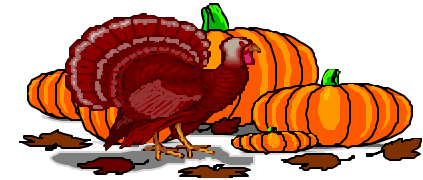




MONEY MANAGER NEWSLETTER
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INVESTMENT CONSULTING GROUP, INC.
Donald R. Stanforth, CIMA



**ROBERT HAUGEN – Emeritus Professor of Finance,
University of California - Irvine**

The Evolution of Academic Finance

As a rather ancient ex-academic, I like to distinguish between The Old Finance, Modern Finance, and The New Finance.

The Old Finance is based on accounting and law. The famous investment book, called “Security Analysis” by Graham & Dodd, shows how to adjust accounting statements so that earnings and assets of different companies could be directly compared. It worked then.

Modern Finance’s birth occurred in the 1950’s with Harry Markowitz using a new tool to build stock portfolios called *portfolio optimization* and a model called CAPM or Capital Asset Pricing Model. The completion of modern finance was Gene Fama’s introduction of the “Efficient Market” (this confirmed indexing).

The New Finance appears to measure behavior first and then finds reasonable and plausible explanations for what is seen. Therefore, those in the efficient market make mistakes in pricing stocks. These mistakes result in tendencies. These characteristics tend to produce premium returns.

DANA INVESTMENT ADVISORS – Michael Dana & James Ivey

It’s the Louisiana two-step as officials at all levels of government dance around the blame for the disaster still unfolding. Then of course, the press has to put in their biased two cents. All of this is counter-productive at this point.

How will all of this play out in the economy? We have had a shortage of refineries before Katrina, and now that shortage is greater. Consumers will tighten their belts in other areas to offset the cost of gas. Sales and discretionary income will drop so we can expect to see a slow down at restaurants, movie theaters, theme parks and vacation travel. People will basically spend more time at home. A slowdown but not a recession.

On the other hand, construction spending will increase as the south coast rebuilds, and new jobs will be increased along with it. This will also encompass related businesses – plumbing, electrical work, carpeting and general infrastructures.

DONALD R. STANFORTH, PRESIDENT

Variety is the state of being diversified. The calendar quarter ending September 30, 2005 has had variety - events (hurricanes), prices (oil and energy costs) and errors (Greenspan). That explains three types of volatility in the market.

The concern for investors is “what is diversified and what is a good investment.” The answers are complicated because: “Good” companies are not necessarily good investments. “Growth” companies are not necessarily growth. “Value” companies are not necessarily value. From each perspective the question is *why* are they under priced and *if* they are under priced then why don’t we just index?...Because not everyone can index. If just 15% of the investors indexed, the market “Efficiency” would break down. This means there is no single solution to investing. investing needs to reflect variety or the more favored word – diversification.

