

# Money Manager Newsletter

April 2007

## Investment Consulting Group, Inc.

**"The avoidance of taxes is the only intellectual pursuit that carries any reward."**

**John Maynard Keynes**

**"We have a system that increasingly taxes work and subsidizes non-work." Milton Friedman**

### First Quarter of 2007 Market Performance

The volatile first quarter of 2007 U.S. stock market eked out a 1.5% return while foreign markets did better, returning 3%. The following graph provides a quick overview of the first quarter domestic market, using the S&P 500 as an example of how performance attribution analyses can be conducted. Mid-cap companies fared best in the quarter, as did the utilities and materials sectors. The graph analyzes S&P 500 performance by style. The floating bars in the graph are Portfolio Opportunity Distributions (PODs) for each of nine styles and the total market. The middles of the bars are the medians. The best performing median is mid-cap core with a 5.1% return, and the worst is large core. This is one of those periods where core has surprised by not performing in between value and growth, in this case by underperforming in large companies but outperforming in the mid. We define "core" as the stuff in the middle in between value and growth. As you would expect, the more volatile styles, like small growth, have a wider range.

The red dots in the exhibit show how the style sub-portfolios within the S&P fared against their respective style. The mid-cap growth stocks in the S&P performed below the median. The stocks selected by the S&P committee in this style underperformed in the quarter.

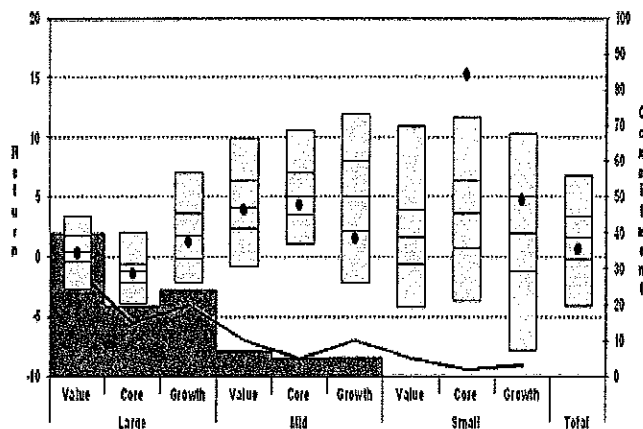
tee. Sometimes the S&P outperforms the broad market and sometimes it underperforms; for purposes of evaluation investment performance it's extremely helpful to know when and why. Ron Surz, PPCA, Inc.

### Nottingham Investment Advisers

Despite voluminous favorable macro and micro data, for many months now virtually everyone with a quote machine has been fixated on the cooling of this once red-hot market and the possible fall out. This clearly kept a lid on stock prices in the first quarter. Ultimately, however, the resilience of the American consumer and the Fed's reluctance to keep raising rates until all is known about the housing situation should carry the day.

Stocks did get a mention or two in the media at the end of February; but, over the entire three-month period, the large cap indexes were either up slightly (S&P 500 Index, NASDAQ Composite) or down slightly (DJIA). With dividends, the S&P 500 Index provided a return of 0.64%. Nothing to write home about, however, we do remain positive. The S&P 500's March 31 P/E was 17.28x, only a few ticks above the 17.11x of February 28. The latter, of course, was the Index's lowest month-end multiple since late 1995, and both P/E's are entirely consistent with a Treasury bill yielding 5.03%. In addition, while the stock market leaders performed well in the first quarter, they still are not attracting the kind of widespread euphoria normally associated with market tops. Equity portfolios remain fully invested.

Doug McPeck, Nottingham Investment Manager



	Large Cap			Mid Cap			Small Cap			Total
	Value	Core	Growth	Value	Core	Growth	Value	Core	Growth	
● S&P 500	0.37	-1.53	1.16	3.62	4.29	1.80	15.21	4.74	0.54	
■ Fund Commitment	33.67	19.69	24.09	7.00	4.61	4.90	0.00	0.00	0.00	
□ Total S&P Return	0.30	-1.20	1.70	4.20	5.10	5.00	1.60	3.70	1.90	1.56
— Benchmark Commitment	33.60	15.60	20.00	10.00	5.00	10.00	5.00	2.00	3.00	
Style Bet	-0.15	-0.14	0.00	-0.08	-0.01	-0.17	0.01	-0.04	-0.01	-0.57

In summary, the S&P's large company orientation hurt performance in the quarter, as did poor stock selection in mid-cap growth, collectively undermining performance by 102 basis points. Yes, the S&P is a managed portfolio; it's just managed by commit-

### From Don

Is it time to abandon long term investment discipline and follow the greater fool theory of investments? I think **NOT!** The U. S. markets were looking for a correction back in February and found one. The down market was -3.5% after a 20% gain since last summer. The Chinese sent a "Shanghai Flu" across the globe. The markets were unhappy with China's 10% growth and 2% inflation (we should have it so bad).

There are still concerns regarding housing slumps and concerns about inventory in autos and factories. Bernanke is looking for a soft landing. Consumer incomes keep rising with low unemployment and record job creation. We have low bond rates helping credit concerns which adds more value to stocks.

My advice to investors is to **remain optimistic** and stay in stocks for the long term.

Donald R. Stanforth, CIMA

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