

>: Special Note on Chris' Videos

Monday, January 5, 2009 / Chris Rowe

Dear Tycoon,

In March 2008, after the collapse of Bear Sterns, I realized that although the market had declined 15% from it's high, the bleeding had only just begun. I knew the market was going to bring us a sea of horrific waters that would be tough to navigate on your own. I knew from experience of working with thousands of investors, that it would be tempting to just ignore what was happening, and attempt to avoid the financial news. It was for this reason that I decided to start producing weekly videos for you that gave a quick peek at the market's action, and a couple of pointers of how to think about it, and how to handle it.

After that, the market dropped over 45% within 7 months - the worst decline since the Great Depression.

I hope that I've helped you to make some profits, and more importantly avoid losses. I am going to suspend the market wrap up videos for now with plans to bring you something much better! You will see some interesting changes going forward but I won't be posting any new videos until further notice.

For guidance, be sure to keep reading The Tycoon Report daily, where articles written by me are published every Tuesday. You can also sign up for my options trading service, The Trend Rider, or the investing/trading education course/system, The Internal Strength system. You can start with a free options education course by [clicking here](#).

It's been fun. But I can assure you that the fun is just beginning!

?Profit from the Trend?



Chris Rowe

Chief Investment Officer

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Economic Calendar for the week of January 5 to January 9

Tuesday, Jan. 6

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

- **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>.

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.

Big Picture

The ISM surveys are highly overrated. They are simply surveys, and are unweighted by company size and the components are equally weighted. There have been many false reads from both the manufacturing and non-manufacturing surveys. Nevertheless, the October downturn in the survey undoubtedly reflects worsening business conditions that are likely to be reflected in the survey for at least several months.

Friday, Jan. 9

8:30 *The Employment Report*

- **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>.

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.

Big Picture

Employment conditions have worsened significantly in recent months. Through August, payroll declines were moderate, and not at recessionary levels. The September and October declines were much larger and probably established a new trend. That trend continued in November. Employment conditions are not likely to improve for quite a few months, particularly as employment picks up only after an increase in overall demand.

Highlights

- There is virtually no good news in the November employment data. Payrolls dropped sharply, and prior months levels were lowered.
- The loss in jobs was widespread. Companies are cutting back out of fear now as much as poor demand, which creates pro-cyclical tendencies.
- The average workweek dropped, reflecting weak demand even for those still employed.
- Hourly earnings rose 0.4%, which is not bad, and provides a boost to income, but it is hard to see how wage gains will continue in this labor market.
- The unemployment rate is going to move sharply higher in the months ahead.