

>: Average Down...

Monday, December 4, 2006 / Jason Jovine

I want to get right to the point on this one. Average down on CVS right now, have patience, and you can build wealth with this one.

CVS is about \$29 per share right now. I originally recommended it to you several weeks ago at \$31 per share. If you average down here, this will obviously bring our cost basis down to \$30.

It is that same rock solid company that I recommended several weeks ago at \$31, but now it's on sale. I hope you remember my article about going with your gut when everyone else thinks that you are making a mistake.

I gave you that General Motors example several months ago when I recommended it, everybody and their mother back then told me that I was crazy. We have another opportunity like that one here with CVS.

CVS beat Wall Street's expectations last week. Same store sales rose by 8.4% when Wall Street expected them to rise 8%. This is more evidence that Walmart's entrance into the prescription drug arena is not affecting CVS as much as people thought.

Pharmacy same store sales rose 9.4% last month, while front end same store sales rose 6.1%. CVS also expects that its merger with Caremark will produce roughly \$400 million dollars a year in savings!

So why is the stock down?

The same reason GM's stock went down; FEAR. Remember that GREED and FEAR drive the market. Fear sends stocks lower than they should be, and greed sends stocks higher than they should be. If you have a solid company that is the victim of fear, that gives those of us who can conjure up strength the opportunity to build wealth. Don't miss your chance.

The economy...

There was mostly bad news that came out on the economic front last week. Durable goods orders were down 8.3%. The ISM (Institute for Supply Management) index fell to 49.5. Any number below 50 means contraction in the manufacturing sector and any number above 50 means expansion.

The last time that this number was below 50 was well over three years ago, in 2003! GDP was 5.6%, 2.6%, and 2.2% in the first, second, and third quarters of 2006.

Folks, the economy is slowing...

Many people on Wall Street believe that the Fed will cut interest rates next year to help the economy out, but Ben Bernanke is obsessed with inflation so a rate cut may not come as soon as Wall Street may think (or is Bernanke really obsessed with inflation right now?)

Remember, the Fed has to ward off inflation while at the same time making sure that the economy does not slide into a recession. I believe that in Bernanke's heart he is leaning towards cutting interest rates, but he can't let Wall Street know this.

Remember, the U.S. dollar is getting crushed relative to other currencies (e.g Yen, Euro, Pound) and giving an indication at this highly precarious time for the dollar that he may cut rates could cause panic with the dollar.

This could make people want to unload their dollars because people purchase currencies of countries that are paying them high interest rates. The dollar is already weak and will become weaker from an interest rate incentive point of view if the world even thinks that Bernanke is going to decrease the value of a dollar (e.g. lower interest rates.)

The future...

I am officially changing my stance from cautiously bullish to neutral. I believe that the market will be choppy and trade sideways for the foreseeable future. Only buy the names in low risk industries on the dips (e.g. CVS.)

I am considering recommending another bond or bond hybrid. I just want to look at more economic indicators first to get a better feel as to the direction of interest rates.

Until the next time, folks, spend your hard-earned money wisely,

P.S. Don't forget that I am coming out with a killer report on the top 10 economic indicators that you need to know about that can significantly

effect your portfolio. If you care at all about your investments or your retirement, then I strongly suggest that you pick it up.



Jason Jovine
Chief Investment Officer

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MARK YOUR ECONOMIC CALENDAR ? What's ahead for the week of December 4th.

Tuesday, December 5th, 2006

8:30 Productivity-Rev.: Consensus 0.0%

Big Picture: Cyclical productivity growth has softened with the slower pace of output growth. The softening in cyclical productivity growth and the upward revisions to compensation growth leave unit labor costs far more imposing at 5.3% yoy growth. Unit labor costs are a key indicator for wage-based inflation as the increased pressure is consistent with the low unemployment rate. The big picture is that trend productivity growth plus trend labor force growth equals potential GDP growth -- what some call the economy's longer term speed limit. Labor force growth runs near 1% annually. If structural productivity growth is 2.5%, potential GDP growth is a strong 3.5%. Over the long term, strong productivity growth is a win/win situation resulting in weak unit labor costs and the stronger wage growth allowed through the increased output produced. Strong productivity comes with a cost to near term employment (labor) demand and benefits in lower inflationary pressures and a higher standard of living.

10:00 Factory Orders: Consensus -2.0%

Big Picture: Factory orders are volatile but continue to run stronger than the economy given the pace of business investment. Annual growth of 7.7% owes more than half that growth to aircraft as shipments (sales) run at just 2% yoy pace given the lag in production. The outlook has softened given the slowing in industries tied to the struggling auto and housing sectors. Underlying fundamentals of flush corporate balance sheets and high capacity use encourage productivity enhancing capital equipment investment as weaker business confidence is also providing a drag. The inventory to sales ratio rose from a record low in May and argues for a more modest pace of production over the near term.

10:00 ISM Services: Consensus 56.5

Big Picture: The non-mfg index has broken away from its more respected mfg ISM sibling given the vast sectoral differences and economic forces driving the two pieces of the economy. The index isn't compiled from its components but dependent on a single question -- is business activity stronger, weaker or the same as a month ago. Therefore the index can swing wide of the movement in the components. The non-mfg ISM readings are a bit suspect given their extremely broad inclusion (entire economy ex manufacturing). The non-mfg index seasonally adjusts only new orders and employment as the inclusion of all sectors outside of manufacturing leaves plenty of bounce given vast sectoral differences. A level above 50 marks positive

growth in non-manufacturing business activity.

Thursday, December 7th, 2006

8:30 Initial Claims: Consensus NA

Big Picture: Initial claims broke above the remarkably tight range held in the 4-week average for 5 months. Continued claims showed a five year low in the 4-week average in mid May and stands only 50K higher today. The continued low levels reflect the thin available labor supply which make a qualified hire difficult to find and therefore leaving less layoffs. A good read on the labor market as net hiring slows with the economy.

15:00 Consumer Credit: Consensus \$4.5B

Big Picture: Tax cuts and cash out mortgage refinancing provided consumer funding in past years as 7% yoy income growth now provides the means outside of credit. Credit cards (revolving credit) make up 36% of total consumer credit which stands at \$2.4 trillion. Nonrevolving credit helps finance auto purchases, tuition (including Sallie Mae), vacations and other forms of consumer spending. Annual growth now at the low end of the last 13 years.

Friday, December 8th, 2006

8:30 Nonfarm Payrolls: Consensus 125K

Big Picture: 2006 payroll gains have been holding lower over the last half year but haven't yet stopped the unemployment rate which reached a new cyclical low of 4.4% in October. The relatively low labor participation rate continues to leave lean worker availability as the payroll data is estimated to have undercounted by a hefty 810K in the year ended in March. Employment trends lag the economy as final demand -- in excess of labor productivity -- feeds in to labor demand. Hourly earnings (for production workers) fell off a five year high in September as the workweek has returned to the post recession high. Signs of a strong labor market despite the modest growth in reported payrolls.

8:30 Unemployment Rate: Consensus 4.4%

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8:30 Hourly Earnings: Consensus 0.3%

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8:30 Average Workweek: Consensus 33.9

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10:00 Mich Sentiment-Pre: Consensus 92.8

Big Picture: A strong lift from lower energy prices leaves the index near a 16 year high. Gasoline prices are the swing factor as strong labor conditions were being more than offset by high interest rates, a slower economy and global/domestic concerns. The U Mich survey is significantly smaller (500 phone calls) than the Conference Board's, includes a longer outlook (for expectations) as questions are focused on the household compared to the business heavy CB survey. The index far better tracks the consumers' mood than spending habits better indicated through interest rates and income growth.

(Source: www.Briefing.com)