

# Money Manager Newsletter

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Investment Consulting Group, Inc.

**Morality it could be argued, represents the way that people would like the world to work- whereas Economics represents how it actually does work— Steven Levitt, Freakonomics**

## Market Overview

The macro environment is two-faced, somewhat like the moon with a bright side and dark side, generating tides that pull equity investors in and then push them away. Like all things governed by the moon, investors are emotional, uncertain, and fragile.

The bright side of the U.S. economy over the past five years is that it has proven a tough, resilient, and dynamic system, never more so than when one contemplates the challenges it has had to overcome. A partial laundry list would include: the collapse of the technology bubble, major corporate governance and fraud scandals (Enron et al), the World Trade Center bombing, war in Afghanistan, war in Iraq, a dubious election, historic low approval ratings for the Presidency, a tip-toe to the edge of deflation, loss of manufacturing and outsourced service business to developing nations, the decline and fall of US auto manufacturing, natural disasters culminating in the loss of a major city, skyrocketing energy costs, and the spooky specter of 1% Fed Fund rates accompanying a 30% loss in the value of the dollar. What a champ the US economy must be, that it can take these punches and still produce record-breaking profits for corporations.

But more challenges (and challengers) await. The risks to the dollar of possible foreign reluctance to continue buying U.S. government securities. Geopolitical risks ranging from Iraq to Iran to North Korea, and various energy-crunch scenarios not yet imagined. Accidents in the now-gargantuan derivatives markets. The dollar under siege. Global warming. You name it.

Call us crazy, but we're more comfortable now with the situation for stocks than we were. Stocks could easily be as frustrating yet decently supported as they were in the excruciating January-March period, but the long-side odds have improved.

We continue to think, as we have for longer than we care to remember, that there will be plenty of friction hindering stocks from making substantial new highs. Possible summer doldrums aside, well-selected stocks should not be too constrained under current conditions.

Lowell Miller, Miller/Howard

## Asset Allocations

Successful asset allocation depends on correctly establishing expected returns and the correlation between asset classes. While the focus should be on future expected returns and their correlations, past results are a leading indicator on which to help base our future expectations and develop proper diversification to protect assets in down markets. The lower correlation (even negative) the better compliment an asset mix (the old adage, opposites attract)

See Table Below

	Wilshire REIT Index	DFA Emerg e Mkts Index	MSCI EAFE Net Div \$	CRSP 6-10 Index	CRSP 6-7-8 Index	F/F Lrg Grow Rsrch Index	S&P 500 Index	F/F Lrg Value Rsrch Index	Long Term Gov't Bonds	5 yr Treasury Note
Wilshire All REIT Index	1.000									
DFA Emerg-ing Mkts Index (USD)	0.414	1.000								
MSCI EAFE Index Net	0.250	0.697	1.000							
CRSP 6-10 Index 0.392	0.392	0.695	0.718	1.000						
CRSP 6-7-8 Index	0.386	0.698	0.730	0.997	1.000					
Fama/ French US Lg Growth Port Index	0.201	0.560	0.724	0.697	0.720	1.000				
S&P 500 Index	0.349	0.572	0.749	0.674	0.698	0.966	1.000			
Fama/ French US Lg Value Port Index	0.557	0.411	0.580	0.475	0.491	0.606	0.769	1.000		
Long Term Govt Bonds	0.148	-0.208	-0.225	-0.176	-0.174	-0.106	-0.093	-0.70	1.000	
5 yr Treasury Notes	0.051	-0.316	-0.368	-0.317	-0.310	-0.213	-0.185	-0.097	0.883	1.000

Donald R. Stanforth, CIMA  
Investment Consulting Group