

>: No Regrets

Monday, October 29, 2007 / Wayne Mulligan

I'd like to tell you about a conversation I had last week.

I'm not going to name the other party in this conversation, as I don't have his permission to do so, but let's just say that this is a very intelligent man and someone I respect very much.

For now, we'll just call him "Sam."

He's not a professional investor or anything, in fact he's a high level marketing executive in the technology field, but he has been in the market for years and has done fairly well for himself.

We were having a casual conversation about technology and finance, nothing special or unusual. After a few minutes of casual chitchat, he says something along the lines of, "Wayne, I feel pretty foolish right now ..."

So I of course ask why.

He goes on to tell me about selling all of his tech holdings 3 months ago, and since then they've gone even higher - he could've made a lot more money had he been patient and held onto those stocks.

At first I was tempted to simply agree with him and say, "Yeah, too bad." But then I thought about it for a minute and asked him WHY he decided to sell his stocks.

Now, given the fact that the stocks went up, who really cares why he sold them? The fact that he missed the boat was confirmation enough that he made the wrong decision, right?

WRONG!

Let me share a story with you that I shared with him:

A few years ago, another friend came to me and tried to convince me to invest in a movie production company (or something like that) - it was a private deal, not a public company yet.

The company had a solid team, some good ideas, but they had no revenue and had yet to put anything out. So, needless to say, I passed on the deal - not only because they had no operating history (I'm an entrepreneur, I'm OK with taking calculated risks), but also because I don't understand the movie business and I just simply won't invest in a business I don't completely understand.

So what do you think happened?

Well, the company ended up getting taken over for 10 times what I would have invested at. In other words, I could've turned \$25k into a quarter million on one investment. So what do you think my friend who brought me the deal did?

He called to rub it in ... to give me a little of the, "I Told You So's."

I let him talk, but then I said something that I think knocked him on his rear-end: I told him if I had the opportunity to invest in the company again, knowing what I know now, I would have made the same decision (well not literally ... I mean, if I had a real crystal ball I would invest in the "1-in-a-million situations" all day long).

What I mean is that, if another opportunity like that came along, I would do the same thing. Reason being: I have a FRAMEWORK that I stick to when I invest, and no matter how solid the deal looks or how talented the management team is, there are certain principles I won't compromise.

Why Sam Made the "Right" Decision

So if my friend Sam's decision to sell his tech stocks was simply a function of exercising a sound investing philosophy, then he made an *amazing* decision, because unlike 99% of the investing public he didn't operate on his gut or what the "Street" was saying. He made a decision based on fact, and as investors, that's all we have.

So the lesson I want to pass along to you today is simple:

Find an investing framework and stick to it!

it's a framework that has been proven to work after years of honing and testing.

Now, this won't guarantee you profits 100% of the time ? but it will *greatly* stack the odds in your favor, *eliminate* 99% of your headaches, and if it's the 'right' framework, you'll stand to make some *serious* money with *much* less risk.

Have a great week!



Wayne Mulligan
Chief Investment Officer

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Tuesday, October 30

10:00 - *Consumer Confidence (for October): Consensus 100.0*

Big Picture: We expect a modest rise after the 11% decline over the last two months, during which the six-year high of July turned to a two-year low in September. The housing recession, financial (sub prime) mess, and higher oil prices are all contributing. Keep an eye on the labor differential (jobs considered 'plentiful' or less 'hard to get'), which matched the 1-year low of 3.6 in September.

Implications: The Conference Board conducts a monthly survey of 5,000 households to ascertain the level of consumer confidence. The report can occasionally be helpful in predicting sudden shifts in consumption patterns, though most small changes in the index are just noise. Only index changes of at least five points should be considered significant. The index consists of two subindexes -- consumers' appraisal of current conditions and their expectations for the future. Expectations make up 60% of the total index, with current conditions accounting for the other 40%.

Wednesday, October 31

8:30 - *GDP-Adv. (for Q3): Consensus 3.1%, Chain Deflator-Adv. (for Q3): Consensus 2.1%*

Big Picture: Q2 leaves the last four quarters with average growth of just 1.9% as the Fed targets sub 'potential' growth (3%) to cool inflation pressures. The forward risks have increased with the mortgage credit crisis and the housing sector slipping into deeper recession. A key risk is business investment fading, given the weaker growth outlook leaving weaker manufacturing demand. Consumer spending will remain strong, given full employment and moderate income growth, but will show weaker growth in the coming quarters. Inventories have slimmed and shouldn't provide a strong pull as global growth remains positive, given the weak dollar and the pace of global growth. The Fed's concern about the economic outlook should bring more easing.

Implications: Gross Domestic Product (GDP) is the the broadest measure of economic activity. Annualized quarterly percent changes in GDP reflect the growth rate of total economic output. The figures can be quite volatile from quarter to quarter. Inventory and net export swings in particular can produce significant volatility in GDP. The final sales figure, which excludes inventories, can sometimes be helpful in identifying underlying growth trends as inventories represent unsold goods, and a large inventory increase will boost GDP but might be indicative of weakness rather than strength. The broad components of GDP are: consumption, investment, net exports, government purchases, and inventories. Consumption is by far the largest component, totaling roughly 2/3rds of GDP. In addition to the GDP figures, there are GDP deflators, which measure the change in prices in total GDP and for each component. Though the consumer price index is a more closely watched inflation indicator, the GDP deflator is another key inflation measure. Unlike CPI, it has the advantage of not being a fixed basket of goods and services, so that changes in consumption patterns or the introduction of new goods and services will be reflected in the deflator.

8:30 - Employment Cost Index (for Q3): Consensus 0.9%

Big Picture: Employment costs have been running steady, as the expected 0.9% gain would be the fifth over the last six quarters, putting the annual rate at 3.4%. Q3 wages and salaries are expected to rise 0.9%, while benefits are expected to rise 1.0%. Benefit costs have decelerated to the low 3% range compared to 5% yoy in mid 2005.

Implications: Since the employment cost index was mentioned by Fed Chairman Greenspan in July 1996, it has risen into the upper echelon of economic reports in the eyes of the bond market. Its lagging nature still leaves it as a less timely indicator of employment cost trends than the monthly hourly earnings data in the employment report. But the ECI does add something to this picture: an adjustment for shifting employment between industries, and a look at benefit costs. These additions are interesting, but typically do not alter the view of the employment cost picture which was left by hourly earnings. ECI will be much less closely watched during periods when wage inflation is not a serious market concern. The market focuses on the quarter/quarter and year/year changes in each of three categories: total employment costs, wages and salaries, and benefit costs. The figures are sometimes skewed by large year-end bonuses in the financial industry; analysts often exclude the sales commission component of wages and salaries to adjust for this factor.

9:45 - Chicago PMI (for October): Consensus 53.0

Big Picture: In this volatile regional index, we've seen three 60 levels since March after the sub-50s (contraction) in Jan/Feb. New orders and production are expected to hold in the upper 50s, while employment is near 52 after the unexplained surge to 61.6 in July. Inventories to remain below 45 for a third month. Prices paid should rebound higher due to energy prices, but the lack of manufacturing pricing power leaves very little inflation threat.

Implications: There are many regional manufacturing surveys, and they tend to be ranked in order of timeliness and the importance of the region. The New York and Philadelphia Fed's surveys are the first each month followed by the Chicago purchasing managers' report on the last day of each month. A few, such as the Atlanta and Richmond Fed surveys, are released after the ISM and are of little value. The purchasing managers' reports are measured like the national ISM -- 50% marks the breakeven line between an expanding

and contracting manufacturing sector. For the New York, Philadelphia and Atlanta Fed indexes, 0 is the breakeven mark. These surveys can be of some help in forecasting the national ISM.

10:00 - Construction Spending (for September): Consensus -0.3%

Big Picture: Commercial and public spending are now offsetting the continued decline in residential construction spending. A 15th consecutive decline in residential spending results in a 16% decline from one year ago. With commercial spending running very strong, expect September's gain to leave a 15% yoy gain.

Implications: The construction spending report is broken down between residential, non-residential, and public expenditures on new construction. The monthly changes are both volatile and subject to huge revisions, so this report rarely has any market impact. Only trends extending over three months or more can be viewed as significant.

Thursday, November 1

8:30 - Personal Income (for September): Consensus 0.4%, Personal Spending (for September): Consensus 0.4%, Core PCE Inflation (for September): Consensus 0.2%

Big Picture: The income gain of 0.4% leaves a strong and unchanged 6.8% from a year ago. Core PCE prices are expected to show a seventh consecutive month of 0.1% gains, while annual growth falls to 1.7% yoy. Overall PCE price growth will rebound to about 2.3% yoy, given the removal of the year ago decline. The savings rate (i.e. post-tax savings / disposable income) is expected to hold at August's 0.7%.

Implications: Personal income measures income from all sources. The largest component of total income is wages and salaries, a figure which can be estimated using payrolls and earnings data from the employment report. Beyond that, there are many other categories of income, including rental income, government subsidy payments, interest income, and dividend income. Personal income is a decent indicator of future consumer demand, but it is not perfect. Recessions usually occur when consumers stop spending, which then drives down income growth. Looking solely at income growth, one may therefore miss the turning point when consumers stop spending. The income report also includes a section covering personal consumption expenditures, also known as PCE. PCE is comprised of three categories: durables, nondurables, and services. The retail sales report will provide a good read on durable and nondurable consumption, while service purchases tend to grow at a fairly steady pace, making this a relatively predictable report, and ranking it well below retail sales in terms of market importance.

8:30 - Initial Claims (for 10/27): Consensus NA

Big Picture: Weekly initial claims can be volatile as the trends reflect some easing in the tight labor market. Layoffs (seen in initial claims) remain subdued given the lean supply of available workers as hiring (seen in continued claims) has cooled as reflected in the 20 month high in the early September 4-week average and the slower growth in payrolls. Claims provide a nearly real time read on layoffs and the labor market, as the low 4.7% unemployment reflects the broader combined read of layoffs and hiring.

Implications: Initial jobless claims measure the number of filings for state jobless benefits. This report provides a timely, but often misleading, indicator of the direction of the economy, with increases (decreases) in claims potential signalling slowing (accelerating) job growth. On a week-to-week basis, claims are quite volatile, and many analysts therefore track a four week moving average to get a better sense of the underlying trend. It typically takes a sustained move of at least 30K in claims to signal a meaningful change in job growth.

10:00 - ISM Index (for October): Consensus 52.0

Big Picture: Current levels match September's lowest level since March. New orders and production are expected to hold below 55, with employment just above flat in a tight range around 51, and export orders may return to a 55 level. Inventories are expected to hold below 50 for a fifteen month. Prices paid (input costs) may firm up back above 60, but the lack of manufacturing pricing power leaves very little effect on inflation.

Implications: The ISM report is a national survey of purchasing managers which covers such indicators as new orders, production, employment, inventories, delivery times, prices, export orders, and import orders. Diffusion indexes are produced for each of these categories, with a reading over 50% indicating expansion relative to the prior month, and a sub-50% reading indicating contraction. The total index is calculated based on a weighted average of the following five sub-indexes, with weights in parentheses: new orders (30%), production (25%), employment (20%), deliveries (15%), and inventories (10%). The ISM is one of the first comprehensive economic releases of the month, typically preceding the employment report. Though it covers only the manufacturing sector, it can often provide accurate hints regarding the tone of subsequent releases. During periods of inflation concerns, the prices paid and vendor deliveries indexes often determine the bond market's reaction to the report.

17:00 - Auto Sales (for October): Consensus 5.1M, Truck Sales (for October): Consensus 7.2M

Big Picture: A 3% decline leaves the slowest pace in three months, with both auto and light trucks expected to drop 3% to the lowest levels since July. Domestic sales are running at a 12.4 mln average pace year to date from 12.8 mln in 2006. Imports are gaining market share: running at a 23% average in 2007, up from 22% in '06 and 20% in '05.

Implications: Auto and Truck Sales measure the monthly sales of all domestically produced vehicles. They are considered an important indicator of consumer demand, accounting for roughly 25% of total retail sales. Demand for big ticket items such as autos and trucks tends to be interest rate sensitive, making the motor vehicle sector a leading indicator of business cycles. Each auto maker reports sales individually. The reports are typically released over the course of the first three business days of the month. Using the individual reports, a total annual sales pace can be calculated after applying Commerce Department seasonal factors. It is this annual sales pace that the market refers to when discussing auto and truck sales for the month.

Friday, November 2

8:30 - (All for October) Nonfarm Payrolls: Consensus 90K, Unemployment Rate: Consensus 4.7%, Hourly Earnings: Consensus 0.3%, Average Workweek: Consensus 33.8

Big Picture: Nonfarm Payrolls show the smallest gain since June, while another set of declines in construction and manufacturing leave a seventh consecutive decline in good producing payrolls. Total figures are being led by health and professional business, while a decline is expected in financial services. The unemployment rate is expected to hold at 4.7%, which is the highest since August 2006. There is risk is that it clicks higher to 4.8% (5% rate generally considered to be inflation neutral full employment -- i.e. NAIRU). Hourly earnings expected to leave an unchanged 4.1% yoy gain after reaching a six year high of 4.3% yoy in December. Average workweek is expected to hold at 33.8 hours, having shown some small variation over the last half year from 33.7 to 33.9 hours.

Implications: The employment report is actually two separate reports which are the results of two separate surveys. The household survey is a survey of roughly 60,000 households. This survey produces the unemployment rate. The establishment survey is a survey of 375,000 businesses. This survey produces the nonfarm payrolls, average workweek, and average hourly earnings figures, to name a few. Both surveys cover the payroll period which includes the 12th of each month. The reports both measure employment levels, just from different angles. Due to the vastly different size of the survey samples (the establishment survey not only surveys more businesses, but each business employs many individuals), the measures of employment may differ markedly from month to month. The household survey is used only for the unemployment measure -- the market focuses primarily on the more comprehensive establishment survey. Together, these two surveys make up the employment report, the most timely and broad indicator of economic activity released each month.

10:00 - Factory Orders (for September): Consensus 1.0%

Big Picture: An 0.5% decline follows August's 3.3% drop, after a previous 4.4% two month gain. Ex-transportation orders are expected to rise 0.6%, which would be the fifth gain over the last seven months. Durable goods were reported as -1.7%, while nondurables are expected to rise 0.8%. Core capital goods (read business investment) are up an annualized 3% over last 6 months, -6% yoy. The early year lift has faded: Factory orders are just above the level of six months ago, which is in turn lower than year ago.

Implications: Factory orders consist of the earlier announced durable goods report plus non-durable goods orders. The report is very predictable with nondurables the only new component. Nondurables consist of such items as food and tobacco products which grow at a fairly consistent monthly rate, so that market forecasts for this report are far more accurate than for the durable orders report. In addition to seeing nondurables for the first time, the market also watches for revisions to the durable orders data, which can be significant. At present, durable goods orders sum to about 54% of total orders.

Source: www.Briefing.com