

>: Why this is the most dangerous investing week of the year!

Monday, January 28, 2008 / Dylan Jovine

JUST A QUICK NOTE FROM US HERE AT THE TYCOON REPORT.

This week promises to be the busiest economic week for the entire year so far. And that means it's also the most potentially dangerous/profitable depending on which side of the market you're on. As such, I've expanded this weeks Economic Calendar to include both the forecasts and explain why each announcement matters to your portfolio.

Remember: no matter what happens, don't lose your head.

As you read this sit down and imagine three different scenarios to what the market can do this week and plan a strategy for each one. This way you won't be caught flat-footed - you'll be acting instead of reacting! Happy Hunting!

A handwritten signature in black ink, appearing to read 'Dylan Jovine', with a stylized flourish at the end.

Dylan Jovine
Chief Investment Officer

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Economic Calendar for the Week of January 28 - February 01

Monday, January 28

10:00 AM - New Home Sales

Release Details

Importance (A-F): This release merits a C .

Source: The Census Bureau of the Department of Commerce.

Release Time: 10:00 ET around the last business day of the month (data for month prior).

Raw Data Available At: <http://www.census.gov/const/newressales.pdf> .

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.

Highlights

Briefing.com Forecast: 635K

Market Consensus: 645K

Key Factors

Another small decline leaves the lowest level since April 1995.

Briefing.com expects a decline near 2% to leave a 54% decline from the July 2005 peak.

Inventories expected to hold near August's 17 year high of 9.4 months.

Prices don't well reflect the housing recession or the lack of demand.

November median prices were down just -0.4% yoy. Average prices were 0.5% higher than a year ago.

From their peak prices have fallen -9%, may have to reach -15% or more to clear inventory and re-energize sales.

Big Picture: New home sales reached a 13 year low in November with no sign of stabilization. Unsold inventories returned to a 17 year high in August of 9.4 months as prices don't well reflect the housing recession or the lack of demand. A larger price decline of 15% or more from the peak may be needed to re-energize demand. New construction is waiting for any sense of sales stability to signal that the end is near -- nothing yet as prices need to fall and credit needs to free up to clear inventory and get the sector back on its feet.

Tuesday, January 29

8:30 AM: Durable Goods Orders

Release Details:

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

Source: The Census Bureau of the Department of Commerce.

Release Time: 8:30 ET around the 26th of the month (data for month prior).

Raw Data Available At: <http://www.census.gov/ftp/pub/indicator/www/m3/index.htm>.

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.

Also notable in this report is the narrow category of nondefense capital goods. These goods mirror the GDP

category producers' durable equipment (PDE) -- the largest component of business investment. Shipments of nondefense capital goods are a good proxy for PDE in the current quarter, while nondefense capital goods orders provide an indication of PDE growth in the quarters ahead.

Highlights

Briefing.com Forecast: 5.0%

Market Consensus: 2.0%

Key Factors

Boeing aircraft orders provides the large expected gain. Huge aircraft orders in Nov and Dec as November only showed a 'modest' gain.

A modest 0.6% gain is expected in ex-transportation orders after two months of decline.

Core capital goods orders (ex defense/aircraft) -- the proxy for business capital investment -- is expected to rise modestly.

The early 2007 upward trend has turned flat given the last four months of decline. The forward trend provides direction for durable goods manufacturing.

Annual growth in November was -0.5% yoy, core capital goods -2.0% yoy.

Durable good orders certainly aren't plunging but the lack of demand urges caution ahead.

Big Picture: The early 2007 lift has flattened leaving durable goods orders down from a year ago but up slightly over the last 6 months. The volatile components can swing sharply but suggest a return to slower business investment as seen in late 2006. July durable goods reached a record high given the surge in aircraft and vehicles but have fallen 7% since. The risk ahead is that a weak economic growth outlook delays orders and slows manufacturing output thereby further slowing the economy. Strong corporate balance sheets and strong exports remain positive underlying factors.

10:00AM Consumer Confidence

Release Details

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

Source: The Conference Board.

Release Time: 10:00 ET on the last Tuesday of the month (data for current month).

Raw Data Available At: <http://www.tcb-indicators.org/>.

The Conference Board conducts a monthly survey of 5000 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.

Highlights

Briefing.com Forecast: 86.0

Market Consensus: 87.0

Key Factors

Potential for Jan to revisit the Nov (3-yr lows) of 87.8 & then some.

Prior to Dec's small gain the four month consecutive decline sums to -22%.

Index stands below the average over the 2001 recession. Lowest since the Oct 2005 Gulf Coast hurricanes.

Housing recession, tighter credit, higher oil prices and economic gloom are all contributing.

In December the expectations component rebounded 9% higher as present conditions fell -6%/

The labor differential (jobs 'plentiful' less 'hard to get') fell to -0.8 -- the first decline since November 2005.

Stood at 11.3 in July.

1 year inflation expectations edged lower to 5.6%.

Big Picture: The index reached a six year high in July but dove to a two year low in November given the worsening housing recession, the market implications of the reckless sub-prime mortgage lending, the rising price of oil, tighter labor markets and the consumer fear of recession ahead. 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 rate levels and income growth.

Wednesday, January 30th

8.30AM: Gross Domestic Product (GDP)

Release Details

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

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Release Time: Third or fourth week of the month at 8:30 ET for the prior quarter, with subsequent revisions released in the second and third months of the quarter.

Raw Data Available At: <http://www.bea.doc.gov/bea/dn1.htm>.

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, totalling 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.

With both GDP and the deflator, the market tends to focus on the quarter/quarter change. Year/year changes are also cited frequently, though they do not provide the most timely indications of economic activity or inflation. The bond market often reacts to GDP, though the price moves are typically small, as much of the GDP data is easily predicted using monthly economic releases such as personal consumption, durable goods shipments, construction spending, international trade, and inventories.

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.

Highlights

Briefing.com Forecast: Q4 GDP 1.9%, final sales 2.4%, GDP price index 3.0%

Market Consensus: Q4 GDP 1.2%, GDP price index 2.6%

Key Factors

A softening to 1.9% from a 4.4% average over the last half year.

Real personal spending expected at a moderate 2.7% from a 3% average over the last year.

Business investment expected at 6.7%. Structures near 25% as software/equipment expected at 3%.

Residential investment expected to plunge -24% -- the largest quarterly dive since Q4 1981.

Trade expected to provide another positive contribution but much smaller than the last two quarters.

Government spending expected to be slowed by defense spending after two quarters of strong growth.

Inventories expected to slow growth by about half a percent. Leaves final sales (GDP less inventories) at 2.4%.

GDP price index rises 3.0% with energy prices. Core PCE price index expected to rise 2.6%.

Big Picture: Q3 leaves the last four quarters with average growth of 2.8% as the Fed targets sub 'potential' growth (below 2.8%) to cool inflation pressures. The risks for slower growth (or contraction) have become more pronounced given the mortgage credit crisis and the housing sector slipping in to deeper recession. Oil prices are weighing on consumers as the labor market is showing some cracks. Confidence -- both consumer and business -- have fallen quite sharply. Inventories will pull back in Q4 as global growth (read exports) remains a positive given the weak dollar and the pace of exports. Q4 will test just how resilient the economy is given all the headwinds. The market is more worried about the first half of 2008.

Thursday, January 31

8:30AM: Employment Cost Index

Release Details

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

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

Release Time: 8:30 ET, near the end of the first month of the quarter for the prior quarter.

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

In Brief: Since the employment cost index was mentioned by Fed Chairman Greenspan in July 1996, it has risen into the upper echelon of economic reports in the eyes of the bond market. Its lagging nature still leaves

it as a less timely indicator of employment cost trends than the monthly hourly earnings data in the employment report. But the ECI does add something to this picture: an adjustment for shifting employment between industries, and a look at benefit costs. These additions are interesting, but typically do not alter the view of the employment cost picture which was left by hourly earnings. ECI will be much less closely watched during periods when wage inflation is not a serious market concern.

The market focusses on the quarter/quarter and year/year changes in each of three categories: total employment costs, wages and salaries, and benefit costs. The figures are sometimes skewed by large year-end bonuses in the financial industry; analysts often exclude the sales commission component of wages and salaries to adjust for this factor.

Highlights

Briefing.com Forecast: 0.8%, 3.3% yoy

Market Consensus: 0.8%

Key Factors

Running steady. 0.8% to 0.9% gains over the last six quarters. Another expected in Q4.

Annual rate at 3.3%. Been in a 3.3% to 3.5% range for the last five quarters.

Q4 wages and salaries expected to rise 0.8%, benefits estimated at 1.0%.

Annual growth of wages and salaries 3.4%, benefits slightly lower at 3.1% yoy.

Benefit costs have decelerated from 5% yoy in mid 2005.

Wage/salary costs less inclusive than the productivity compensation measure. Compare to 5% yoy in income report.

Big Picture: Total compensation costs remain tame at 3.3% yoy. Wage growth of 3.3% yoy nearly matches the 3.2% annual growth in benefits. These figures compare with the more accelerated growth in the more inclusive productivity compensation costs and the wage/salary component in the personal income report.

9:45AM: 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.

Highlights

Briefing.com Forecast: 52.5

Market Consensus: 53.0

Key Factors

A 4 point decline expected after December's strongest level in a half year.

Still well above flat given the mid-50 levels expected in new orders and production.

Employment is bouncing on either side of a neutral 50.

Prices paid swing with energy prices but the lack of manufacturing pricing power leaves very little inflation threat.

Very volatile regional index.

Big Picture: The index bounced from below 49 (in contraction) early in the year to a high of 61.7 in March and May to back below 50 in October and rebounded to 56.6 in November. A very volatile regional measure reflects the varied directions of the fragile auto sector, booming aircraft orders and the recessionary housing sector. Business investment plays a key role ahead in directing manufacturing new orders, production and the economy. The manufacturing sector moves in sharper cycles than the overall economy and the regional measures move in even shorter, more volatile patterns.

Friday, February 1

8:30 AM: Non-farm Payrolls/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: Payroll growth 60K, unemployment 4.9%, hourly earnings 0.2%, workweek 33.8 hours.

Market Consensus: Payroll growth 55K, unemployment 5.0%, hourly earnings 0.3%, workweek 33.8 hours.

Key Factors

Nonfarm Payrolls: A larger 60K gain expected after the 18K December gain -- weakest since August 2003. A tenth consecutive decline in goods producing payrolls expected. Construction to show 7th decline, manufacturing a 19th consecutive decline.

Private service providing payrolls expected to rise near 100K.

Government payrolls expected at 25K.

Unemployment Rate: expected to edge lower to 4.9% after Decembers 0.3% gain to 5.0%.

March marked the 4.4% cyclical low.

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

Hourly Earnings: A smaller 0.2% rise expected after the back to back 0.4% gains.

Pulls annual growth up to 3.9%.

Reached a six year high of 4.3% yoy in December 2006.

Average Workweek: Expected to hold at 33.8 hours as it has since July.

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 of 111K compares to 189K in 2006 as December's decline in non-government payrolls leaves concern for 2008. Unemployment is rising from the March low of 4.4% to a round 5% given the large 0.3% jump in December. The relatively low labor participation rate continues to leave lean worker availability. Employment trends lag the economy as final demand -- in excess of labor productivity -- feeds in to labor demand. Earnings growth is holding steady just below a 4% yoy rate -- off the 4.3% yoy high of December 2006. The loosening labor market is being watched for any signs of unraveling.

10:00AM ISM: Institute for Supply Management Index (formerly NAPM: National Association of Purchasing Managers)

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

Briefing.com Forecast: 48.5

Market Consensus: 47.5

Key Factors

Calculation has been revised. Equal weights now applied to five key components. Better predictor of GDP. Five key components are new orders, production, employment, deliveries and inventory.

Expect a small rise as the index remains below a neutral 50 for a second month.

New orders are the key concern given the drop to a 6 year low in December (lowest since recession in Oct 2001).

The weight of inventories doubles as that component has been below 50 for a year and a half.

Prices paid (input costs) still firm but the lack of manufacturing pricing power leaves very little effect on inflation.

Big Picture: The index has fallen from the 14 month high of June to below 50 in December. The calculation of the index will change in January 2008 with equal weighting to the five key components. 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 and a high capacity utilization rate urging continued labor saving investment -- business could delay new investment and help stall manufacturing output and possibly the economy.