

Money Manager Newsletter

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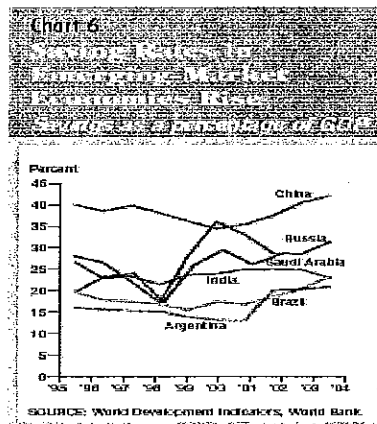
Investment Consulting Group, Inc.

“How much would you take to give up your computer for the rest of your life?” Michael Cox, Ph.D

Market Overview

- The Fed’s major concern continues to be the housing market and its effect on inflation. It is widely known that Chairman Bernanke is a “target inflation” economist. This means that he will continue to “control” CPI with interest rates. His goal is to target CPI at 2-3% as did his predecessor.
- The economy will stabilize for the following four reasons: 1. Chinese growth is slowing, 2. Commodities supply is up, 3. Change in consumer behavior, and 4. Money will flow back into stocks because housing is going down.
- If imports depend on our wealth, then exports depend on world wealth. The reason the last spike in oil prices did not effect our economy like the one in the 1970’s is because in the 1970’s the only commodity to spike was oil ,and this time all commodity prices have gone up. Therefore, we have enjoyed a growth of the global economy.
- We will continue to see a silent progress and a silent boom in our economy. The Fed continues to monitor domestic and world economic stats such as: 1.The rising importance of education (how the demographics of education equals financial success), 2. The rising economic power of women, and 3. More leisure time.
- The difference between capitalism in communist Russia and capitalism in communist China is that Russia developed their political system first and then their economy. China developed their economy first. Most experts believe this will work after some tough times (i.e. revolution). This is evident in the fact that China currently has 40 million millionaires and the United States only has 8.3 million millionaires.
- A quick look at world savings rates shows China at 47%, India at 28%, and the United States at 14% (see table below). This is not a bad thing, let them save while we help the world economy by spending.

Michael Cox, Ph.D, economist & Marcie Rossell, Ph.D, economist



Asset Allocations

The decision process used for asset allocation can be powerful in managing an investor’s or trustee’s expectations. Studies have shown that 92% of the investment return of a portfolio is determined from the asset allocation decision. Therefore, that is the easy part, whereas, the more difficult decisions are how to invest these dollars (funds) into the markets. The first question is active or index. I believe that combining active and index portfolio allocation can create powerful results. A study from Vanguard shows a combination of higher returns with a 50/50 blend of indexing and active managers with a lower risk. A second study by Vanguard also shows the outcome of institutional investment managers from trustee hire/fire decisions (see tables below)

Before Firing	Years		
	3	2	1
Fired Firm	(0.52)	(1.54)	(0.41)
Hired Firm	15.85	9.43	4.88
Difference	16.37	10.97	5.30

After Firing	Years		
	1	2	3
Fired Firm	1.06	1.69	3.01
Hired Firm	0.96	1.28	1.43
Difference	(0.10)	(0.41)	(1.58)

The hire/fire decision must contain five qualitative processes: people, philosophy, process, performance, and price.

Donald R. Stanforth, CIMA, Investment Consulting Group