



>: From the Editor: Politics and Your Money

Monday, June 9, 2008 / Ben Schott

A quick note today before we get into the Insider Trades wrap-up and this week's calendar of economic announcements.

Last week had its share of drama -- in the markets, on the political stage, and yes, even here in *The Tycoon Report*.

Any of you who read the article in Thursday's issue will understand why, today, I'd like to apologize as Editor In Chief of this newsletter for a considerable lapse in judgment.

I'm not apologizing because the writer's political viewpoint angered many of you. We're not in the censorship business, and while his political opinions don't represent those of our entire team, he has every right to them.

I'm also not apologizing because the article in question was offensive to many people. To be blunt, it's not the first time we've offended somebody, and it certainly won't be the last. We try not to pull punches here, and when you speak to as many individuals as we do on a daily basis, a certain number of them will inevitably be offended by something.

I *AM* apologizing because I let an article run that did not contribute in any meaningful way to our promise to *Tycoon Report* readers: to help you become better investors.

As for whether or not we at *The Tycoon Report* should or should not/ will or will not continue to write about politics now and again:

As you know, we don't publish this newsletter for profit. We do it to help level the playing field between individual investors and the Wall Street establishment.

Several readers last week suggested in website comments that we ought to "stick with what we know" (i.e. investing), and skip the politics.

I can't promise that we'll do that. In fact, I **CAN** promise you that the exact opposite will be true, for one very important reason ...

Politics, economic policy, our leaders in government, they all can have a very significant impact on our money in general, and our investments in particular.

The key, especially in such an emotionally charged political climate as the one we're in right now, is to focus on policy ... not on individuals, and not on liberal vs. conservative dogma.

So again, I will promise you that when our writers tackle politics going forward, the debate will revolve around the policies put forth and how they will affect your investments today and in the years ahead.

Thank you for reading, and on behalf of all our writers, thank you for leaving your feedback on every article ... complimentary and critical alike.

To your continued success,

A handwritten signature in black ink that reads 'Ben Schott'.

Ben Schott
Chief Investment Officer

>

Economic Calendar for the Week of 6/9 - 6/13

Tuesday, June 10

8:30AM - Trade Balance

- * Importance (A-F): This release merits a C .
- * Source: The Census Bureau and the Bureau of Economic Analysis of the Department of Commerce.
- * Release Time: 8:30 ET around the 20th of the month (data for two months prior).
- * Raw Data Available At <http://www.census.gov/foreign-trade/www/press.html>.

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, June 11

2:00PM - Treasury Budget

- * Importance (A-F): This release merits a D.
- * Source: U.S. Treasury Department.
- * Release Time: 14:00 ET, about the third week of the month for the prior month.
- * Raw Data Available At <http://www.fms.treas.gov/mts/index.html>.

The monthly Treasury budget data follow strong seasonal patterns which produce huge month-to-month fluctuations in the deficit. These fluctuations tell us little about long term budget trends. To the extent that the market analyzes the monthly Treasury data, the focus is on year/year changes in receipts and outlays, since the data are not seasonally adjusted. Only in April, the most important month for tax inflows to the Treasury, does the market pay any attention to this report. The data can be predicted with reasonable accuracy by using daily data in the Daily Treasury Statement.

Thursday, June 12

8:30AM - Export Prices ex-ag., Import Prices ex-oil

- * Importance (A-F): This release merits an D.

- * Source: Bureau of Labor Statistics, U.S. Department of Labor.
- * Release Time: Typically in the second week of the month at 8:30 ET for the prior month
- * Raw Data Available At <http://www.bls.gov/news.release/ximpim.nr0.htm>.

Though not a market-moving release, export/import prices are a useful indication of inflation pressures created by changes in foreign exchange rates. For example, when the dollar is strong, import prices tend to be under downward pressure. If an item in Japan costs 500 yen and the exchange rate is 100 yen to the dollar, the US\$ price \$5. If the dollar then strengthens to Y120, the US\$ price falls to \$4.17. Because US exports must compete with foreign goods, there is also downward pressure on export prices when the dollar is strong.

Economists typically look at import prices excluding oil and export prices excluding agricultural. In each case, the category in question is excluded because prices for those items are volatile and the swings are unrelated to foreign exchange rates. Oil prices tend to swing in response to OPEC decisions, and agricultural prices are often affected by weather, neither of which say much about long-term trends in traded goods prices.

8:30AM - Initial Claims

- * Importance (A-F): This release merits a C .
- * Source: The Employment and Training Administration of the Department of Labor.
- * Release Time: 8:30 ET each Thursday (data for week ended prior Saturday).
- * Raw Data Available At <http://www.dol.gov/opa/media/press/eta/main.htm>.

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.

There are two other statistics in this report -- the number of people receiving state benefits and the insured unemployment rate; neither is watched closely by the market. Some analysts track the number of people receiving state benefits from month to month as a guide for job growth, though this series has a poor track record in predicting the monthly employment report. The insured unemployment rate changes little on a weekly basis and is never a factor for the market.

8:30AM - Retail Sales, Retail Sales ex-auto

- * Importance (A-F): This release merits an A-.
- * Source: The Census Bureau of the Department of Commerce.
- * Release Time: 8:30 ET around the 13th of the month (data for one month prior).
- * Raw Data Available At <http://www.census.gov/svsd/www/advtable.html>.

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.

10:00AM - Business Inventories

- * Importance (A-F): This release merits a C-.
- * Source: The Census Bureau of the Department of Commerce.
- * Release Time: 08:30 ET around the 15th of the month (data for two months prior).
- * Raw Data Available At <http://www.census.gov/mtis/www/current.html>.

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.

The aggregate sales figures are dated and they say little about personal consumption. They are actually a good coincident indicator, but the market is far more interested in forward-looking statistics.

The inventory-to-sales (I/S) ratio measures the number of months it would take to deplete existing inventory at current sales rates. A relatively low (high) I/S ratio may mean that manufacturers will have to build up (draw down) inventory levels. Depending on the strength of final demand and the degree to which recent inventory changes have been intended or unintended, this can have an effect on the industrial production outlook. Note that this information is much more useful to market economists than it is to other market participants.

Friday, June 13

8:30AM - CPI, Core CPI

- * Importance (A-F): This release merits a B .
- * Source: Bureau of Labor statistics, U.S. Department of Labor.
- * Release Time: 8:30 ET, about the 13th of each month for the prior month.
- * Raw Data Available At <http://stats.bls.gov/news.release/cpi.toc.htm>.

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.

10:00AM - Michigan Sentiment-prel.

- * Importance (A-F): This release merits a B-.
- * Source: The University of Michigan.
- * Release Time: Preliminary: 10:00 ET on the second Friday of the month (data for current month); Final: 10:00 ET on the fourth Friday of the month (data for current month).

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.