrong with the Fed in 2023. The most likely mistake, in his view, boils down to insufficient tightening that results in a soft landing that brings only temporary respite from inflation. FTN