

>: An Article Completely Lacking Focus and Direction

Monday, April 16, 2007 / Ben Schott

What do ETFs, *The Tycoon Report*, Email Scams, Income Taxes and Wine Have in Common? Not Much. But Today I'll Talk About them All. First of all, I want to apologize for sending your *Tycoon Report* issue out a bit late today.

If you're a brand new reader ? or if you've been on Mars for the past few weeks ? you might not know that today is the day that we're officially launching Teeka Tiwari's **ETF Master Trader** program.

As a result, it's extremely hectic here in our Delray Beach offices ... and so it took us a little extra time to get this issue out to you.

Just to let you know: If you were out of town, or if you're new to *The Tycoon Report*

and didn't make it onto the Inner Circle list for this week's early release, we'll be releasing **ETF Master Trader** to everyone else a week from today.

But there's a pretty heavy ?IF? involved. We're only selling 1,000 copies of the program until further notice. So if those 1,000 copies are gone after the Inner Circle folks have their chance this week, what can I say, you might be out of luck.

What Do You Think So Far?

In other news, four weeks of *Tycoon Report* issues have been sent now since I assumed my responsibilities as Editor in Chief.

In my first article, I told you exactly what I hoped to accomplish in my new role:

To make this newsletter the most valuable source of finance and investing information you read every day.

So I know it's only been a month, but I wanted to reach out to you and see if you'd be willing to give me a ?progress report? of sorts.

I'd like to know if you've noticed a difference in *The Tycoon Report*

over the past few weeks. Have the news articles been more interesting to you? Have the articles from our experts been any more or less helpful than

before? Have you laughed harder at the ?laugh lines?? Are you finding the ?Economic Calendar? feature on Mondays easier to follow?

I'd love to hear your thoughts. If you have a moment and care to weigh in, please feel free to email me at Editor@TycoonResearch.com.

Email Scam Warning

There is one thing that all of us at Tycoon ? and I personally ? value more than anything else: Your trust.

That's why I was beside myself recently when we got an angry email from one of our readers.

It seems that this person had received an email that they thought was from us that was pushing some over-the-counter penny stock. Long story short, they threw a bunch of money into the stock, and promptly lost a lot of cash.

The twist, as you might have guessed, is that the email they received wasn't from us at all. It was from a spammer who used an alias that made someone think they were from Tycoon to send their little pump-and-dump scheme.

It makes me sick, quite frankly. But there's not much I can do about it.

Except to warn you to keep your eyes open.

It's ironic, actually, that this happened when it did. It was around the same time that Jason wrote [his article on Penny Stocks](#)

. If our unfortunate reader had read his article, they might have saved themselves from having to swallow that bitter pill.

Bottom line: If you get something in your email that says it's from ?The Tycoon Report? or from any of our writers individually ... and if you have any reason whatsoever to suspect that it's not legitimate ... err on the side of caution.

Feel free to forward anything weird directly to me if you're not sure.

I'd hate for anyone else to lose money like that again. And for it to happen under the guise of our name ... I can't tell you how upset that makes me.

Something Completely Different ...

Since I started working directly on *The Tycoon Report*, I've had the good fortune to communicate with many of you directly via the Editor@TycoonResearch.com email account I set up.

One thing that has struck me is that ? surprise of surprises ? not everyone who reads our little investing newsletter spends 24 hours a day reading about the markets and trading stocks.

So I thought I'd go out on a limb today and give you something completely unrelated to investing.

After all, there's more to life than money ...

... like the stuff you can buy with it!

Worst case scenario, nobody will care. But I figure when you're not trading your stocks, you might appreciate a little diversion.

And that's where my passion comes in. *And my passion is wine.*

Yeah, OK, you nailed it. I'm a complete wine junkie (when I'm not at work of course!). My primary home is in the middle of the vineyards of Northern California, as a matter of fact.

So I was thinking that, once a month or so, I might recommend a winery or a bottle of wine that I think any of my fellow wine-lovers out there might enjoy.

I'll start today with one of my absolute favorites.

Papapietro-Perry Winery is a small, and until recently relatively unknown, producer of some of the finest pinot noir in the U.S. They're a very small producer, and have quickly become somewhat of a cult favorite locally.

When I first discovered them, they didn't even have a tasting room. As a matter of fact, when I picked up my very first bottles, it was from the garage at the home of one of the owners.

They've come of age since then, opening a comfy little tasting room in the Dry Creek Valley just outside of Healdsburg, CA.

Their '03 and '04 vintages scored huge in Wine Spectator ... with a 91, a 93, and even a 95 rating among them.

These are wines that you most likely have never even heard of if you live somewhere outside of wine country. But if you go to their website, you

should be able to have a few bottles shipped (depending on where you live, of course, as the rules are a little funky).

My personal favorites:

2003 Leras Family Vineyards Pinot Noir

2004 Mukaida Vineyard Pinot Noir

But if you can't get your hands on either of these, I think you'll be just as impressed by the latest (2005) releases.

Don't Worry ... Be Happy

Tax time will be over soon, so don't let it get you down.

When all is said and done, I hope our advice helps you keep a little bit more of what you earn.

Have a great week!



Ben Schott

Chief Investment Officer

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Monday, April 16

8:30 - Retail Sales: Consensus 0.4%, Retail Sales Excluding Automotive: Consensus 0.7%

Big Picture: Retail sales are slowing under the weight of high interest rates, as lower gas prices provided a late 2006 boost. Strong retail sales growth had been fueled by lower interest rates, vehicle discounting and mortgage refinancing, as those forces faded in late 2005 and 2006. Despite improved employment and income growth, the Fed's tightening and high energy prices have had a deflating effect on consumer spending, and on big ticket durable goods purchases particularly. Income growth and low unemployment provide support, and is the best read on the future sales pace.

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: Consensus 0.2%

Big Picture: The inventory to sales ratio stands at 1.30 months from the record low 1.24 months in January 2006, as inventory gains (6% yoy) compare to a 2% yoy rise in sales. Expect continued thinning of inventories

(and the I/S ratio) to further reduce production this quarter and leave a smaller drag on economic growth than the -1.2% drag in Q4.

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, April 17

8:30 - CPI: Consensus 0.6%, Core CPI: Consensus 0.2%

Big Picture: The core rate of consumer inflation reached a decade high of 2.9% yoy in September and has eased off to 2.7% yoy in February. The sticky prices for shelter, medicine, and tuition will continue to hold firm as flat yoy core commodity prices have provided the slight give. Energy prices provided the drop in overall CPI in late 2006. In the big picture, it's aggregate demand which provides the price direction as sub-potential (near 3%) growth should ease the core inflation pressures over time. The Fed more closely watches core PCE prices as an inflation guide, which stands at 2.4% yoy. Overall CPI reached a 14-year high of 4.7% yoy in Sept '05 given the push from energy prices, and now stand at 2.4% yoy.

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 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.

8:30 - Housing Starts: Consensus 1,500K, Building Permits: Consensus 1,515K

Big Picture: Housing starts reached a nine-year low in January 2007 after hitting a 33-year high a year earlier. The 38% plunge has been a significant drag on growth, as further risk surrounds the defaults coming from sub-prime borrowers. As mortgage rates rose, underlying demand and speculative investment faded as sales declined, inventory built and strong price growth turned to declines. The correction for the inflated housing market was expected (and needed), but with a more gradual decline. Fixed long term mortgage rates (now in the low 6%'s), and downward price pressure on homes, leave sales finding some stability as a return to positive construction waits for the huge supply of unsold homes to be thinned. National Assoc of Realtors

expects the bottom in housing starts in Q2 2007.

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.

9:15 - Industrial Production: Consensus 0.1%, Capacity Utilization: Consensus 81.9%

Big Picture: Industrial production is weakening with soft manufacturing demand as cold weather provided a tremendous gain in February through utilities output. Manufacturing output is flat over the last 6 months, as new factory orders continue lower. Slowed vehicle and construction-related output is added to by weaker capital investment and the wide range of industries affected. The trends have turned to decline over the last half year as the ISM manufacturing activity index fell below a neutral 50 in November and January. We believe the fall-off will only be considered a mid-cycle stall a few quarters from now, but concern is growing. Weaker business confidence in the economy is creating the slowing in capital investment. Capacity use stands at 82% -- the level historically consistent with inflationary pressures -- as manufacturing shows a growing amount of excess capacity at 80.1%.

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, April 19

8:30 - Initial Claims: Consensus NA

Big Picture: The initial claims 4-week average is back below 325K after the February bulge and January dip. The slow trends higher reflect some slight loosening in the labor markets as the 4-week average reached a 16-month high in early March. Continued claims are on an upswing as well. Claims provide a nearly real time read on layoffs and the labor market as the low 4.4% unemployment reflects the broader read of net 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 signalling 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 - Leading Indicators: Consensus 0.1%

Big Picture: Six monthly declines in 2006 reflect the weaker economy in late 2006, as declines make up the first two months in 2007. The 6 month growth fell to a -0.8% low in July but has returned to the black. Over the last 16 years, the index correctly signaled the 1990 and 2001 recessions while providing a false signal during the 1995 soft-landing. The recession alarms go off when the cumulative 6-month decline exceeds -1% amid a string of three or more consecutive monthly declines. No recession warning bells yet.

Implications: The purpose of the leading index is straightforward: It is designed to signal turning points in the business cycle. The Leading Indicators report is, for the most part, a compendium of previously announced economic indicators: new orders, jobless claims, money supply, average workweek, building permits, and stock prices. Therefore, the report is extremely predictable and of very little interest to the market. Though this series does have some predictive qualities, it is a common criticism that it has predicted "nine of the last six" recessions.

12:00 - Philadelphia Fed: Consensus 3.0

Big Picture: The regional manufacturing index is volatile, but reflects the same weaknesses which leave national production lower over the last six months and the ISM index below 50 in two of the last five months. The weakness in orders from the auto and housing sectors now add to stalled business investment from a breakneck pace just a few quarters ago. ISM estimates for 2007 argue that the stall is just that with stronger demand ahead. Risk is that demand won't return quickly and proves self reinforcing. The Philly index is independent of its components so can provide a misleading read and is especially volatile given the small region covered (mid and east PA, southern NJ and Delaware). The manufacturing sector moves in mini-cycles compared to the overall economy and the regional measures move in even shorter cycles with far more month to month volatility.

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.