



**>: More Bang for Your Buck: Economics, Geopolitics and Cash**

*Tuesday, August 22, 2006 / Jason Jovine*

## Economics

Initial jobless claims (Very important)

What a week we've had. The street is looking for a 15,000 increase in new home sales for July. The street was looking for a 15,000 increase in new home sales for July. Core PPI (producer prices excluding food & fuel) came in down 0.3% when the street expected them to be up 0.2%. These both increase the odds that the Fed WILL NOT raise rates on their next meeting on September 20th.

Durable-goods orders (Very important)  
They also have a yield of about 5% while you wait for some action. Even if they don't get taken over, the Board of Directors will throw this guy out and put the company back on track. After 10 years of lackluster performance, the company's stakeholders are fed up.  
Industrial production (Very important)  
The street expects a 0.6% increase in capacity utilization. Capacity utilization came in at 82.4% when the street expected 82.7%. This indicates a slowing economy and lessens the chance that the Fed will raise rates.

New-home sales (Important)

Initial jobless claims (Very important)  
The street expects 12,000 new home sales to be sold in July. This is a positive sign for the economy; it tells a contradictory story from the industrial production and capacity utilization statistics mentioned above.

Finally, on Friday consumer sentiment came in at 78.7 when the street expected it to be 83.8. This means that the American consumer appears to be more bearish on the economy and therefore is less likely to spend which means fewer profits for businesses and a slowing economy.

I know all of these statistics may drive you crazy, but they are important. Let me make sense out of them for you. I believe that the economy is in a mild pullback or contraction right now.

This is absolutely normal and part of the business cycle. You have heard expressions like, "What goes up, must come down." The economy and, by default, the stock market are no exceptions. This is NOT a recession, and I doubt that it will become one.

Actually, quite the contrary. This is a relatively minor contraction for the economy which is indicative of an underlying strong economy. The fact that our economy utilizes technology so much makes supply and demand equilibrium more consistent.

Think about years ago when there were no computers and supply chain management systems. A supply procurer (someone who orders the stuff for the company) would have to wait weeks or even months for the supplies to be delivered.

Sometimes by the time the supplies arrived, the demand went somewhere else (stock out costs); like to your competitor. We are operating in a faster, more mobile economy. This has and should continue to match supply and demand effectively and should make recessions shorter lived.

The bottom line is that you should only buy quality companies at low prices (that are on sale.) If you are buying options, then buy options that are on quality companies and are longer term deep in the money options. My friend Christopher Rowe from the Trend Rider [www.thetrendrider.com](http://www.thetrendrider.com) could help you with this.

The market rallied last week because of this economic data (and you thought economics wasn't important.) The Dow was up 2.6%, and the Nasdaq rose 5.2% for the week. The street believes that inflation is in check at this point and that the economy has slowed a bit which lessens the likelihood of another rate hike in September.

Remember economic statistics ALWAYS carry weight, but they are weighted differently depending on where we are in the business cycle. We are currently hypersensitive to the word inflation, and that is why Ben Bernanke and his predecessor raised rates to slow down the economy. Once Ben is relatively certain that he has it under control (which may be now,) then we won't focus on rates so much and will get back to focusing on good old corporate profits.

Also keep in mind that the market is trying to feel out Ben Bernanke; they want to know how he operates and vice versa. This is like any other relationship. How long did you date your spouse before you married him or her? Now you're getting it.

I like this financial environment that we are operating in now, and I am bullish.

## Geopolitics

As I just mentioned above I am bullish on the market right now, but there are two wildcards that could "upset the applecart," so to speak. They are Iran and North Korea.

I won't comment much on Israel, Hezbollah, or Palestine, because the media has already beaten these issues to death. There is always fighting in this area and there probably will be for the foreseeable future, so speaking about it is a waste of time for you and me.

North Korea on the other hand is rumored to be getting ready to test a nuclear weapon underground. Today is Iran's self-imposed deadline for responding to a U.S.-European package presented in June offering Iran various perks in exchange for ending its uranium-enrichment program. August 31st is the "official" U.N. Security Council deadline for Iran to suspend enrichment or face the possibility of economic and diplomatic sanctions.

Iran is rumored to have 52,000 suicide bombers ready to go if they feel cornered. Both of these situations obviously could cause major problems. We will have to see what happens here.

Do not forget that we are still officially in hurricane season which officially ends on November 30th. It has been mild so far, but that could change in a New York minute. The Middle East situation as well as the hurricane season "could" send big supply shocks rumbling through the oil markets.

Money in your pocket.

I think that this is the second or third time that I have given a recommendation to you, and shortly after, Jim Cramer from Mad Money recommended the same stock; maybe he is reading my report.

Last Tuesday I recommended a stock with the symbol NICE at \$26. On Friday, Jim Cramer recommended it. This is the second or third time one of my old Wall Street friends said "he's recommending one of your stocks again."

We're going to now play the tell Jason game? I will give you another super hot recommendation, and you have to tell me if he recommends the same thing over the next several weeks.

ARE YOU READY?

Buy Bristol-Myers Squibb Co. The symbol is BMJ, and the stock should be around \$22 per share. You must have heard of the company, so I won't get into what they do. They are a very good company with a dumb-dumb as its CEO (Peter Dolan) who may be fired any day now if they don't get taken over before then.