



**>: More Bang for Your Buck: Financial Jungle**

*Tuesday, August 29, 2006 / Jason Jovine*

Let's get right into it, shall we? We receive economic news every single week; some weeks more of it than others of course. This economic data is very important in the long and short run.

This flow of economic data is more important in the short run for you traders and speculators out there because traders by their very nature play off of other people's "irrational exuberance".

Investors are in it for the long haul, and if you are holding on to good companies over this period, then you should be fine. The market over the long run always goes higher and if you own companies that are halfway decent, then you should be able to build wealth.

## **Economic news last week**

We had very interesting economic news last week. Durable goods orders were down 2.4% when the market expected it to be down 0.8%. On its face, this sounds really bad for the economy, but not fast.

Durable goods orders excluding both defense and aircraft increased 1.5%. You must strip out orders for defense and aircraft to see more accurately what's going on in the economy.

A large order from say the U.S. government on tanks or submarines could make it seem like the economy is doing well when it really may not be. On the other hand, if defense orders decline as they did in this report it makes the economy look bad when in reality things are not that bad.

This goes for aircraft as well. If a huge order for commercial planes comes in one month, it could make the economy seem great and vice versa. The bottom line is that if you want to look behind the scenes, you have to strip these two out.

Remember what durable goods are. By definition, durable goods are products that have a life expectancy of at least three years. Examples include lawn mowers, computers, appliances, and communications equipment just to name a few.

This economic statistic is a very good indicator of what's going on in the economy. This July's durable goods statistic tells us that durable goods have picked up which is a good sign for the economy.

Another good sign for the economy last week were the weekly claims for unemployment insurance. The market expected 315,000 new claims to be filed for unemployment benefits but only 13,000 came in.

The two statistics mentioned above were both positive for the economy. Now let's get to the not so good news; the housing market.

Sales of existing homes were 6,330,000 in July when Wall Street expected that number to come in at 6,550,000. This 6,330,000 is down 4.1% from last month (June). Remember that nearly eight out of every 10 homes purchased are used homes, with the rest being sales of newly constructed housing.

Sales of new homes were 1,072,000 when the street expected that number to be 1,105,000. This 1,072,000 is down 4.3% from last month (June) and is 21.6% slower than a year ago.

The housing data is important because when people buy a house, they also buy a lot of other stuff. They buy furniture, appliances, and insurance just to name a few. Sales of existing homes, relatively speaking, have less of an impact on the economy than sales of new homes.

This is because when you buy a brand new house, usually you buy a lot more stuff than if you simply move to a house that has been used by a family or two before you.

When you build a new house you have to hire workers and get permits, etc. An existing home does not "create" anything new and does not go into the GDP (Gross Domestic Product) figure.

On the flipside, sales of existing homes are the majority of homes sold and therefore are just as important. Think about it: eight out of 10 homes are existing homes that don't do as much for the economy as new homes which are two out of every 10 homes. They are each just as important but one more for quantitative reasons. Now you're getting it.

## **What can we conclude from all of this data?**

We have concluded that core durable goods are in pretty good shape and that unemployment rate is still relatively low at 4.8% for July. We can conclude that the housing market has slowed and will continue to slow.

This means that all of those 17 interest rate hikes HAVE taken their toll on the economy. Mortgage rates and energy prices are higher, and this has slowed down the housing market. The economy, as I said last week, is in a mild contraction. We are not in a recession right now, and from the data, it looks like this is a "soft landing" for the economy.

We can conclude that at this juncture, it DOES NOT look like the Fed will raise rates next month; this prediction, of course, is subject to change based on new data; both economic and geopolitical in nature.

As I said last week, the two geopolitical wildcards remain Iran and North Korea. Any significant news out of these areas could shake the markets. Iran's deadline from the U.N. Security Council is this Thursday (August 10th).

We need to see if and what types of sanctions are imposed. This could send oil prices skyrocketing. Don't forget that it is still hurricane season as well as election season; I'm not sure which one of those thoughts is more likely.

Overall, it is a good environment for traders and investors. Roll up your sleeves, focus, and make yourselves some money.

## **Economic events to watch this week ...**

There are tons of economic indicators that will be released this week. I only want you to pay attention to the "big" ones. Here they are:

### **Tuesday (Today)**

Consumer Confidence; the market expects 102.

### **Wednesday**

GDP; this is the second quarter revised preliminary number. The market expects it to come in up 3.1%

### **Thursday**