

>: Icahn, Gates, Slim Make Major Moves

Monday, December 1, 2008 / Marie Albin

Carl Icahn, Bill Gates, and Carlos Slim Helu have made significant purchases this week, according to filings with the Securities and Exchange Commission. The three billionaire businessmen added to stakes in **Yahoo (YHOO)**, **Autonation (AN)**, and **Saks (SKS)**, respectively.

Corporate raider and billionaire Carl Icahn added to his stake in Yahoo in an effort to effect changes at the troubled company. Icahn has been vocal in his criticism of Yahoo management and his desire for a merger or a deal for Yahoo's search business with Microsoft.

Icahn bought 6.8 million shares of Yahoo at an average price of under \$10 a share, an investment of about \$66.96 million. Icahn now controls approximately 5.5% of the company. Icahn made the purchase after Yahoo co-founder and CEO Jerry Yang announced that he would step down.

In fact, it didn't take long before rumors surfaced that Microsoft is planning to offer \$20 billion for Yahoo. But it looks like Icahn will have to wait a bit longer to cash in on a deal with Microsoft. Several insiders have dismissed the latest report. A new deal will likely have to wait for Yahoo to find a new CEO, say analysts.

The activist investor had a nice payday this week as Eli Lilly completed its acquisition of ImClone Systems for \$70 per share. Icahn pocketed \$816.87 million in the transaction.

Carlos Slim Helu is ruffling some feathers (or fur coats) over at luxury retailer Saks Inc. A company controlled by the world's second richest man, Inmobiliaria Carso SA, has increased its stake in Saks to over 18% of the company. Over the past month, Slim became the company's largest shareholder by buying 7.8 million shares of Saks stock at an average price of \$3.17 a share.

Slim's buying activity prompted Saks to issue a "poison pill" plan that aims to put the brakes on Slim. Saks, in a filing with the SEC, stipulated that if a stockholder acquires a stake of 20% or more, other shareholders will be given the opportunity to buy Saks stock at half price, effectively diluting the shares.

Saks is suffering along with most other retailers in the current economic downturn. The company reported a wider-than-expected loss of \$43 million for the third quarter and is shuttering its Club Libby Lu stores.

The world's richest man, Bill Gates, is buying more shares of car dealership AutoNation through his investment vehicle and the philanthropic organization that he runs with wife Melinda.

The Microsoft co-founder now controls a nearly 12% stake in AutoNation through Cascade Investments LLC and the Bill & Melinda Gates Foundation. Cascade own 10.97 million shares, and the Bill & Melinda Gates Foundation owns 9.89 million shares of the company.

Hedge fund billionaire Eddie Lampert has also upped his stake in AutoNation recently. Lampert purchased 1.53 million shares of AutoNation last month.



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Monday, Dec. 1

10:00 ISM: Institute for Supply Management

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/>.

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.

This has not been a recession - yet. Third quarter real GDP will be near flat. Regardless of whether it is a slight increase, as we expect, or a slight decline, the fact remains that the US economy has been far stronger than generally perceived. This has been due in large part to strong exports and a resilient consumer. Gas prices, home prices, and higher unemployment didn't lead to a recession in the first three quarters of 2008. Of course, everyone knows that it "feels like a recession." This is in part because the stock market is down, and it is often taken as an indicator of the economy (even more so than GDP). GDP is also now likely to support the recession argument. We expect fourth quarter real GDP to decline. The outlook into 2009 is for a sluggish economy at best, but the specifics depend highly on how well the liquidity crisis on Wall Street is addressed. That remains highly uncertain.

Big Picture

This is a highly over-rated index. It is merely a survey of purchasing managers. It is a diffusion index, which means that it reflects the number of people saying conditions are better compared to the number saying conditions are worse. It does not weight for size of the firm, or for the degree of better/worse. It can therefore underestimate conditions if there is a great deal of strength in a few firms. That may well be what is happening at present with exports booming at large firms, but not necessarily across all manufacturing sectors. The current readings on the ISM manufacturing index are providing a more negative view of conditions than the actual industrial production data. The data have thus not been either a good forecasting tool or a good read on current conditions during this business cycle. It must be recognized that the index is not hard data of any kind, but simply a survey that provides broad indications of trends.

Wednesday, Dec. 3

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, Dec. 5

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 the past two 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. A large decline for payrolls is expected for November and employment conditions are not likely to improve for quite a few months.

Highlights

A large decline in payrolls is expected for November. New claims for unemployment have surged above 500,000 and recent data indicate that small businesses are now retrenching along with large corporations. The only question is the size of the decline. There will be excessive emphasis placed on a 50,000 variation in either direction, but given that 50,000 represents only a 0.04% move on total employment and given the large revisions often occur, the real point should simply be that employment declines right now are very large.