



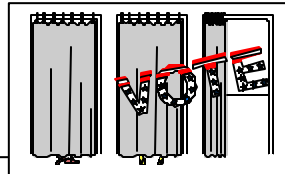
ICG TIMELY TOPICS

From The Top

This quarter's newsletter has many timely subjects including how fund companies are "correcting" mistakes. How many people do you know that become better after a mistake? I hope we see improvements, not regulations.

What could be timelier than the upcoming November election? I am confident the reader of this newsletter is a "regular" at the polling place. I am first a citizen of this country and, setting aside political differences, believe that the single most important thing we citizens can do is vote and encourage others to vote. I have two eligible voters in my family, away at college. They will vote absentee, I assure you of this. We must engrain in our citizenry the obligation to vote.

**Donald R. Stanforth, President
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Article Summaries

Editor "10 Tips to Avoid Fiduciary Trouble When Offering Investment Advice"

IOMA's REPORT ON MANAGING 401(k) PLANS ISSUE 04-07

JULY 2004 pp 1, 11-13 (thanks to Art Petersen for submitting this article)

Fear of adding to their fiduciary liability has led many 401(k) plan sponsors to err on the side of caution and refrain from offering investment advice. In reality, however, plan sponsors may face greater risk by not offering advice than if they do. For a plan sponsor to fully comply with Section 404c, as it relates to an advice program, the plan sponsor will need to assess what and how much information needs to be supplied about the adviser and the advice to participants, so the participants can make a fully informed decision and therefore have control of their accounts.

In brief: 1) All plan participants should be required to sign the enrollment form whether or not they choose to participate. 2) ERISA counsel should review the current regulations and the advice strategy prior to its implementation. 3) In choosing an adviser, the plan sponsor should clearly document its review methodology and the results of its review as evidence of its diligence. 4 – 8) The adviser should be registered under the Investment Advisers Act. The advice should be consistently applied to all participants. The adviser should have compliance tools, resources and experience to develop, test and improve its advisory model. 9) Annually the plan sponsor should request information, from the adviser, on changes to the model, key staffing changes, number of clients, number of participants, and information on funds the adviser uses. 10) The plan sponsor should monitor fees the investment adviser charges to the plan accounts.

Elena, Julie "You gotta have heart" Investment News Vol. 8, No. 28, July 26, 2004 p. 6

Corporate leaders need savvy and smarts in today's business world, but without interpersonal skills and empathy, they may never reach the highest rung of success. When asked to evaluate what makes an effective leader, 265 executives, directors, managers, business owners and consultants place overwhelmingly more importance on emotional-intelligence skills such as relationship building and vision than non-emotional-intelligence skills such as execution and financial acumen. The skills needed for success were ranked, in order of importance, as vision,

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strategic thinking, relationship building, execution and people development. Individuals who display strong emotional intelligence are usually the ones who excel in the business world.

Gabriel, Fredrick P. Jr. “*New Janus skipper trying to right the ship*” Investment News Vol. 8, No. 22, June 7, 2004 pp. 1, 32

Janus Capital Group Inc. is taking bold steps to repair its image after the trading scandal. Steve Scheid, Janus’ new chief executive stated “I believe we now have the ability to talk about our performance in a different way so that our clients really get the message that our performance is back.” To bolster long-term performance, Mr. Scheid, a former executive with Charles Schwab Corp. of San Francisco, is planning to “tweak” the investment management team’s compensation structure so that more emphasis is placed on long term performance. “That will underscore that what we are shooting for is consistent strong performance, not just strong performance,” Mr. Scheid said.

In addition to the performance, the new campaign might also call attention to the seniority of Janus’ investment team. “I think there is this belief in the marketplace that we’ve had this incredible turnover,” Mr. Scheid said. “The reality is that 90% of our portfolio managers are homegrown, they’ve been running portfolios for 10 years, and they’ve got 13 years’ tenure at Janus.” Maybe so, but Janus has certainly seen a relatively high number of key defections recently.

The company faces an uphill battle in its efforts to regain its footing in the fund industry. About \$17.5 billion has been yanked from Janus since September when news of the scandal broke. Rachel Barnard of Morningstar states “The big question is, how are they going to restore the confidence of investors – and not just the confidence of individual investors but of institutions?” So far, Mr. Scheid figures that those he has met with thus far represent about 25% of the firm’s assets. “Slowly, we are getting the message out to them,” he said. Last month, Morningstar, buoyed by the changes that have taken place so far at Janus, lifted its negative rating on the company’s mutual funds. Highfields Capital Management LP in Boston, which owns a large chunk of Janus’ stock, disclosed that it is finally satisfied with the management changes taking place at Janus. “We haven’t completed our victory yet,” said Mr. Scheid. “When the flows are coming back to us, and I really feel like we are back on top of our game, then we will have a celebration,” he said. “But I am not going to do it prematurely.”

Munarriz, Rick Aristotle “*Janus Humanus*” Fool.com June 18, 2004 news/commentary pp 1-2

Maybe it is time to forgive Janus Capital Group. In April of 2004 the company took a settlement hit to the tune of \$225 million for past improprieties. In June, 2004 the Janus asset base had dropped 8% from the previous year.

These days Janus is operating under the brightest lampposts. Scrutiny is tight. The culprits have moved on. The innocent laboriously carry on. When can we bury the past and get back to analyzing the fund family based on its financial performance? I will always respect the wholesome operators like T. Rowe Price, but I’m also willing to wager on the stability of the parolee. When Janus begs for forgiveness and is willing to shave costs to lure new investors, I know what I would do. I would turn the other cheek, twice. I forgive you Janus.

Gabriel, Frederick P. Jr., “*Funds with lower fees rule the roost*” Investment News Vol. 8, No. 26, July 12, 2004 p. 6

Stock mutual funds with lower fees once again outperformed their more expensive brethren in nearly all fund categories, according to a recent study by Standard & Poor’s. Funds that charge a lower-than-average expense ratio beat their pricier counterparts in eight of nine domestic categories on a one-year, and three-, five-, and 10-year annualized, basis. The only exception was mid-cap blend funds, where funds with higher expense ratios beat their cheaper rivals on a five- and 10-year annualized basis. S&P looked at the performance of each fund over the time frames

that ended May 31. The funds were then placed in one of the two categories within their peer groups: those with above-average expense ratios and those with below-average expense ratios.

Miller, Rick “*Markets depend on Fed, not election, study finds*” Investment News Vol. 8, No. 26, July 12, 2004 pp. 2, 23

The performance of the stock and bond markets over the next four years will have more to do with the Federal Reserve than the political party that occupies the White House, according to a soon-to-be-released study. The study, to be published in the Journal of Portfolio Management, found monetary policy is really the key. Robert Johnson of the CFA Institute states, “The most important person in the country for the stock market isn’t the president; it is the chairman of the Fed.” Earlier studies have shown that the stock market performs better under Democratic administrations and the bond market performs better under Republican administrations. “This political difference seems to us to be a puzzle” according to UCLA Assistant Professor of Finance, Rossen Valanov. Mr. Johnson said, “You might say ‘Well, the Democrats have really been good for the stock market, and the Republicans have been bad for the stock market.’ But... what we’ve found is, there is a high degree of correlation between what the Fed has pursued as monetary policy when the Republicans have been in power and when the Democrats have been in power. The real explanatory variable is the Fed.”

When the Fed pursues an expansive monetary policy, lowering rates, returns to stocks and bonds are significantly higher than when the Fed pursues a restrictive monetary policy, raising rates. With the exception of the Carter and first Clinton administrations, the mean returns during expansive months were substantially higher than those during restrictive months. During the Nixon/Ford administration, the S&P 500, on average, returned a paltry 1.62% annually during the four years. In expansive months, however, the annualized mean return was 30.35%, while during restrictive months, it was -21%. During both Reagan administrations, there was a substantial difference between returns during expansive and restrictive months. Mr. Valanov thinks the finding that monetary policy “causes” the S&P to be higher during expansionary periods is “not substantiated.” Mr. Johnson said that the study doesn’t attribute a cause-and-effect relationship but suggests only that the market generally does well during expansive periods and poorly during restrictive periods.

Feinberg, Phyllis “*DC plans tell troubled providers: settle or else*” Pensions & Investments May 31, 2004 pp. 6, 96

Plan sponsors are pushing their service providers that are tainted by the mutual fund scandal to settle with the SEC and New York State Attorney General Eliot Spitzer. Tony Johnson, chief investment officer at the Philadelphia Public Employees’ Retirement System, pointed out that Janus has settled, and MFS is still in negotiations. Mr. Johnson believes the pressure on Janus encouraged the firm to settle the charges.

Officials at the \$6.3 billion New York State Deferred Compensation Fund have informed the affected fund companies, Putnam Investments and Janus, which have settled and Pacific Investment Management Co., which is fighting the charges, that if charges are not satisfactorily settled, New York might close the funds to participants. The \$1.3 billion Wisconsin Deferred Compensation plan is also a Janus client and also put pressure on the mutual company to settle. While not saying specifically that any of INVESCO’s clients have pressured INVESCO, another of the fund companies implicated in the scandal, Bill Hensel, a spokesperson, did say “Everyone wants this thing to be settled.” He added that the firm has “stayed in constant communications with our clients and are trying to resolve the issues with the regulators.” PIMCO’s CIO, William Gross, has stated that the bond funds had done nothing wrong and were separate from the other funds under the umbrella of PIMCO’s parent company. The Chief Investment Officer for the United Methodist Church, Evanston IL says that PIMCO might be a little more careful with whom they allowed to use their name.

**Sheehan, Brendan “*The Looming Pensions Crisis*” Global Finance July/August 2004
pp 12-15**

An aging population and over stretched state pension schemes are causing an underfunding of state pensions in European Countries. All countries are working toward alternatives that include the encouraging or enforcing of private pension contributions. The United States 401(k) Plan is a prime source of inspiration. In the United Kingdom, since 2001, the employers who were not already providing reasonable pensions must offer to assist employees in “stakeholder” schemes that are portable and can move from job to job with the employee.

Germany has one of the most generous, yet costly, state funded schemes. Work is underway to simplify the pension schemes but there are some that believe that the pace of the reform is too slow. The French pension system places a heavy financial burden on the state. Under the current system, the state provides retirement income of 70% across the board after 37 years’ contribution. Even if standard working periods are extended, it is unlikely that the 70% level will be maintained long term. As more countries reduce the state pensions, corporations and workers must greatly increase the amount of money they are contributing.