

>: 100,000 Reasons to Read The Tycoon Report ... What's Yours?

Monday, March 26, 2007 / Ben Schott

It's been a major paradigm shift for all of us here at Tycoon to realize just how many people we're talking to every day.

The only way I can personally get my head around it is to imagine a huge college football stadium — one of those ones that seats well over a hundred thousand screaming fans.

Even then, the metaphor is far from accurate. Bear with me here ...

There are really only three possible reasons for any of those football fans to come out to the game:

1. To root for the home team
2. To root for the visiting team
3. To drink.

But when I think about our own 'stadium' of Tycoon Report readers, one thing that hits me like a ton of bricks is that there are almost as many reasons for coming here as there are people.

From there is a common interest in investing.

But that's where the similarities end.

Take a look at this revealing random sample of our readership ...

Tycoon Report Reader	Why They're Reading
Bill. 50 years old. Metal worker. Omaha, Nebraska	Has about \$50k in an online brokerage account, looking for stock tips.
Ramesh. 29 years old. Day trader. Delhi, India.	Especially enjoys Teeka Tiwari's analysis of economic trends and sector strength.
Paul. 46 years old. Dentist. Novato, California.	Trying to retire by age 50.
Gloria. 87 years old. Retired great grandmother. Birmingham, Alabama.	Wants to make her Social Security income go farther each month.
Tony. 38 years old. Stock broker. New York, New York.	Secure enough to find humor in jokes and insults directed at himself.
Paris H. 26 years old. Actress. Los Angeles, CA.	Likes the pretty colors. Thinks Chris Rowe is cute.

So here's my question to you:

Why Do You Read The Tycoon Report?

Are you brand new to investing and hoping to learn? Are you hoping your investments will pay for your kid's college education? Your retirement? A new boat? Are you searching for guidance on options? Do you just like to keep up with financial news? Are you a professional investor searching for ideas?

We'd love to hear YOUR answer.

As a matter of fact, please [e-mail me directly](#) and tell me why you read.

I'll share some of the more interesting responses that I get, right here in this column next Monday.

Speaking of Responses ...

I want to thank all of you who took the time last week to e-mail your feedback.

In last week's article, as you'll recall, I asked for your questions, concerns, and suggestions for The Tycoon Report. Mostly I was interested in hearing what you felt we could do better.

I don't know what I was expecting, but it certainly wasn't feedback like this:

'I'd just like to say that this service you are providing is excellent and is by far the best 'newsletter' that I have subscribed to, in terms of up-to-date business news, tips by seasoned investors and also in-depth and well-written articles that are able to articulate their experiences and thoughts well. Through reading this daily, I have come to understand more about how to value a stock, learn some simple technical indicators, and it has really equipped me with the tools for successful investing and not merely recommend stocks without basis (which is what many other newsletters seem to advocate, and which I personally resent). So kudos to the Tycoon team and I hope this service will continue for years to come.' — Ian G., Singapore

'Thanks for sharing your point of view in the recent newsletter. The Tycoon Report may not be the only newsletter in my email box, but it is the one I look at first. And I know I won't need that grain of salt that is required with the others. Keep up the good work.' — John T., Kirkland, WA

I've also gotten some fabulous suggestions for features we could add and topics we could cover, which I've been forwarding to all of our writers as they come in.

A Case of the Mondays ...

Well, if I don't get more coffee in me soon, I'm a goner. Monday mornings are definitely not easy for me. It might seem like I'm in good spirits

but, believe me, it's all an act.

If Monday mornings are tough for you as well, look on the bright side: There are only four more issues of *The Tycoon Report* to go before it's the weekend!

Thank you so much for reading, and I hope you have a great week.



Ben Schott

Chief Investment Officer

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Editor's Note:

Several readers let us know that they could use more clarification on what these various economic announcements really mean to them. We hope that adding the "implications" section to each announcement below will help! The "Mark Your Economic Calendar" portion that we re-print (thanks to the good folks at Briefing.com) every Monday might be the driest reading you'll find in *The Tycoon Report*, but a professional investor never starts his or her week without knowing what announcements are on the horizon that could affect their positions. And hey, we don't think you should either.

Monday, March 26

10:00 - New Home Sales: Consensus 995k

Big Picture: New home sales are down 32% from the peak in July 2005, with strong year-end gains offset by an even stronger January plunge. National Assoc of Realtors expects the bottom in Q3 2007. We expect a slightly stronger sales pace once the Spring season gets underway as gains over 4 of the last 6 months reflect growing stability. Lower fixed term mortgage rates, lower prices, and the strong underpinnings of earnings growth and a low unemployment rate provide the underlying trend. Median prices are lower than a year ago, but prices will improve as unsold inventories are thinned. Inventories reached a high of 7.2 months in July and October and have fallen off since. Strong speculative buying in some locations leave a stronger risk of larger price declines (in those specific locations) as the trend in national and regional prices will be extremely modest compared to the size of the increase over the prior few years.

Implications: The home sales report is quite volatile and subject to huge revisions, making any one month's reading very unreliable. The report rarely prompts a market reaction. The market prefers the existing home sales report, which has a sample data pool four times as large and is released earlier in the month.

Tuesday, March 27

10:00 - Consumer Confidence: Consensus 109.0

Big Picture: The index reached a new five-year high in February. Tame energy prices, long term yields, and the tight labor market added to a resilient economy. The index has been extremely volatile over the last year. Mini 'cyclettes' (and large monthly volatility) are evident in the slowing upward trend. The index is presumed to provide an early read on consumer spending which is far better previewed through interest rates and income growth.

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.

Wednesday, March 28

8:30 - Durable Orders: Consensus 3.0%

Big Picture: Durable goods order growth has slowed (2% yoy) as business capital investment has stalled since the start of the second half of 2006. Flush corporate balance sheets, high capacity use, and rising exports remain strong underlying factors as reduced demand tied to auto and housing add to slowed capital investment. The measure is volatile given the large costs of the goods included -- planes, capital goods and defense provisions. But now business confidence plays a larger role in directing the pace of capital investment and the strength of the manufacturing sector. A sustained downturn seems unlikely given the roaring pace in early 2006, and inventory downsizing explains some of it as the underlying fundamentals and expectations for continued moderate economic growth in 2007 should provide support.

Implications: The durable orders release measures the dollar volume of orders, shipments, and unfilled orders of durable goods (defined as goods whose intended lifespan is three years or more). Orders are considered a leading indicator of manufacturing activity, and the market often moves on this report despite the volatility and large revisions that make it a less than perfect indicator. These problems can be minimized by looking at the breakdown of orders. The total number is often skewed by huge increases in aircraft and defense orders. An increase based solely on strength in one sector tends to be discounted, while the market is more impressed with broadbased increases in orders.

Thursday, March 29

8:30 - Initial Claims: Consensus NA

Big Picture: Initial claims are tracking a gradual rise as the boost in February faded just as the January dip did. The recent levels suggest some loosening in the labor markets as the 4-week average reached a 16-month high in early March. Continued claims are on an upswing as well with the weekly level at a 14-month high the

same week. Provides a nearly real time read on the labor market as the low 4.5% unemployment rate reflects the broader measure of net 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.

8:30 - GDP Final (Q4 '06): Consensus 2.2%

Big Picture: A large downward revision to Q4 leaves the last three quarters with average growth of just 2.3% as the Fed targets some potential growth (3%) to slow inflation pressures. The forward risk is that sluggish manufacturing demand holds longer than expected, and on the upside that growth will outpace potential growth as the housing effect fades. Lower energy prices aided Q4 growth by boosting consumer spending and slowing imports. 2006 growth was based on moderating consumer spending and the strong decline in housing as slowing business investment was bumpy. 2007 growth will be based on a more stable housing market as consumer spending remains stable and business investment provides a risk. Inventories are currently overbuilt, but adjustments won't be severe after the firm Q4 slowing. Stimulative fiscal policy contrasts with restrictive monetary policy as economic growth has softened but remains self-sustained. Inflation risk is weakening as the slowed economy helps quell the pressures. Little slack in the economy and remaining inflation risks are the Fed's concerns.

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, totalling roughly 2/3 of GDP.

Quarterly GDP reports are broken down into three announcements: advance, preliminary, and final. After the final revision, GDP is not revised again until the annual benchmark revisions each July.

Friday, March 30

8:30 - Personal Income: Consensus 0.3%, Personal Spending: Consensus 0.3%

Big Picture: Consumer spending rebounded in Q4 as the drop in energy prices left fuller pockets. 2007 got off to a stronger start than expected. While we expect spending to run at a more moderate 3% pace, it will be the key element of slowing in overall economic growth given its dominant weight (70%) in GDP. Strong

employment and improving income growth provide underlying support as wages and salaries are 5% higher yoy. The Fed's favored core PCE price index edged back to 2.3% yoy in January from a 2.4% yoy peak in August. The Fed seeks a core PCE rate below 2%.

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.

9:45 - Chicago PMI: Consensus 49.5

Big Picture: The Chicago PMI is a regional manufacturing survey that closely mirrors the ISM (Institute for Supply Management) Index. The big picture description and implications are quite lengthy, so if you're interested in reading more, just [click here](#).

10:00 - Construction Spending: Consensus -0.6%

Big Picture: Vastly different factors drive the 3 components of construction spending: residential, business and public spending. Business structural investment has surged over the last year and leads the components in yoy growth. Residential spending is plunging and stands -13% lower than a year ago. Public spending is motoring along at 12% yoy. Residential provides more than half the weight in the index and leaves the overall measure in decline at -1.2% yoy.

Implications: 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.

10:00 - March Michigan (Consumer) Sentiment: Consensus 88.8

Big Picture: The push to a two-year high in January is largely tied to the drop in gasoline prices as the recent equity drop and renewed fear about recession and sub prime mortgage lending has left some fall off. The tight labor market and resilient economy continue to support the upward trend. The expectations component has surged 17% since the August high in gasoline prices. The University of Michigan survey is significantly smaller (500 phone calls) 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: Closely mirrors overall consumer confidence numbers from the Conference Board. Like the Conference Board index, it has two subindexes - expectations and current conditions.

Source: www.briefing.com