

# TALK TO ME

Don Gimpel, February 2010

The numbers will answer your investment questions provided that (1) you know which are important, (2) where they can be found and (3) how to speak their language.

# What's important for stocks:

1. The employment situation.
2. The ISM Report on manufacturing.
3. Unemployment insurance weekly claims.
4. The Consumer Price Index.
5. The Producer Price Index.
6. Retail Sales.
7. Consumer Sentiment.
8. Industrial Production
9. Gross Domestic Product.

“The Secrets of Economic Indicators,” Baumohl, Wharton School

# Is it a good time to buy or sell junk bonds?

- What you need: Junk Bond and the 10 Year Government TNote yields.
- Where they are found: Sunday's Los Angeles Times Financial Section at the bottom of the Bond Data Table.

# What are the Buy/Sell rules?

Calculate the spread between the Junk Bond and the 10 year government TNote yields.

Buy Junk Bonds if you do not own them and the spread is greater than 5.0%.

Sell Junk Bonds if you own them and the spread is less than 3.0%.

# Here's a copy of the table:

## Key rates and yields

All figures are annualized to represent a one-year rate. A two-year return can be estimated by subtracting inflation.

Consumer price index*		Treasury securities	
Year ending 2008	1.8%	12-month	0.10%
Year ending 2007	0.9	24-month	0.18
<b>Bankers' rates</b>		3-year	0.94
Prime loan rate	3.25%	5-year	1.58
Federal discount rate	0.50	10-year	2.80
Federal funds rate	0-0.25	30-year	4.68
3-month T-bill	1.88	<b>Mortgage yields</b>	
5-year T-bill	3.36	30-year fixed	0.42%
12-month bond	5.29	15-year fixed	3.04
Corporate bond	5.31	Fixed line 30-year	4.82
Ask bond funds	7.31	Prime 1-yr 30-day	0.47

\*Source: Bureau of Economic Analysis, Washington, DC. All figures are annualized to represent a one-year rate. A two-year return can be estimated by subtracting inflation.

# What have we just learned?

- Junk bonds are easy to time.
- The rules are simple.
- Junk bonds tend to trend over long time periods.
- This method is immune to whipsaws.

# What drives the price of gold?

- Ultimately, the driver for the price of gold and the value of the dollar is driven by labor output in dollars per hour.
- When the economy becomes more productive, the value of the dollar rises.
- The value of the dollar and the price of gold are inversely related so that when the value of the dollar goes up, the price of gold falls.

# Where do I find this information?

Labor productivity is a leading inflation indicator. Higher output per hour is essential if the economy is to grow rapidly without inciting inflation.

What do you need: The Labor Output in \$/Hour

Where is it found:

<http://www.bls.gov/news.release/prod2.t02.htm>



Percent change from corresponding quarter of previous year

2007	I	0.5	1.5	0.9	4.3	1.8	3.7	1.0	2.7
	II	1.1	2.1	1.1	4.3	1.6	3.1	1.3	2.4
	III	2.9	3.2	0.2	4.6	2.2	1.6	2.8	2.1
	IV	2.8	2.6	-0.3	3.6	-0.4	0.7	4.5	2.2
	ANNUAL	1.8	2.3	0.5	4.2	1.3	2.3	2.4	2.3
2008	I	2.5	1.9	-0.6	2.9	-1.3	0.3	3.1	1.4
	II	2.6	1.3	-1.3	2.7	-1.5	0.1	2.8	1.1
	III	1.2	-0.7	-1.9	3.1	-2.0	1.9	2.3	2.0
	IV	0.9	-3.0	-4.0	2.6	1.0	1.6	1.6	1.6
	ANNUAL	1.8	-0.1	-1.9	2.8	-1.0	1.0	2.4	1.5
2009	I	1.0	-4.8	-5.8	0.9	1.1	-0.1	5.6	2.2
	II	1.9	-5.4	-7.2	r2.3	r3.3	r0.3	r3.7	1.7
	III	r4.0	r-3.7	r-7.4	r2.5	r4.1	r-1.4	r3.7	r0.7

# What does this mean?

- The third column from the left is the % change in dollar output per hour.
- When the output per hour goes up, the value of the dollar goes up and the price of gold goes down.
- The sum of columns 3 and 5 is the maximum rate at which the economy can expand without problems.

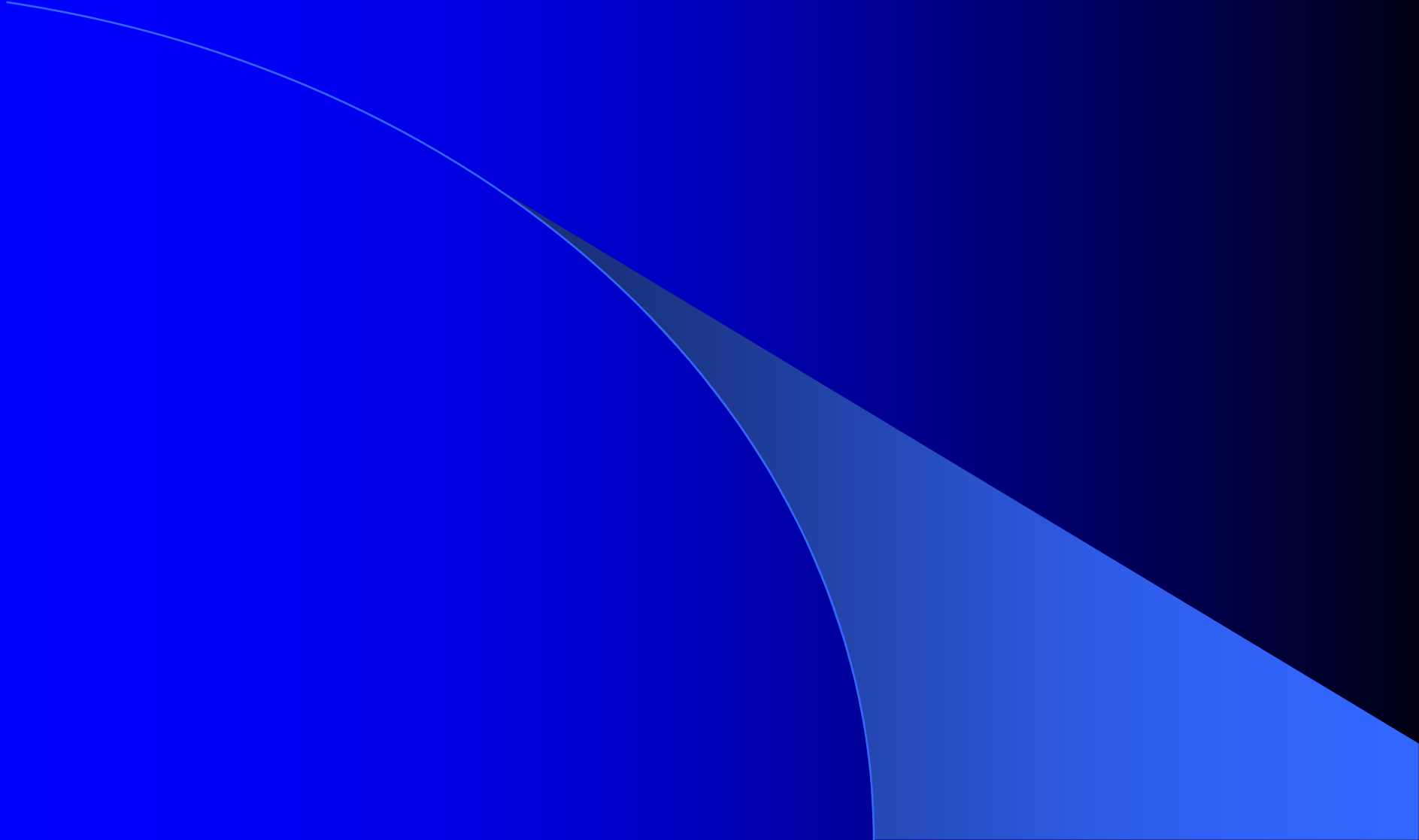
# What have we learned about Gold and the Dollar?

- The price of gold and the value of the dollar are inversely related.
- The value of the dollar is driven by worker productivity and this information is easily available.
- You don't have to fall for all those gold ads you hear on the radio. Buy when productivity goes up.

# Which factors will cause the market to immediately go up or down?

- The two factors that will cause an immediate change in the market are surprises in the (1) Unemployment Rate and (2) Initial Jobless Claims.
- They can be found weekly in Barron's Market Week/Market Laboratory/Indicators/Employment

**Where do I look?**



# What do you mean by surprises?

- The market isn't driven by the unemployment rate rather it is driven by the difference between the rate and what you expect it to be.
- By the time the government announces the rate, “smart money” has already moved the market to adjust for this information.
- The market is moved when the information is not as expected – a surprise.

# What have we just learned about employment?

- The important thing about labor is that it really drives the market immediately.
- Its not the data itself that drives the market, it's the change from your expectations ... surprises.

# What's the smart money think about what's going to happen to short term interest rates?

What: 90 day Federal Funds

Where: Barron's Market

Week/Commodities/Financial & Money

When: Weekly

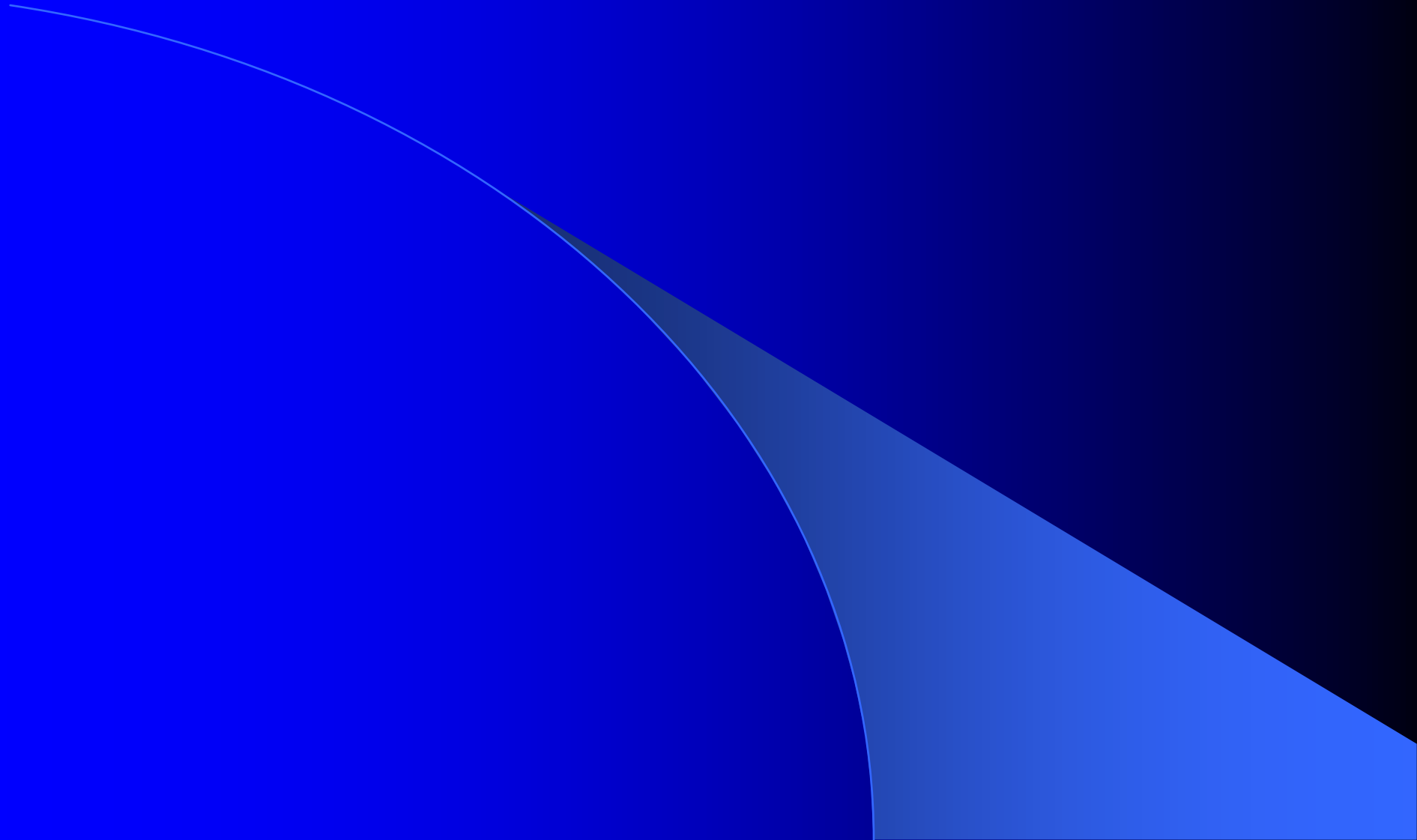
Location: The "settle" column



# How is this interpreted?

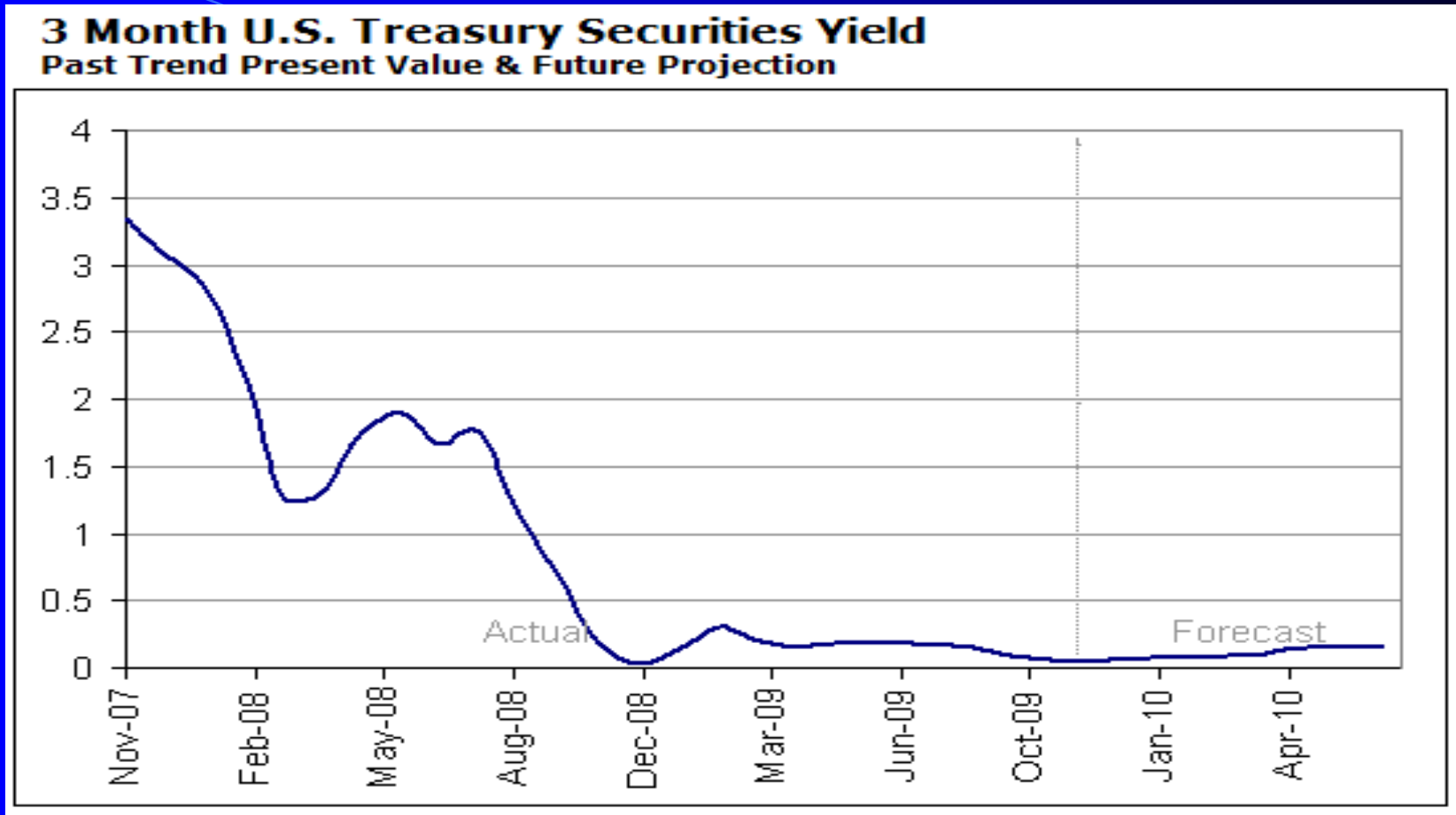
- The value of the 30-day Federal Funds interest rate is found by subtracting the number from 100.
- For example, if the number is 99.735, the short term rate 30-days from now is expected to be  $100 - 99.735 = 0.265\%$  .
- Large changes in this rate or a change of direction are market movers.

**Here is what it looks like:**



# I'm nervous and want to park my money in 90-day Treasuries ...

<http://www.forecasts.org/3mT.htm>



# What have we just learned about expected short term interest rates?

- Money is cheap so there is every incentive to borrow and this will help the economy.
- Money will continue to be cheap over the next 30-days.
- Buy the stock market on the second drop in Fed rates.
- Buy the bond market on the second rise in Fed rates.

# Where's the action?

- Which markets are hot and which are not?
- Use Gummy-stuff Buy-Sell-Colours\_2.
- You can get the program for free from me at [DGimpel@roadrunner.com](mailto:DGimpel@roadrunner.com)

# Here's what you get:

Microsoft Excel - buy-sell-colours-1

File Edit View Insert Format Tools Data Window Help

Arial 8 B I U

A1 =

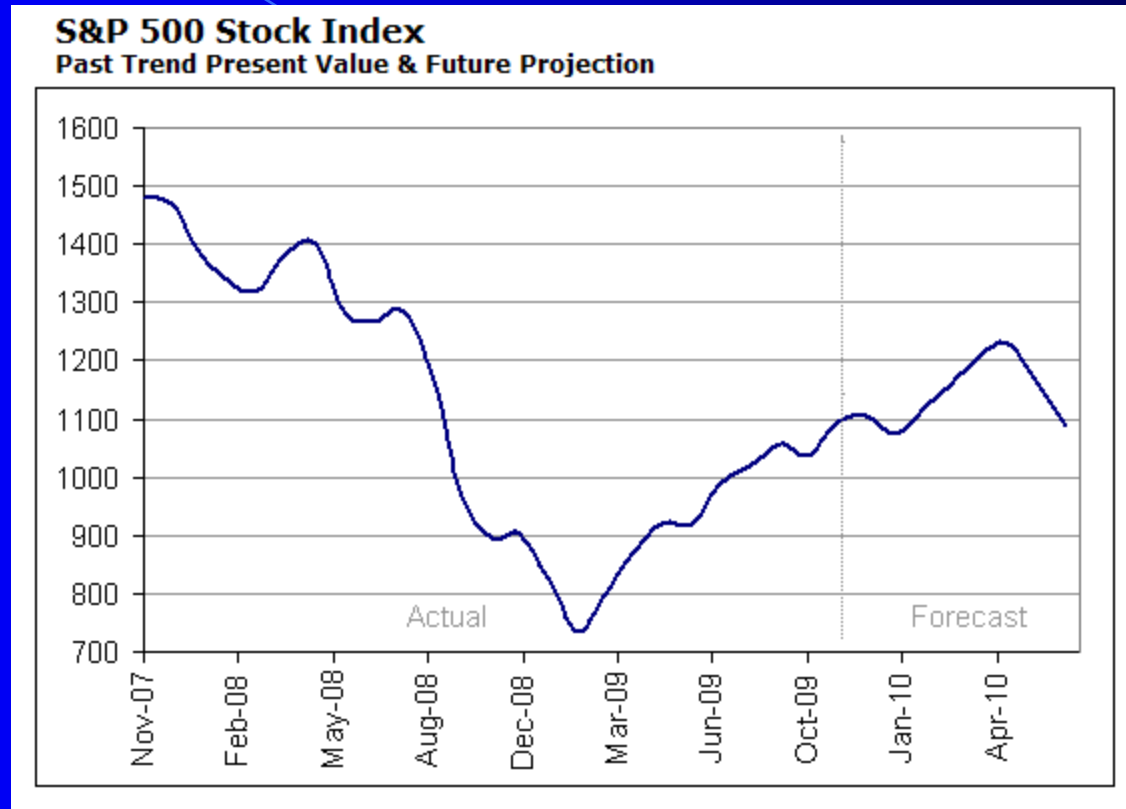
	A	C	D	E	F	G	H	I	J	K	L	M	N
1		<b>Color: Buy-Sell</b>											
2	Buy if greater than				0.1				0.1	0.5			0.0
3	Sell if less than	clear the Colors			-0.1				-0.1	0.1			0.0
4													
5			Price	SMA	MACD	EMA	Bolli-UP	Bolli-DN	"Annual"	"Annual"	Volume/	Avg	Sharpe
6	Stock	parameters	20	12.26	9	20	2	return	Volatility	1000	Daily Rtn	Ratio	
7													
8	VANGUARD ST BOND	BSV	79.75	79.95	-0.11	79.69	80.47	79.39	3.1%	4.2%	360	0.0%	-0.44
9	POWERSHARES DB OI	DBO	28.64	26.85	0.44	27.91	29.12	24.70	41.3%	37.0%	532	0.2%	0.02
10	DELAWARE FOUNDATI	DFIAX	9.61	9.59	-0.01	9.54	9.77	9.40	23.8%	10.1%		0.1%	-0.06
11	WISDOMTREE PAC TT	DND	62.19	59.47	0.72	60.70	62.72	56.29	64.1%	37.5%	19	0.2%	0.04
12	BLACKROCK INC	BLK	238.92	235.10	2.48	237.64	245.30	225.72	91.2%	55.2%	224	0.3%	0.05
13	ISHARES MSCI E.M.	EEM	43.20	41.35	0.64	42.15	43.44	39.33	76.3%	38.6%	41,118	0.2%	0.05
14	ISHARES MSCI EAFE	EFA	57.25	55.56	0.44	56.28	57.37	53.82	35.5%	31.4%	12,827	0.1%	0.00
15	ML EURO01 HLDR124	EKH	64.46	63.38	0.55	64.31	65.46	61.46	37.9%	34.6%	1	0.2%	0.01
16	IPATH EUR/USD EXC	ERO	56.08	56.21	-0.43	55.97	57.09	55.23	7.5%	18.1%	0	0.0%	-0.08
17	ISHARE MSCI BRAZI	EWZ	77.47	74.53	1.00	75.78	78.68	70.43	112.3%	43.6%	9,773	0.3%	0.07
18	FT ISE REVERE NAT	FCG	18.97	17.75	0.56	18.41	19.47	16.22	49.8%	49.3%	631	0.2%	0.02
19	FIRST TR FTSE EP	FFR	30.77	30.41	0.28	30.79	31.22	29.63	39.5%	44.9%	22	0.2%	0.01
20	FT ISE CHINDIA ID	FNI	22.44	21.49	0.38	21.89	22.57	20.45	95.8%	42.7%	43	0.3%	0.06
21	ISHARES TR FTSE I	FXI	44.00	42.72	0.07	43.05	44.66	40.71	60.8%	42.3%	12,765	0.2%	0.03
22	SPDR GOLD SHARES	GLD	111.37	109.09	-0.03	109.18	112.48	105.52	32.6%	20.5%	15,895	0.1%	0.00
23	CLAYMORE/ALPHASHA	HAO	27.95	26.69	0.40	27.01	28.25	25.09	111.6%	41.4%	259	0.3%	0.07
24	ML INTERNET HLDR1	HHH	57.93	57.76	0.40	58.62	60.11	55.54	76.1%	32.7%	21	0.2%	0.05
25	ISHARES DJ US IN	IAK	27.54	26.75	0.28	27.14	27.67	25.91	21.7%	50.2%	8	0.1%	0.00
26	iShares Trust	IFAS	29.64	28.80	0.24	29.14	29.94	27.67	43.9%	38.2%	7	0.2%	0.02
27	ISHARES DJ US HCP	IHF	50.74	48.92	1.00	49.59	50.88	47.25	43.4%	32.3%	153	0.2%	0.02
28	ISHARES S&P LAT A	ILF	49.82	47.87	0.63	48.54	50.23	45.55	88.5%	41.2%	1,354	0.3%	0.06
29	IPATH ETNS LINKED	INP	66.38	64.08	1.26	65.48	67.59	60.76	119.3%	48.1%	390	0.4%	0.07

# What markets are hot?

- The hottest market is the money market.
- Look for Emerging Market Junk Bonds, (FNMIX).
- Look at the Bond Index (STBI-).
- Gold still looks good (FSAGX)
- Latin America (ILF)

# Where's the market going?

<http://www.forecasts.org/stock-index/standard-poops-500.htm>





# Are we in danger of inflation?

What: Capacity Utilization

When: Monthly

Where: Look in Barron's Market Week/ Market Laboratory/Indicators/Economic Growth and Investment/Capacity Utilization

Interpretation: Capacity Utilization refers to the fraction of production facilities currently in use.

When the fraction rises above 84%, there is strong pressure to add more production facilities and this means borrowing and inflation and that means **BUY EQUITIES.**

# What's happening to manufacturing?

**MANUFACTURING AT A GLANCE  
DECEMBER 2009**

Index	Series Index December	Series Index November	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
<b>PMI</b>	55.9	53.6	+2.3	Growing	Faster	5
<b>New Orders</b>	65.5	60.3	+5.2	Growing	Faster	6
<b>Production</b>	61.8	59.9	+1.9	Growing	Faster	7
<b>Employment</b>	52.0	50.8	+1.2	Growing	Faster	3
<b>Supplier Deliveries</b>	56.6	55.7	+0.9	Slowing	Faster	7
<b>Inventories</b>	43.4	41.3	+2.1	Contracting	Slower	44
<b>Customers' Inventories</b>	35.0	37.0	-2.0	Too Low	Faster	9
<b>Prices</b>	61.5	55.0	+6.5	Increasing	Faster	6
<b>Backlog of Orders</b>	50.0	52.0	-2.0	Unchanged	From Growing	1
<b>Exports</b>	54.5	56.0	-1.5	Growing	Slower	6
<b>Imports</b>	55.0	51.5	+3.5	Growing	Faster	4
<b>OVERALL ECONOMY</b>				Growing	Faster	8
<b>Manufacturing Sector</b>				Growing	Faster	5

# What did we just learn?

- The PMI (manufacturing) index is above 50 and continuing to rise. What's important about 50?
- So are New Orders, Production, Employment and Supplier Deliveries.
- Those indicators that should be going down are going down ... manufacturing inventories, customer inventories.
- But prices are rising and order backlog is going down.
- What do you think?

<http://ISM.ws/ISMReport/MfgROB.cfm?NavItemNumber=12942>

# How do people feel about the economy?

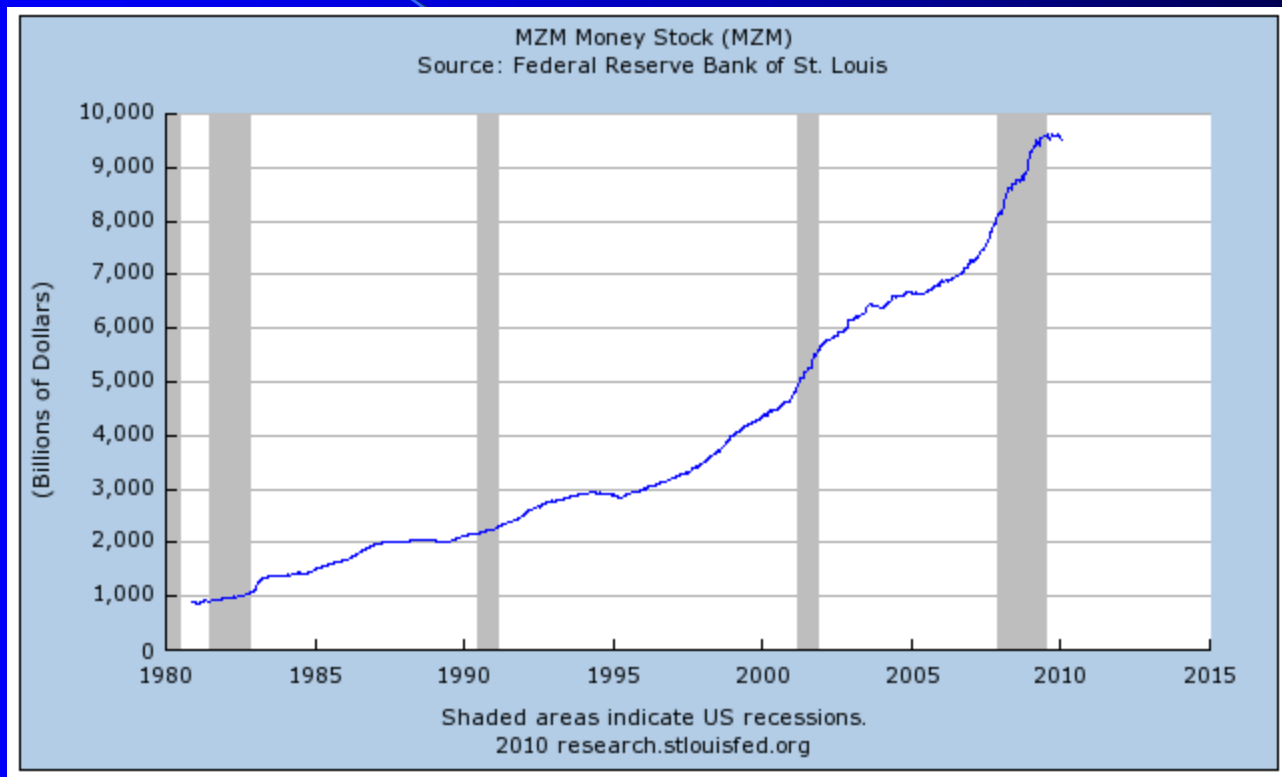


<http://Solutions.DowJones.com/EconomicSentimentIndicator/>

# Is money available for loans?

Look for MZM (Money to Zero Maturity)  
published by the Fed and available at

<http://research.stlouisfed.org/fred2/series/MZM>



# What's happening to housing?

Housing Market Index (Seasonally Adjusted)																			
2008									2009										
May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
19	18	16	16	17	14	9	9	8	9	9	14	16	15	17	18	19	17	17	16

Housing Market Index Components (Seasonally Adjusted)																			
2008									2009										
May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Single-Family Sales: Present</b>																			
17	17	15	16	17	14	9	8	6	7	8	12	14	14	16	16	18	17	17	16
<b>Single-Family Sales: Next 6 Months</b>																			
28	27	23	24	28	19	18	16	17	15	15	24	27	26	26	30	29	26	28	26
<b>Traffic of Prospective Buyers</b>																			
18	16	12	13	14	11	7	7	8	11	9	13	13	13	13	16	17	13	13	13

# Did you see what I saw?

- Housing is actually getting worse after a short upward spurt.
- It's a perfect time to get your house remodeled.
- What do you think this means for employment and the economy?

## Don, if you had to pick one item that should really worry us, what would it be?

- NYMEX Light Crude is currently selling at slightly over \$80 a barrel and the price is expected to rise slowly over the next few years.
- The US is currently importing about 12,500,00 barrels of oil every day.
- This costs us about  $80 * 12,500,000 = 1$  Billion dollars a day every single day.
- We have to borrow that money from someone and in the past few years its been China.

<http://datatradingcharts.com/futures/quotes/SC.html>



## Commodity Futures Price Quotes For **NYMEX Light Crude Oil**

(Price quotes for NYMEX Light Crude Oil delayed at least 10 minutes as per exchange requirements)

[Click here for current pit session quotes.](#)

[Click here to refresh data](#)

Month <small>Click for chart</small>	Session								Pr.Day		Options
	Open	High	Low	Last	Time	Sett	Chg	Vol	Sett	OpInt	
<a href="#">Feb 10</a>	82.07	82.34	80.89	81.43	Jan 12, 10:48	-	-1.09	296304	82.52	226210	<a href="#">Call Put</a>
<a href="#">Mar 10</a>	82.69	82.82	81.37	81.82	Jan 12, 10:48	-	-1.19	130542	83.01	227888	<a href="#">Call Put</a>
<a href="#">Apr 10</a>	83.09	83.29	81.94	82.32	Jan 12, 10:48	-	-1.23	30455	83.55	84853	<a href="#">Call Put</a>
<a href="#">May 10</a>	83.58	83.89	82.58	82.94	Jan 12, 10:48	-	-1.20	14649	84.14	51982	<a href="#">Call Put</a>
<a href="#">Jun 10</a>	84.09	84.45	83.15	83.44	Jan 12, 10:48	-	-1.26	15725	84.70	106882	<a href="#">Call Put</a>
<a href="#">Jul 10</a>	84.84	84.96	83.78	84.29	Jan 12, 10:48	-	-0.95	5041	85.24	39303	<a href="#">Call Put</a>
<a href="#">Aug 10</a>	85.00	85.00	84.50	84.50	Jan 12, 10:48	-	-1.20	1897	85.70	16628	<a href="#">Call Put</a>
<a href="#">Sep 10</a>	85.01	85.01	85.01	85.01	Jan 12, 10:48	-	-1.15	2654	86.16	28909	<a href="#">Call Put</a>
<a href="#">Oct 10</a>	85.50	85.50	85.50	85.50	Jan 12, 10:48	-	-1.12	2089	86.62	19777	<a href="#">Call Put</a>
<a href="#">Nov 10</a>	-	-	-	86.75 *	Jan 12, 10:48	-	-	2380	87.06	22654	<a href="#">Call Put</a>
<a href="#">Dec 10</a>	86.90	87.28	86.10	86.40	Jan 12, 10:48	-	-1.13	11282	87.53	173991	<a href="#">Call Put</a>
<a href="#">Jan 11</a>	-	-	-	87.60 *	Jan 12, 10:48	-	-	1121	87.86	20119	<a href="#">Call Put</a>
<a href="#">Feb 11</a>	-	-	-	88.00 *	Jan 12, 10:26	-	-	716	88.15	10102	<a href="#">Call Put</a>

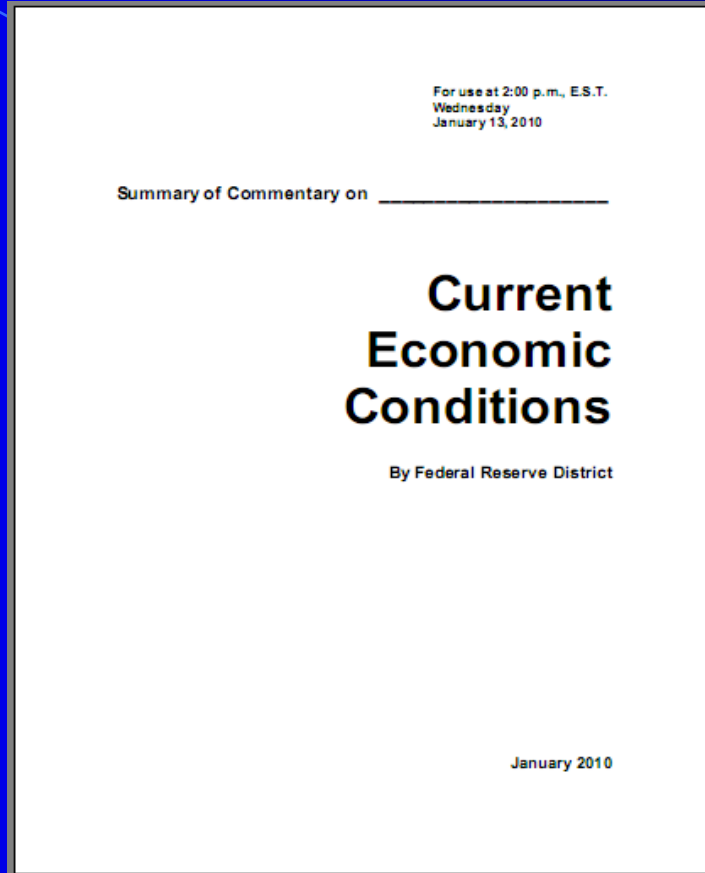
# Where can I get the earliest hint about economic conditions?

<http://www.philadelphiafed.org/research-and-data/regional-economy/Business-Outlook-Survey/>

The screenshot shows the website for the Federal Reserve Bank of Philadelphia. The header includes navigation links: Home, About the Fed, Contact, FAQs, RSS Feeds, Site Map, Search, and a dropdown menu for 'Entire Site'. The main navigation bar contains: Research & Data, Education, Payment Cards Center, Bank Resources, Community Development, Newsroom, Careers, and Publications. The page title is 'December 2009 Business Outlook Survey'. A sidebar on the left lists various sections: Overview, Banking & Financial Markets, Economists, Real-Time Data Research Center, Regional Economy, Research Contacts, Research Events, Research Library, Research Publications, and Contact Us. The main content area features a 'SURVEY PRESS CONFERENCE' section with a link to listen to the press conference. Below this is a paragraph of text: 'Activity in the region's manufacturing sector is expanding, according to firms polled for this month's Business Outlook Survey. Indexes for general activity, new orders, and shipments all remained positive this month. Indicative of improvement, the overall level of employment and average work hours among reporting firms increased this month. Overall, expectations moderated somewhat in December, although the forecast for employment improved slightly.' This is followed by a section titled 'Indicators Suggest Growth' with a paragraph: 'The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from 16.7 in November to 20.4 this month. The index has now remained positive for five consecutive months (see Chart). Other broad indicators suggest...'. On the right side, there are three boxes: 'VIEW COMPLETE WRITEUP' with a link to a PDF writeup, 'TABLES, DATA, & CHARTS' with a list of links (Summary of Results Table, Chart of General Activity, Special Questions, Text version, Survey Charts, Historical Data), and 'E-MAIL NOTIFICATION'.

# Where can I get an insight into what the Fed is thinking?

<http://www.federalreserve.gov/FOMC/Beigebook/2010/>



# What have we just learned?

Housing has peaked and is heading down ... bad.

Manufacturing is still headed up ... that's good.

Market forecasts for this year are a short advance followed by a fall ... that's bad

The price of oil is slowly trending up ... that's bad.

Our trade deficit will continue to be huge ... and that's bad.

# Did you know that S&P has some really useful indices -

A list of specialized indices may be found at:

<http://www.standardandpoors.com/thematic/en/us/?AssetName=Thematic&AssetID=122186708607>

The indices include:

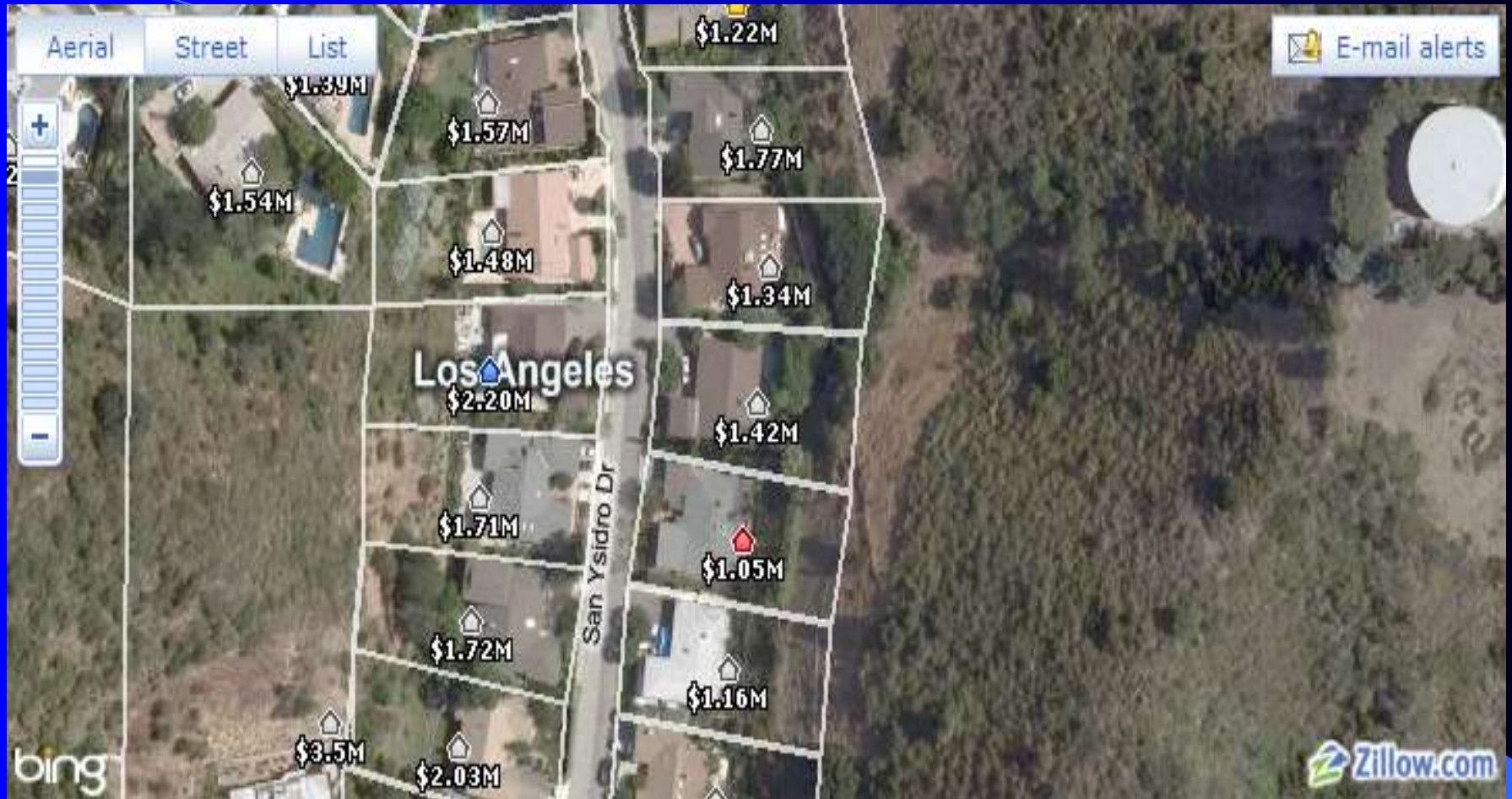
- Global Natural Resources
- Global Nuclear Energy
- Global Clean Energy
- Global Alternative Energy
- Case-Shiller home price index ...

Maybe its easier to go to

<http://www.StandardandPoors.com/home/en/us/>



# (Try Zillow.com to find out how much your house is worth)



Do you know where to find the “Guru of all Gurus” and read what he has to say about the economy?

His name is Jeremy Siegel and he is a Professor at the University of Pennsylvania’s famed Wharton School.

You can read what he has to say at [WisdomTree.com](http://WisdomTree.com)

He is bullish about the economy.

# Here are some economy pluses:

- The price of heating oil has declined to \$191.3 cents per gallon and this has happened in mid-winter.
- S&P corporate dividends are up from a low of \$21.45 to 21.80 .
- The CPI has actually turned down a bit indicating no inflation.
- Durable goods orders have jumped from 161.5 to 167.9 .



# There's more ...

- Consumer Confidence has just jumped from 52.9 to 55.9 .
- The Index of Leading Indicators is 101.9 three months ago to 106.4.
- For the Manufacturing Sequence:  
The PMI is up to 55.9  
New Orders are up to 65.5  
Production is up to 61.8  
Employment is up to 52.0
- Supplier Delivery is up to 56.6

- The Output per Person is still at 4.0 putting upward pressure on the value of the dollar and downward pressure on the price of gold.
- The Case-Schiller Index of housing prices is going up indicating that the value of your home is increasing.

# The flip side is this ...

- Total Personal per Capita is falling.
- The MZM (Money to Zero Maturity) short-term lendable funds has fallen slightly.
- The Wells Fargo Housing Index has fallen from 19 to 15 and the Index of First Time Housing Lookers has fallen from 17 to 12.  
This is BIG!

**If you like this kind of stuff, then ...**

Bernard Baumohl, “The Secrets of Economic Indicators” Wharton School Publishing

