

>: How to Make Money in Wall Street

Monday, March 31, 2008 / Dylan Jovine

TODAY, I'D LIKE TO CELEBRATE THE 100 YEAR ANNIVERSARY OF THE ORIGINAL PUBLISHING OF THE BOOK "FIFTY YEARS IN WALL STREET"

The book, an autobiography, was published in 1908 and covers the 50-year career of Wall Street legend Henry Clews, starting in 1857.

According to the forward written by investor Victor Niederhoffer, Henry Clews "occupied the same position of prominence in Wall Street that Robert Rubin does today."

Niederhoffer goes on to further explain that

, "His (Clews) initial efforts to gain admittance to Wall Street's inner circle were snubbed until 1857, when fears of excessive trade deficits, caused a panic 'during which the average stock dropped 50% in a few days.' The chilling effect of this panic, the 'Western Blizzard,' opened up the closed Wall Street club to young blood. Clews subsequently became one of the 'Three Musketeers' who were mainly responsible in the marketing of debt during the U.S. Civil War. The reward for the financial marketing and political advice he gave General Ulysses S. Grant during his campaign was the traditional one: He was offered the office of Secretary of the Treasury which he turned down."

What can a man, who played a prominent role on Wall Street from 1857 until his death at the ripe old age of 87, teach us about investing in bear markets?Plenty

Here is some of Henry Clews' advice given straight to you, unvarnished and untouched, from his chapter titled "How to Make Money in Wall Street." Keen advice, directly from the grave:

"But few gain sufficient experience in Wall Street to command success until they reach that period of life in which they have one foot in the grave.

When this time comes these old veterans of the Street usually spend long intervals of repose at their comfortable homes, and in times of panic, which recur sometimes oftener than once a year, these old fellow will be seen in Wall Street, hobbling down on their canes to their brokers' offices.

Then they always buy good stocks to the extent of their bank balances, which have been permitted to accumulate for just such an emergency.

The panic usually rages until enough of these cash purchases of stock is made to afford a big 'rake in.' When the panic has spent its force, these old fellows, who have been resting judiciously on their oars in expectation of the inevitable event, which usually returns with the regularity of the seasons, quickly realize, deposit their profits with their bankers, or the overplus thereof, after purchasing more real estate that is on the up grade, for permanent investment, and retire for another season to the quietude of their splendid homes and the bosoms of their families.

I say to the young speculators, therefore, watch the ominous visits on the Street of these old men. They are as certain to be seen on the eve of a panic as spiders creeping stealthily and noiselessly from their cobwebs just before the rain."

Henry's sage advice applies today just the same as it did when he wrote it in 1908, and lived it from 1857 onward...

The way to "get rich in Wall Street" is to buy when everyone else is selling.

Keep that in mind the next time you have a strong urge to run away from the stock markets while they're going lower. I know this is an instinct all of us share as people but, instead of running away, you may want to consider loading your guns and getting ready to buy stocks.

Never forget that, as investors, we pay cheap prices for a gloomy consensus and high prices when the consensus is very cheery.

Good luck this week!

P.S. - I have not forgotten about my series on how to invest in a private business. In fact, I'm thrilled to get back to writing about it. But in the wake of the volatile month we've had in the markets, I thought it wiser to share some of my perspective on how to deal with the reality of today instead of investment opportunities of tomorrow.



Dylan Jovine
Chief Investment Officer

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Economic Calendar for the Week of March 31 - April 04

Monday, March 31

09:45 - Chicago PMI

Release Details

Importance (A-F): The Chicago PMI merits a B.

Source: Chicago Purchasing Managers Association.

Release Time: Last business day of the month at 10 ET for the current month.

In Brief

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.

Tuesday, April 1

10:00 - ISM: Institute for Supply Management Index

Release Details

Importance (A-F): This release merits an A-.

Source: Institute for Supply Management

Release Time: 10:00 ET on the first business day of the month for the prior month.

Raw Data Available At: <http://www.ism.ws/>.

In Brief

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.

Highlights

February ISM manufacturing index 48.3 (-2.4 pts).

Key Factors

The decline reached just below December to leave a 5 year low.

New orders remains the leading indicator with a third month below the 50 neutral mark.

Production held above 50 as export orders provides very welcome support at 56.

Employment held below 50 for a fourth month with a decline to 46.

Prices paid (input costs) remain firm but the lack of manufacturing pricing power leaves very little consumer price pressure.

Big Picture

The revised index had been in a narrow 48 to 51 point range for five months as the 6 month growth of actual factory orders and production has turned negative. The calculation of the index changed in January 2008 with equal weighting to the five key components which thereby mutes the volatile swings in demand (new orders). In 2007 inventory draw down left weak early year levels as order demand returned in the Spring/Summer. Since then production has slowed given the fall off in orders as the forward view depends on business investment given the weaker growth outlook. Despite the supportive fundamentals -- large profits, cash loaded balance sheets -- business could delay new investment and help stall manufacturing output and possibly the economy.

Thursday, April 3

10:00 - Non-Manufacturing ISM: Institute for Supply Management Services

Release Details

Importance (A-F): This release merits an improved B-.

Source: Institute for Supply Management

Release Time: 10:00 ET on the third business day of the month for the prior month.

Raw Data Available At: <http://www.napm.org>.

In Brief

The non-manufacturing ISM report is a national survey of purchasing managers which covers new orders, employment, inventories, supplier delivery times, prices, backlog orders, 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 index should be far more indicative of the broader economy given its inclusion of service-producing as well as good-producing sectors outside of manufacturing. However, the short history of the index dates to only July 1997 and doesn't provide the insight of a longer period inclusive of varied economic climates. The seasonal adjustment of the index didn't begin until January 2001 with only 3 of the 9 components seasonally adjusted as of April 2001. The lack of historical data and lack of a tight correlation to the non-manufacturing economy leaves the relatively poor "B-" rating compared to the "A-" rating of the well-respected manufacturing ISM index.

Highlights

Briefing.com Forecast: 49.0

Market Consensus: 49.2

Key Factors

A small decline leaves the index below a neutral 50 for a third month.

The survey components have been volatile. Business activity over the last 3 months: 54.4, 41.9, 50.8. We expect a small decline.

New orders and employment are expected to hold below a neutral 50 for a third month.

Prices paid are expected to rise with energy prices.

The new calculation introduced in January gives equal weight to business activity, new orders, supplier deliveries and employment.

Big Picture

The index received a make over with the release of the January index as it now is computed from 4 components -- business activity (the old top line index), orders, employment and supplier deliveries. They are equally weighted for the monthly index and provide rationale for the top line movement. The non-mfg ISM readings are still a bit suspect given their extremely broad inclusion (entire economy ex manufacturing) and the significant swings from the large number of varied economic sectors (construction, finance, health care, etc). A level above 50 marks positive growth in non-manufacturing business activity. February's rebound still leaves the index below the 50 neutral mark (contracting) but significantly stronger than January's lowest level

since October 2001 -- during the last recession and just post the 9/11 terrorist attacks.

Friday, April 4

08:30 - The Employment Report

Release Details

Importance (A-F): This release merits an A.

Source: Bureau of Labor Statistics, U.S. Department of Labor.

Release Time: First Friday of the month at 8:30 ET for the prior month

Raw Data Available At: <http://stats.bls.gov/news.release/empsit.toc.htm>.

In Brief

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 focusses 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.

Total payrolls are broken down into sectors such as manufacturing, mining, construction, services, and government. The markets follows these components closely as indicators of the trends in sectors of the economy; the manufacturing sector is watched the most closely as it often leads the business cycle. The data also include breakdowns of hours worked, overtime, and average hourly earnings.

The average workweek (also known as hours worked) is important for two reasons. First, it is a critical determinant of such monthly indicators as industrial production and personal income. Second, it is considered a useful indicator of labor market conditions: a rising workweek early in the business cycle may be the first indication that employers are preparing to boost their payrolls, while late in the cycle a rising workweek may indicate that employers are having difficulty finding qualified applicants for open positions. Average earnings are closely followed as an indicator of potential inflation. Like the price of any good or service, the price of labor reacts to an overly accommodative monetary policy. If the price of labor is rising sharply, it may be an indication that too much money is chasing too few goods, or in this case employees.

Highlights

Briefing.com Forecast: -70K payrolls, 4.9% unemployment, 0.3% earnings, 33.7 hour workweek

Market Consensus: -40K payrolls, 5.0% unemployment, 0.3% earnings, 33.7 hour workweek

Key Factors

Nonfarm Payrolls: A third month of decline, fourth month for private (non-gov't) payrolls.

A very clear downward path with weaker growth in each month since October.

A full year of declines in goods producing payrolls. Both construction (9 mos) and manufacturing with its 21st consecutive monthly decline.

Private service providing payrolls expected to edge just -5K lower, from -12K in February and a 100K average in Q4.

Uncle Sam expected to add just 15K to March payrolls.

Unemployment Rate: A partial rebound to 4.9% expected after the retreat from the 5% high in December.

March 2007 marked the 4.4% cyclical low.

5% rate generally considered to be inflation neutral full employment (i.e. NAIRU).

Hourly Earnings: A trend 0.3% gain (seen for the last four months) leaves an unchanged 3.7% annual growth rate.

Retreating from the decade high of 4.3% yoy in December 2006.

Average Workweek: Reduced demand should leave workweek unchanged at the lower 33.7 hours seen in 2008.

Showed small variation over 2007 from 33.7 to 33.9 hours.

An indicator for real time labor need (prior to hiring/layoffs).

Big Picture

2007 average payroll growth was revised to a smaller 95K, a -16K average monthly decline from previously reported. The back to back payroll declines that started 2008 is disturbing for the economy as the weaker growth has become more broad-based and trend like. Payrolls have shown weaker growth for four months from a 140K gain in October. Unemployment is rising from the March low of 4.4% but fell to 4.8% in February after reaching 5% in December. Employment trends lag the economy as final demand -- in excess of labor productivity -- feeds in to labor demand. Earnings growth is fading and stands at 3.7% compared to the 4.3% yoy high of late 2006. The loosening labor market is being watched for signs of unraveling -- which some will say has arrived in the payroll data.