

Money Manager Newsletter

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Investment Consulting Group, Inc.

“Ever since Adam Smith there has been virtual unanimity among economists, whatever their ideological position on other issues, that international free trade is in the best interest of the trading countries and of the world.” Milton Friedman, *Free to Choose*

Market Overview

The stock market has rallied since the Federal Reserve decided not to raise interest rates at its August meeting. With inflation contained, we do not expect the fed will have to raise rates anytime soon. With corporate earnings growing 7-9% over the next twelve months, total market return should be in the high single digits. High quality growth companies should dramatically out perform the general market.

Dave Lawson, Mchugh

With the fed funds rate at 5.25% and bond rates throughout the yield curve hovering in the neighborhood of 4.75%, it is clear that the bond market anticipates an easing policy taking hold in 2007. The current economic recovery is now more than five years old (one of the longest on record) and the market may well be correct in its forecast of an economic slowdown.

Richmond Capital Management

After general market effects, the most important results of performance is style. The market climbs a wall of worry and it appears most investment managers and economists all are throwing caution to the wind with an optimistic view of '07 markets. Investment market observations is one of two primary objectives in managing money. The other is investment manager talent. Too often we credit recent past performance as talent. Regrettably, style is routinely confused with skill.

I would be remiss if I didn't mention the death of one of the 20th century's leading economic scholars, Milton Friedman. His view, was that government needed to keep its hands off the economy in order to let the free markets do their work. He allowed for one economic lever- money, supply. He earned the Nobel prize after analyzing a combination of rising unemployment and rising inflation that was known as **stagflation**.

In Milton's book, *Free to Choose*, one of my favorite parts is the "fallacy of the Welfare state." He describes the disappointment of welfare in the following chart.

Economics According to Milton Friedman

YOU ARE THE SPENDER

	On Whom Spent	
Whose Money	You	Someone Else
Yours	I	II
Someone Else's	III	IV

Category I - Spending your money on yourself.

Ex: Shopping at the supermarket

Category II - Spending your money on someone else.

Ex: Buying a birthday present.

Category III - Spending someone else's money on yourself. There is no strong incentive to keep cost down in this category.

Ex: Lunch expense account.

Category IV - Spending someone else's money on still another person.

All welfare programs fall under categories III or VI. Social security is under category III and public housing falls under category IV. Category IV programs share one category III feature. Namely, that the bureaucrats administering the program partake of the "lunch" and all category III programs have bureaucrats among their recipients.

Donald R. Stanforth, CIMA
Investment Consulting Group