

>: Here's To Two Years of Riding The Trend

Monday, September 24, 2007 | Ben Schott

Today I'll be very brief.

Last week, all eyes were on Big Ben (who, me?) and the half-point "self-fulfilling prophecy."

This week, the focus shifts to the inflation numbers that come out on Friday. In other words, as you'll read in the article we link to below, Wall Street got what it wanted last week ... now it's a matter of keeping it that way.

Quick note: If you aren't in the habit of reading the *Economic Calendar* we publish every Monday, care of Briefing.com, you really ought to be. It's not about the compelling reading (I think they have economics grad students writing for them), but about knowing what's coming up in the week ahead and figuring out what that means to you and your money.

As I've heard Chris Rowe say many times, there's nothing new in the market. Everything that could happen ... *has* happened. So if you take a little time and look back over the last few years at market behavior around certain key economic announcements, you might gain a whole new appreciation for our Monday issues. Hint, hint. Give it a try.

Speaking of Chris Rowe ...

It's been two years now since we launched Chris Rowe's trading service, *The Trend Rider*.

I don't envy Chris the pressure he's been under from the very start. For an entire year before launching *The Trend Rider*, he didn't lose on a single trade. [Think about that.](#)

We all knew "and he said so himself many times" that keeping that up indefinitely would be impossible.

But here we are two full years later, and his track record is still other worldly: he's been profitable on just a hair under 75% of all his closed trades since he started advising our readers!

Today, as Wayne hinted at in his article above, Chris is working on something new. I'm going to tell you a lot more about this next week, but today I don't want to overshadow the fact that what Chris has done over the past two years in *The Trend Rider* is completely and utterly unheard of.

In his article later this week, I'm sure Chris will give you a taste of what it's been like running *The Trend Rider* for the past two years. Knowing Chris as I do, and considering him one of my best friends, I can tell you that I've never seen anybody put so much pressure on himself to deliver results.

If you just want to congratulate him for two great years, that's great. If you've learned something from him and want to thank him, that's even better. If you're a *Trend Rider*

Tell Chris ~~what he's done~~ how serious money following his advice, telling him about that here would mean the world.

Many of you reading this right now are *Trend Rider* members already, and many of you have simply followed Chris Rowe's articles here in *The Tycoon Report*.

Either way, I would love to hear what you have to say about what you've gotten out of your relationship with him.

So please, if you have a moment, I know this would mean a lot to Chris:

[Click Here to share your thoughts with Chris](#) on two years of *The Trend Rider*... and even longer writing for *The Tycoon Report*!

Chris, I can't tell you how proud I am to be associated with you. What you've done is beyond impressive, and I know firsthand how much of

yourself you've put into helping *Tycoon Report* readers and *Trend Rider* members.

Here's to the next two years.



Ben Schott
Chief Investment Officer

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Tuesday, September 25

10:00 - Consumer Confidence (for September): Consensus 104.5

Big Picture: The index reached a six year high in July. August declined with the plunge in the equity markets and heightened economic concerns. The growth outlook and tight labor market support confidence as gasoline prices provide the monthly swing. The index continues on an upward longer term path. Conference Board's survey is far larger and more business heavy than the household-heavy Michigan sentiment index. 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. The index consists of two subindexes -- consumers' appraisal of current conditions and their expectations for the future. Expectations make up 60% of the total index, with current conditions accounting for the other 40%. The expectations index is typically seen as having better leading indicator qualities than the current conditions index.

10:00 - Existing Home Sales (for August): Consensus 5.55M

Big Picture: Home resales reached a five year low in July and doesn't show any signs of stabilization. The weak sales pace left an extraordinary 9.6 month supply of inventory -- a new cyclical high. Prices don't reflect the -22% decline since the record high in mid 2005 as median prices are -0.6% lower than a year ago and average prices are just slightly higher than a year ago. Existing sales include condos/coops which make up about 1/8 of the total. The National Assoc of Realtors expects existing home sales to bottom in the third quarter -- that seems optimistic. The upturn will be slow as sub-prime foreclosures add to already bloated inventory.

Implications: The name speaks for itself -- this report provides a measure of the level of sales of existing home

sales. The report is considered a decent indicator of activity in the housing sector. Housing starts precede this report each month, but starts are a supply rather than demand-side indicator. Existing home sales precede the other key demand-side indicator of housing -- new home sales -- thus boosting the visibility of this report. Sales are highly dependent on mortgage rates, and will tend to react with a few months lag to changes in rates. Sales are also determined by the level of pent-up demand for housing -- immediately after a recession, sales are typically quite strong due to the demand which accumulated through the recession.

Wednesday, September 26

8:30 - Durable Orders (for August): Consensus -2.5%

Big Picture: Durable goods order growth has returned, shown by the five gains over the last 6 months and the new record high in July. The stall tied to weak capital investment and overstocked inventories is past, but risk remains given the recent market turmoil. Strong corporate balance sheets, high capacity use and rising exports remain strong underlying factors. The downward effects from autos and housing continues. The upturn in orders leads manufacturing production higher.

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, September 27

8:30 - GDP-Final (for Q2): Consensus 3.9%, Chain Deflator-Final (for Q2): Consensus 2.7%

Big Picture: 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. These revisions can be quite large and usually affect the past five years of data.

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, totaling roughly 2/3rds of GDP. In addition to the GDP figures, there are GDP deflators, which measure the change in prices in total GDP and for each component. Though the consumer price index is a more closely watched

inflation indicator, the GDP deflator is another key inflation measure. Unlike CPI, it has the advantage of not being a fixed basket of goods and services, so that changes in consumption patterns or the introduction of new goods and services will be reflected in the deflator.

8:30 - Initial Claims (for 9/22): Consensus NA

Big Picture: Weekly initial claims can be volatile as the trends reflect some easing in the tight labor market. Layoffs (seen in initial claims) remain subdued given the lean supply of available workers as hiring (seen in continued claims) has cooled as reflected in the 20 month high in the early September 4-week average and the dip in August payroll growth. Claims provide a nearly real time read on layoffs and the labor market as the low 4.6% unemployment reflects the broader combined read of layoffs and 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 signaling 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.

10:00 - New Home Sales (for August): Consensus 830K

Big Picture: New home sales reached a 7-year low in March and have rebounded modestly since. The National Assoc of Realtors expects new home sales to trough in Q4 but revisions continue to move lower as the mortgage mess worsens. Prices have been swinging as April and June showed annual declines larger than -5% as May and July showed gains. Inventories have fallen off the 8.3 month high in March. Waiting for signs of improving demand for residential buying to provide a further delayed lift to new construction given the large supply of unsold inventories.

Implications: The report indicates the level of new privately owned one-family houses sold and for sale. New home sales usually have a lagged reaction to changing mortgage rates. They also tend to be stronger early in the business cycle when pent-up demand is strong, and they fade later in the cycle as the demand for housing is sated. In addition to home sales, the market monitors the number of homes for sale relative to the current sales pace. As this inventory measure falls (rises), housing starts tend to rise (fall). Finally, the median home price provides an indication of inflation in the housing sector, though only year/year changes provide any meaningful information. 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.

Friday, September 28

8:30 - Personal Income (for August): Consensus 0.4%, Personal Spending (for August): Consensus 0.4%, Core PCE Inflation (for August): Consensus 0.2%

Big Picture: Consumer spending averaged 4.3% in Q4 and Q1, as the drop in energy prices left fuller pockets

and less drag from the inflation deflator. The pace softened in Q2 as higher gasoline prices provide the opposite effect. While we expect spending to run at a more moderate 2.5% pace it is the key factor for economic growth given its dominant weight (70%) in GDP. Strong employment and income growth provide the underlying support. The Fed's favored core PCE price index stands at 1.9% yoy -- within the Fed's 1% - 2% "comfort zone" but not yet in the safety zone. Benchmark revisions now leave a positive savings rate -- savings from after tax income.

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. The income report also includes a section covering personal consumption expenditures, also known as PCE. PCE is comprised of three categories: durables, nondurables, and services. The retail sales report will provide a good read on durable and nondurable consumption, while service purchases tend to grow at a fairly steady pace, making this a relatively predictable report, and ranking it well below retail sales in terms of market importance.

9:45 - Chicago PMI (for September): Consensus 53.5

Big Picture: The index rebounded to an annual high of 61.7 in March and returned in May after holding below 49 (in contraction) in January and February. A volatile regional measure reflects the stronger outlook as business investment refires and the downward effects from the auto and housing sectors fade. The manufacturing sector moves in sharper cycles than the overall economy and the regional measures move in even shorter, more volatile patterns. Briefing.com expects the mid-expansion stall will be just that with stronger capital investment and manufacturing demand as 2007 progresses.

Implications: 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.

10:00 - Construction Spending (for August): Consensus -0.1%

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 at 15%. The plunge in residential spending is lightening as the yoy decline stands at -16%. Public spending is motoring along at 13% yoy. Residential provides about half the weight in the index, and leaves the overall measure in decline at -2% yoy.

Implications

: The construction spending report is broken down between residential, non-residential, and public expenditures on new construction. 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 - Mich. Sentiment-Revised (for September): Consensus 84.0

Big Picture: The push to a two-year high in January was largely tied to the drop in gasoline prices. Plunging equity prices and economic fears have pushed the index down -14% since. The University of Michigan survey is significantly smaller (500 phone calls, just 250 in preliminary) 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: The Michigan index is almost identical to the Conference Board Consumer Confidence index, though there are two monthly releases, a preliminary and final reading. Like the Conference Board index, it has two subindexes -- expectations and current conditions. The expectations index is a component of the Conference Board's Leading Indicators index.

Source: www.Briefing.com