

>: From the Editor: A Week in the Life of The Tycoon Report

Monday, August 13, 2007 / Ben Schott

I know. It's hard to believe.

After ALL THAT, the Dow actually ended the week just about flat ? 56 points higher than where it opened last Monday morning, to be exact.

All told, it's actually a sweet little microcosm of stock market behavior. I know it's hard to get out of the trap of thinking day-to-day when it comes to your stocks ... but if this doesn't show you that you can AT LEAST think week-to-week, nothing will.

Today, I'd like to write something especially for brand new readers of *The Tycoon Report*.

For a week that was essentially flat, the media, depending on the day, was screaming with the volume on 11 that the market was crashing, or that confidence was surging.

One of the things that I'm proudest of here at Tycoon is how battle-hardened and experienced our writers are.

And it's remarkable when you look back at last week's articles ? considering the daily market mood swings ? just how cool, collected, and dare I say, detached, these guys are while most ?experts? are leading you in the panic/euphoria dance.

There's a lot to be said for the wisdom that comes from having lived ? and traded ? through many of the most dramatic rallies and crashes in recent history.

So without further ado, welcome new reader. Here's a ?week in the life? of a Tycoon ...

Monday, August 6 (Dow 285.65)

[Is Tech In Trouble?](#) by Wayne Mulligan

On a day when all the talk was on the market's resiliency, our resident technology geek ... I mean expert ... had his eye on a troubling trend that harkened back to the bubble days of the late '90s.

What he's noticed is a resurgence of VC (venture capital) deals in the tech space.

During the five quarters starting in Q4 2005, through Q4 2006, over \$6 billion was invested in seed-stage technology companies. According to Wayne, this is the ?first time in over five years that we've seen significant growth in this type of VC investing.?

?Keep in mind that this is a long-term indicator. That means that you are more likely to forget about it by the time the tech

deals start rolling out. So try to remember what Wayne is telling you today.

This is making Wayne in particular is someone who I have seen over the years, that has the ability to make very accurate long-term calls. They could hurt us in the process that's not an easy task at all. But if you can gather what he says each Monday, and make the deposits to your memory bank, and check your memory bank statements from time to time, then you'll probably save up a wealth of knowledge that will come in handy when the time comes.?

... We'll be approaching a critical juncture in the market if these deals don't slow down a bit ? and if they don't, your best bet is to shore up your cash, because we've all seen how this story ends.

My favorite reader comment on Wayne's Article actually came from another of our writers, Chris Rowe:

Tuesday, August 7 (Dow 36.58)

[Portfolio Tune-Up Time?](#) by Jason Jovine

One piece of advice that's echoed again and again by all of our writers is that, to be successful in this game over the long term, you need to have a SYSTEM. Furthermore, you must exercise cold-blooded discipline in exercising discipline no matter what happens to be going on in the market

(last week being a prime example).

On Tuesday, Jason offered up a very simple way to help you choose a plan for diversifying your investments and, more importantly, to stick with it through periods of market volatility.

After outlining the basic asset classes available to us (money market assets, fixed-income securities, stocks, non-U.S. stocks and bonds, real estate, and precious metals/other commodities), Jason reminded us of something we all should know but frequently forget:

When the market gains or loses value to any significant extent, we must go back and 're-balance' our portfolios to stick within our original parameters for diversification.

For example, if your personal risk tolerance and investing style had you in U.S. stocks to the tune of 60% of your overall portfolio back when the Dow was at 12,000, the value of your U.S. stock holdings would very likely make up more than 60% of your portfolio at today's market values.

While that's sound advice for most, I don't think it applies to everybody. I myself am 16, so I'm not interested in money-market equivalents and fixed income securities, and have not yet saved enough to delve into real estate. My favorite reader comment on Jason's article came from a Chase member.

Wow! I just can't get over the fact that a 16-year-old is reading *The Tycoon Report*!

Wednesday, August 8 (Dow 160.63)

[Would You Let a PEZ Dispenser Manage Your Money?](#) by Dylan Jovine

First thing's first: My dear new reader, did your last investing newsletter ever come up with an article title like this?

In seriousness, this piece by Dylan marked a milestone for us: In the brief history of our newly redesigned website, no article has generated as many reader comments as this one did.

As of this writing, the article has received 117 comments from our readers!

What got everyone excited enough to get involved in the discussion? Why, corn of course.

With this piece, Dylan, who runs our [Fallen Angel Stocks](#) investing service, kicked off a discussion of the financial implications of the upcoming Presidential election.

The first issue that he brought up concerned the economic implications and the political motivations surrounding the production of alternative fuels, specifically ethanol derived from corn.

In his words ...

The rush of investors to create alternative energy based largely on corn has had inflationary ripple effects throughout our entire system.

For example, most cows live off of feed based largely on corn. When billions of investors are running in to convert corn into energy, the added demand increases the price of corn. As a result, it becomes much more expensive for farmers to feed their cows.

When it becomes more expensive to feed their cows, farmers must pass this cost down to the consumer. Not only does that affect the price you pay for a steak, but it also affects the price you pay for a gallon of milk.

... When consumers are forced to pay more for basic food items such as milk, cheese and meat, it means the value of their dollar has decreased. In other words, they are unable to purchase as many goods with the same dollar as they were before. That is the very definition of inflation.

It's hard to pick a favorite reader comment ? there were so many great takes on this issue ? but this one stands out for me because the reader came across as supremely articulate, confident, worldly, insightful, intelligent and handsome ... and dare I say exactly the kind of man you'd want to date your daughter:

I personally think that the alternative energy issue will need to be re-framed entirely before most people really realize what's at stake. For now, it's fodder for stump speeches, but in the future, for the need to get through a lot of thick skulls, use of alternative energy will need to be incentivized. In other words, people must have a clear economic incentive (SAVING MONEY) to buy an alternative fuel car. As it stands, most hybrids and diesels, for example, are akin to doing your grocery shopping at Whole Foods ... i.e. it's more expensive and thus something of a status symbol. ? Ben Schott

Thursday, August 9 (Dow -381.65)

[Profit From The Trend](#) by Chris Rowe

I personally found this to be the most valuable article of the week.

Monday, August 13

8:30 - Retail Sales (for July): Consensus 0.2%, Retail Sales ex-auto (for July): Consensus 0.3%

Implications

: The retail sales report is a measure of the total receipts of retail stores. The changes in retail sales are widely followed as the most timely indicator of broad consumer spending patterns. Retail sales are often viewed ex-autos, as auto sales can move sharply from month-to-month. It is also important to keep an eye on the gas and food components, where changes in sales are often a result of price changes rather than shifting consumer demand. Retail sales can be quite volatile and the advance reports are subject to rather large revisions. Retail sales do not include spending on services, which makes up over half of total consumption. Total personal consumption is not available until the personal income and consumption reports are released, typically two weeks after retail sales.

10:00 - Business Inventories (for June): Consensus 0.4%

Implications: The business inventories report includes sales and inventory statistics from all three stages of the manufacturing process (manufacturing, wholesale, and retail). But by the time it is released all three of its sales components and two of its inventory components have already been reported. Because retail inventory is the only new piece of information it contains, the market usually ignores the business inventories report. However, sometimes retail inventories swing enough to change the aggregate inventory profile. This may affect the GDP outlook. When it does, the report can elicit a small market reaction.

Tuesday, August 14

8:30 - PPI (for July): Consensus 0.1%, Core PPI (for July): Consensus 0.2%

Implications: The Producer Price Index measures prices of goods at the wholesale level. There are three broad subcategories within PPI: crude, intermediate, and finished. The market tracks the finished goods index most closely, as it represents prices for goods that are ready for sale to the end user. Goods prices at the crude and intermediate stages of production often provide an indication of coming (dis)inflationary pressures, but the closer you get to crude goods, the more that these prices track commodity prices which are already available in traded indexes such as the CRB (Commodity Research Bureau).

8:30 - Trade Balance (for June): Consensus -\$61.0B

Implications: The trade report is most widely watched for trends in the overall trade balance. But trends in both exports and imports of goods and services bear watching as well. The export data in particular are important to watch for indications that a strengthening competitive position at home and/or strengthening economies overseas are boosting U.S. growth. Imports provide an indication of domestic demand, but given the severe lag of this report relative to other consumption indicators, it is not particularly valuable for this purpose. The volatility in the monthly trade balance can play an important role in GDP forecasts. Net exports are a relatively volatile component of GDP, and the trade report provides the only early clues to the net export

performance each quarter.

Wednesday, August 15

8:30 - CPI (for July): Consensus 0.2%, Core CPI (for July): Consensus 0.2%

Implications: The Consumer Price Index is a measure of the price level of a fixed market basket of goods and services purchased by consumers. CPI is the most widely cited inflation indicator, and it is used to calculate cost of living adjustments for government programs and it is the basis of COLAs for many private labor agreements as well. It has been criticized for overstating inflation, because it does not adjust for substitution effects and because the fixed basket does not reflect price changes in new technology goods which are often declining in price. Despite these criticisms, it remains the benchmark inflation index. CPI can be greatly influenced in any given month by a movement in volatile food and energy prices. Therefore, it is important to look at CPI excluding food and energy, commonly called the "core rate" of inflation. Within the core rate, some of the more volatile and closely watched components are apparel, tobacco, airfares, and new cars. In addition to tracking the month/month changes in core CPI, the year/year change in core CPI is seen by most economists as the best measure of the underlying inflation rate.

9:15 - Industrial Production (for July): Consensus 0.3%, Capacity Utilization (for July): Consensus 81.8%

Implications: The index of Industrial Production is a fixed-weight measure of the physical output of the nation's factories, mines, and utilities. Manufacturing production, the largest component of the total, can be accurately predicted using total manufacturing hours worked from the employment report. One of the bigger wildcards in this report is utility production, which can be quite volatile due to swings in the weather. Severe hot or cold spells can boost production as increased heating/cooling needs drive utility production up. In addition to production, this monthly report also provides a measure of capacity utilization. Though the rate of capacity utilization is seen as a critical gauge of the slack available in the economy, the market does not completely trust this measure. Capacity is very difficult to measure, and the Fed essentially assumes that growth in capacity in any given year follows a straight line. One can therefore predict the capacity utilization rate quite accurately based on the assumption for production growth. The 85% mark is seen as a key barrier over which inflationary pressures are generated, but given revisions to these data and the difficulties with capacity measurement, the 85% mark should be viewed cautiously. It would be appropriate to look for corroborating inflation indications from commodity prices and vendor deliveries.

Thursday, August 16

8:30 - Housing Starts (for July): Consensus 1410K, Building Permits (for July): Consensus 1400K

Implications: Housing Starts are a measure of the number of residential units on which construction is begun each month. A start in construction is defined as the beginning of excavation of the foundation for the building and is comprised primarily of residential housing. Building permits are permits taken out in order to allow excavation. An increase in building permits and starts usually occurs a few months after a reduction in

mortgage rates. Permits lead starts, but permits are not required in all regions of the country, and the level of permits therefore tends to be less than the level of starts over time. The monthly national report is broken down by region: Northeast, Midwest, South, and West. Briefing recommends analyzing the regional data because they are subject to a high degree of volatility. The high volatility can be attributed to weather changes and/or natural disasters. For example, an unexpectedly high level of rain in South could delay housing starts for the region.

8:30 - Initial claims (for 8/11): Consensus NA

Big Picture: Initial claims can be somewhat volatile, but the 4-week average has remained in a lower 300K to 320K range for 14 weeks after topping 330K in mid April. Aberrations are watched for clues on the labor market and economy, as the recent levels reflect an even tighter labor market. Continued claims are showing more lift than initial claims as the 4-week average nears the year and a half high of early March. Claims provide a nearly real time read on layoffs and the labor market as the low 4.6% unemployment reflects the broader 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.

12:00 - Philadelphia Fed (for August): Consensus 8.0

Implications: There are many regional manufacturing surveys, and they tend to be ranked in order of timeliness and the importance of the region. The Philadelphia Fed's survey is first each month, actually coming out during the third week of the month for which it is reporting. Several smaller surveys are then released before 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 NAPM and are of little value. The purchasing managers' reports are measured like the national NAPM - 50% marks the breakeven line between an expanding and contracting manufacturing sector. For the Philadelphia and Atlanta Fed indexes, 0 is the breakeven mark. These surveys can be of some help in forecasting the national NAPM - particularly the Philadelphia and Chicago surveys which are more closely watched due to their timeliness and the fact that these regions represent a reasonable cross section of national manufacturing activities.

Friday, August 17

10:00 - Michigan Sentiment-Prel. (for August): Consensus 88.5

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