

## >: Blogging and The Tycoon Report

Monday, September 10, 2007 / Wayne Mulligan

Before I jump into today's topic, I want to address an [article I wrote four weeks ago](#)

. For those who participated in my little exercise, you'll remember that the first prediction I asked you to make was for the price of Google (Nasdaq: GOOG), Apple (Nasdaq: AAPL) and Microsoft (Nasdaq: MSFT) one month into the future. Well, today is exactly four weeks since that article was written so I'd like to quickly look in on our little stocks and see how they've done.

To see the price predictions and "check up" dates for yourself you can look at the follow-up [article I wrote here](#).

For simplicity's sake I'll quickly go over the predicted prices and what the actual prices were as of the market close on Friday, September 7th, 2007.

### **Predicted:**

Google: \$502.22

Apple: \$125.80

Microsoft: \$30.06

### **Actual:**

Google: \$519.75

Apple: \$131.55

Microsoft: \$28.50

So it looks like everybody dramatically underestimated Google and Apple - in fact, before the NBC/iTunes issue, Apple's stock was as high as \$145. Microsoft continues to trade at the lower end of its range and was the only stock that everybody overestimated.

I'll check back with everybody in another five months to see how the six-month predictions worked out.

### **Now, on with the show ...**

Today, I wanted to briefly write about "Blogging" and what we've been doing to harness this powerful medium here at Tycoon.

First of all, a "Blog" is really just an online journal or diary - whether it be a diary of someone's personal life, work life, the life of a corporation, etc., it's simply meant to chronicle and highlight various events.

You might be saying, "Big deal, who cares," which is what most folks say, and what many of us said internally when blogs first became popular. Well, there's more to it than that, and that's why we're trying to wholly embrace the concept here at Tycoon. Let me explain ...

First off, throughout history, those who have had a strong media outlet - be it newspapers, TV networks, etc. - were generally very influential and powerful people. There are literally hundreds of bloggers out there who command followings of millions of readers on a daily basis. They use these readers the same way that a typical media outlet would: to generate ad revenue, promote their own views and opinions and to sell products.

However, there's another very important component of a blog, and this is what truly makes it a unique and powerful form of mass media - it's two-directional, or what's better known as a "conversational" form of media.

Now, you've heard me talk about "two-directional" forms of communication when it comes to investing. Brokers simply telling their clients what to buy must become a thing of the past. Individual investors need to start getting educated and educating others - investing can become more profitable if there's collaboration.

So with Blogs, it's the same concept. Whenever someone posts a new blog entry, other readers can now *come together to discuss and debate* the article. And this is exactly what we started doing at Tycoon this summer.

We launched the commenting system for all of our articles and since then have gotten literally thousands of comments from you and other *Tycoon Report* readers. We really wanted to bring you into the "conversation", and I think it's helped us make a much better product.

However, we also added another feature, and sadly, I really don't think many of our readers are making the most of it. The feature I'm talking about is our [Member Articles](#) section of the site.

This is where we let YOU run your own blog. And we make it even easier than if you tried to do it on your own - because the hardest part about

running any type of blog is getting enough people to come read it.

Well, we're starting you off with the entire *Tycoon Report* reader base. We literally give your blog entries exposure to hundreds of thousands of people every s  
*want to become famous? This is how you can do it!*

Really, I'm not kidding ? if you're passionate about investing, and you think you have something important or entertaining to say, then you'd better start putting it up on this site! It's a tremendous opportunity to develop your skills as a writer and as an investor.

### **Question of the Day**

Do you own a blog currently? I don't care if it's professional, personal or whatever?if you own a blog, put the address into a comment and post it here. If you're willing to take the time to write it, then we're willing to take the time to read it.

And if you don't have a blog ? get started here and now, and [post an entry to the Member Articles section](#) of the Tycoon web site.

Have a great week!



Wayne Mulligan  
Chief Investment Officer

[>](#)

## **Monday, September 10**

*15:00 - Consumer Credit (for July): Consensus \$9.5B*

Big Picture: Consumer credit includes household non-mortgage loans. Tax cuts and cash out mortgage refinancing provided consumer funding in past years as 6% yoy income growth and weakening equity gains now provide the means outside of credit. Credit cards (revolving credit) make up 37% of total consumer credit, which stands at \$2.5 trillion. Nonrevolving credit helps finance auto purchases, tuition, vacations and other forms of consumer borrowing. Annual growth of 5% has shown acceleration from the 3.4% yoy decade low of a year ago.

Implications: This monthly measure of consumer debt is volatile and subject to massive revisions. It is also released well after every other consumer spending indicator, including weekly chain store sales, auto sales, consumer confidence, retail sales, and personal consumption. For these reasons, the market almost never reacts to the consumer credit report. Consumer credit is broken down into three categories: auto, revolving (ie, credit card), and other. Since we already have indications on total consumer spending well before this release, there is little to be gained from learning what portion of spending was financed through acquisition of debt. Periods of strong spending can be accompanied by relatively weak credit growth and vice versa, so this measure fails even as a coincident or lagging indicator.

## **Tuesday, September 11**

*8:30 - Trade Balance (for July): Consensus -\$59.0B*

Big Picture: The August 2006 deficit reached a record high -\$68.6 bln as lower energy prices provided the initial fall. The weak dollar and strong global growth now provide a strong upward trend for exports. From a year ago, exports have risen 11% as imports have risen just 4%. Import growth carries a larger effect as they are about 50% larger than exports. The massive size of the deficit is eyed for effects on the dollar and interest rates. The trade deficit demands an equal but opposite investment inflow from abroad as current foreign demand remains exceedingly strong given the return of petrodollars and Asian demand.

Implications: The trade report is most widely watched for trends in the overall trade balance. But trends in both exports and imports of goods and services bear watching as well. The export data in particular are important to watch for indications that a strengthening competitive position at home and/or strengthening economies overseas are boosting U.S. growth. Imports provide an indication of domestic demand, but given the severe lag of this report relative to other consumption indicators, it is not particularly valuable for this purpose.

## **Thursday, September 13**

*14:00 - Treasury Budget (for August): Consensus -\$85.0B*

Big Picture: Strong tax receipt growth continues to lead a path toward lower deficits given the strong (ex-housing) economy, profits and income growth. Spending remains stronger than desired as fiscal discipline is needed. The FY05 improvement sliced away a quarter of the record \$413 bln FY04 deficit as FY06 sliced away another \$71 bln. FY07 has already sliced \$82 bln through July as the last two months of the fiscal year may leave a smaller FY deficit than the current 12 month total of \$166 bln.

Implications: The monthly Treasury budget data follow strong seasonal patterns which produce huge month-to-month fluctuations in the deficit. These fluctuations tell us little about long term budget trends. To the extent that the market analyses the monthly Treasury data, the focus is on year/year changes in receipts and outlays, since the data are not seasonally adjusted. Only in April, the most important month for tax inflows to the Treasury, does the market pay any attention to this report. The data can be predicted with reasonable accuracy by using daily data in the Daily Treasury Statement.

## **Friday, September 14**

*8:30 - Export Prices-ex ag. (for August): Consensus NA, Import Prices-ex oil (for August): Consensus NA*

Big Picture: Core import and export prices show the same 2.8% yoy gains, as the price movement in the volatile components provide stronger annual growth in export prices than import prices. The strong 18% yoy rise in agricultural export prices reflect the increased demand for grains that are now being increasingly used

as alternative fuels. Petroleum prices are just 4% yoy given the high prices of a year ago.

Implications: Though not a market-moving release, export/import prices are a useful indication of inflation pressures created by changes in foreign exchange rates. For example, when the dollar is strong, import prices tend to be under downward pressure. If an item in Japan costs 500 yen and the exchange rate is 100 yen to the dollar, the US\$ price \$5. If the dollar then strengthens to Y120, the US\$ price falls to \$4.17. Because US exports must compete with foreign goods, there is also downward pressure on export prices when the dollar is strong. Economists typically look at import prices excluding oil and export prices excluding agricultural. In each case, the category in question is excluded because prices for those items are volatile and the swings are unrelated to foreign exchange rates. Oil prices tend to swing in response to OPEC decisions, and agricultural prices are often affected by weather, neither of which say much about long-term trends in traded goods prices.

*8:30 - Retail Sales (for August): Consensus 0.5%, Retail Sales-ex auto (for August): Consensus 0.2%*

Big Picture: Retail sales are slowing under the weight of a high Fed policy rate, as high gas prices drag alternative sales. The housing recession further drags consumer durable goods (e.g. furniture, building equipment, appliances) as auto sales have been surprisingly weak. Stronger retail sales growth had been fueled by low interest rates, vehicle discounting and mortgage refinancing as those forces faded in late 2005 and 2006. Despite the improved employment and income growth, the Fed tightening and high energy prices have had a deflating effect on consumer spending and big ticket durable goods purchases particularly. Strong income growth and the low unemployment provides support and is the best read on the future sales pace.

Implications: The retail sales report is a measure of the total receipts of retail stores. The changes in retail sales are widely followed as the most timely indicator of broad consumer spending patterns. Retail sales are often viewed ex-autos, as auto sales can move sharply from month-to-month. It is also important to keep an eye on the gas and food components, where changes in sales are often a result of price changes rather than shifting consumer demand.

*9:15 - Industrial Production (for August): Consensus 0.3%, Capacity Utilization (for August): Consensus 82.0%*

Big Picture: Industrial production is showing a significant lift after the weakening in late 2006. Annualized 6 month growth is more than twice the 12 month gain. Factory orders are back on the rise and drive production. The stall from autos, construction and business investment is past and leading to stronger growth ahead. Capacity use stands at 81.9% -- still below the level historically consistent with inflationary pressures -- as manufacturing reflects some excess capacity at 80.7%. The outlook may be turning south again given the plunge in August manufacturing employment.

Implications: The index of Industrial Production is a fixed-weight measure of the physical output of the nation's factories, mines, and utilities. Manufacturing production, the largest component of the total, can be accurately predicted using total manufacturing hours worked from the employment report. One of the bigger wildcards in this report is utility production, which can be quite volatile due to swings in the weather. Severe hot or cold spells can boost production as increased heating/cooling needs drive utility production up. In addition to production, this monthly report also provides a measure of capacity utilization. Though the rate of

capacity utilization is seen as a critical gauge of the slack available in the economy, the market does not completely trust this measure. Capacity is very difficult to measure, and the Fed essentially assumes that growth in capacity in any given year follows a straight line. One can therefore predict the capacity utilization rate quite accurately based on the assumption for production growth. The 85% mark is seen as a key barrier over which inflationary pressures are generated, but given revisions to these data and the difficulties with capacity measurement, the 85% mark should be viewed cautiously. It would be appropriate to look for corroborating inflation indications from commodity prices and vendor deliveries.

*10:00 - Business Inventories (for July): Consensus 0.3%*

Big Picture: The inventory to sales ratio stands at 1.27 months just above the record low 1.25 months in January 2006. The inventory draw down in late 2006 and early 2007 is now past. The long trend toward smaller I/S ratios and the tighter range leaves less of a resulting effect on economic growth as the draw-downs or restocking takes place over a quarter or two. The large inventory drag on GDP in Q4 and Q1 turned to a gain in Q2 2007.

Implications: The business inventories report includes sales and inventory statistics from all three stages of the manufacturing process (manufacturing, wholesale, and retail). But by the time it is released all three of its sales components and two of its inventory components have already been reported. Because retail inventory is the only new piece of information it contains, the market usually ignores the business inventories report.

*10:00 - Mich. Sentiment-Preliminary (for September): Consensus 83.5*

Big Picture: The push to a two year high in January was largely tied to the drop in gasoline prices. Plunging equity prices and economic fears have pushed the index down -14% since. The University of Michigan survey is significantly smaller (500 phone calls, just 250 in preliminary) than the Conference Board's, includes a longer outlook (for expectations) as questions are focused on the household compared to the business heavy CB survey. The index far better tracks the consumers' mood than spending habits better indicated through interest rates and income growth.

Implications: The Michigan index is almost identical to the Conference Board Consumer Confidence index, though there are two monthly releases, a preliminary and final reading. Like the Conference Board index, it has two subindexes -- expectations and current conditions. The expectations index is a component of the Conference Board's Leading Indicators index.

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