



MONEY MANAGER NEWSLETTER

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INVESTMENT CONSULTING GROUP, INC.

Donald R. Stanforth, CIMA



DAVID COMO – TRAINER WORTHAM

On one level, we apparently have passed through one of the gentlest “recessions” in memory. After the 9/11-influenced slowdown in the third quarter of last year, we saw positive growth in the fourth quarter and a booming three months ending in March, with real GDP up at or above 4%. The consumer and housing sectors sailed through unscathed and unemployment and inflation remained benign. On another level, it has been a period of serious disruptions to the economy, with a major decline in business capital spending, and the largest reduction in corporate profits in the past 60 years; these 2 phenomena are only now beginning to recover.

Barring a significant consumer slowdown, a decline in housing prices, or some other event, we would expect continued positive growth, with a recovery in corporate profits continuing into next year.

On balance, we are neutral on the financial markets. Short-term interest rates have most certainly bottomed, and longer term interest rates may possibly increase in concert with improving economic news. Given the escalating tensions in the Middle East, as well as investor concerns about the quality of corporate accounting, we believe taking a cautious stance on stock selection is the prudent course of action for long-term investors.

“October is one of the singularly most dangerous months to speculate in stocks. Others are November, December, January, February, March, April, May, June, July, August and September.”

- Mark Twain

GREG ROBINSON – MARSHALL & SULLIVAN

A prime example of how investors’ emotions take control of decisions is for example, in December of 1999, the top ten companies in the S&P 500 were trading at 68 times one year earnings with a projection of 11% earnings growth.

Today, the top ten companies are trading at 26 times one year earnings and projected 17% earnings growth. Investor confidence has been shaken, and it is easy to understand with Enron and World Com accounting activities and terrorism.

However, it is important that we not let these events cloud our long-term investment decisions. The economy is well on its way to recovery.

DONALD R. STANFORTH, PRESIDENT

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It sure looks like the stock market is “ON SALE”. Remember the exuberant buying in 97, 98, and 99 of anything that was stock (especially technology). In every market some one or something makes money. Go back to the beginning of President Clinton’s term. All the market pundits encouraged infrastructure - Deere, Cat, IH, industrials. The Democrats would create an economic boom. Today, it is defense. The Republicans will create an economic boom and I don’t know of anyone who wants to complain of too much defense spending.