

MONEY MANAGER NEWSLETTER

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INVESTMENT CONSULTING GROUP, INC.

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MISSOURI VALLEY PARTNERS

The fundamental backdrop for the U.S. equity markets could hardly be better. Inflation and interest rates are hovering at or near their lowest levels in four decades. Monetary and fiscal policies are stimulative; consumer sentiment and spending levels remain reasonably healthy; the manufacturing sector and capital spending are finally showing signs of improvement; and quarterly corporate profits are being reported at higher-than-expected levels. In fact, fully two-thirds of second quarter 2003 earnings-per-share results came in ahead of the consensus forecasts by Wall Street analysts. The only part of the puzzle missing thus far is employment growth, but this is a lagging indicator and will likely begin showing better trends in the not-too-distant future. The rise in non-farm payroll employment during September – the first increase in eight months – is a big step in the right direction.

NOTTINGHILL INVESTMENT ADVISORS - DOUG MCPEEK

The tug-of-war continues. On the one hand, the deflationary forces wringing out the economic excesses of the late-90s have not gone away completely. On the other, the U.S. economy is receiving a significant dose of monetary and fiscal stimulus. Slowly but surely, the latter, compliments of the Fed and the new tax code, appears to be winning the day. In the third quarter, most stock market investors agreed with this positive assessment, and the popular averages registered another healthy advance. History suggests that this is a favorable set of conditions.

A TALE OF AN EQUITY ANALYST - DONALD R. STANFORTH, PRESIDENT

Once upon a time there lived an equity strategist who was trying to predict short-term stock market returns. The strategist attempted to convince himself/herself and his/her clients that a certain market variable had important information.

First, monthly returns were reviewed – no results; next, quarterly returns – no results; then 1 yr., 3 yr., 5 yr., and 10 yr. rolling returns were reviewed and predictably improved. Each cycle of the market had specific events that made each cycle difficult to predict, from the 1930's through the 1990's. Various short-term events continue to make predictability difficult. Therefore, the Equity Strategist's conclusion is that we should be long-term investors not market timers.

A good historical rule-of-thumb for stock market valuation says that the inflation rate plus the market's price/earnings ratio typically equals about 20, on average. On this basis, and given the current inflation-rate environment of about 1%-2%, a P/E ratio for the market of about 18X-19X would appear to be appropriate. In fact, the S&P 500 is currently trading at 18.9X this year's consensus earnings estimate of \$54.26, in line with this method of valuation

We continue to believe that treasuries offer little relative value. Interest rates will likely be under upward pressure due to an improving economy and large government-budget deficits. Mortgage pass-thrus and corporates are currently at fair value.

