

>: More Bang for Your Buck: Your current trading environment

Tuesday, August 1, 2006 / Jason Jovine

Give me a break. Are these politicians corrupt or what? The Republicans in the House have passed a bill that increases the minimum wage from \$5.15 per hour to \$7.25 per hour. They did this in a very sneaky way by including a break for the rich again. They paired this increase in the minimum wage with a cut in the inheritance tax on multimillion-dollar estates. The rich have lobbied hard for this, especially the Waltons, the heirs to the Wal-Mart fortune.

In theory, increasing the minimum wage "sounds good," but economics tells a completely different story. A minimum wage increase is, in essence, what those in economics call a "price floor."

A price floor is a price that is set above "market equilibrium" or the price that would normally occur in the market without outside interference. When you create a price floor that is above this equilibrium, then there will be an excess supply (in this case, labor) above the demand that the market wants or needs.

In other words, now that employers have to "pay more" for workers coupled with the fact that more workers will want these higher paying jobs, companies will be less likely to hire these workers and if they do, these workers will work more hours. This is also an incentive to hire more illegal immigrants and fewer Americans.

The outcome of this law if it passes in the Senate will be to hurt the poor and to help the rich. Do we see a trend here?

Economic news has been mixed lately. The U.S. economy grew at a 2.5% annual rate in the second quarter, which is less than half of the first quarter rate of 5.6%. When this news was released at the end of last week, the Dow surged 119.27 points.

The other significant economic news is that core inflation (inflation that excludes food and fuel) rose at an annualized rate of 2.9% in the second quarter which was the highest rate since 1994!

This is well above the Fed's comfort zone of one to two percent. The Fed is caught between a rock and a hard place, and our government is caught between Iraq and a hard place. This situation is very precarious.

The reason that the stock market went higher on the news, of course, is because a slowing economy means, in theory, that the Fed can ease off of its continued interest rate hikes. The rising inflation, on the other hand, suggests that the Fed should raise interest rates. What's a Bernanke to do?

Remember, all of you Tycoon readers, that there is always a lag between the implementation of monetary policy and the full effect of the policy. In other words, it takes time once a policy is initiated to see its full effect, and, in my opinion, we have raised interest rates enough.

This slowing economy will reduce the demand for oil and other goods and services. This decreased demand should lower inflation in other areas, as well, although, prices of goods and services usually go up faster than they go down. How often has your landlord told you that he is going to give you a rent decrease?

What does this mean for you as traders and investors?

Obviously, investors don't have to worry as much as traders do. Investors, in theory, should buy and hold good companies for the long term and shouldn't stress out over the day-to-day nonsense of the market.

Traders, on the other hand, have to be more in tune with what is going on. The bottom line is that the market will be choppy for the next several months. The market ALWAYS trends higher over the long term, but for the short term, the winners will be the ones who are in tune with what's going on. The losers will be the ones who take their eyes off of the ball.

I believe that, at this point, there is a 60% chance that the Fed WILL NOT raise rates at its next meeting in August, and, obviously, a 40% chance that it WILL.

I do not have a recommendation for you today, but I am working on one that I will soon tell you about. I live by a very simple philosophy when it comes to giving recommendations to people. I don't give you recommendations when it's most convenient or when I'm most in the mood. I will only give you a recommendation when I think that it's most profitable for you.

Just remember that in this game, it's not about quantity of recommendations given, it's about the quality.

In closing, I wanted to say to you all not to take your eyes off of the ball in this environment that we are in right now. You must incorporate the advice that we here at Tycoon give you in a way that best for you.

For example, I get asked the same question over and over again. The question is, "How much of a certain security should I buy?" I always give the same answer. "I don't know." The reason that I say that is because, in order for me to tell you how much of whatever to buy, I would need to ascertain a lot of information from you, including, age, net worth, annual income, and risk tolerance; just to name a few. At this point, we are not in the money management business and cannot legally delve into your financial life in that way. Hopefully, this will change in the near future, but, for now, we can't go there. Now you know what the short-term investment environment looks like. Use our products to help you make some money; just pay attention.

As a trader, you need to look at trading like driving. Your computer screen is like your car window, and if you are not paying attention for long enough, you know what happens.

Until the next time folks, take care of yourself and each other.



Jason Jovine
Chief Investment Officer

[≥](#)