



Tri Pillar Investments Presents...

The WEEKLY ECONOMIC UPDATE

February 14, 2012

WEEKLY QUOTE

“A successful person is one who can lay a firm foundation with the bricks that others throw at him or her.”

- David Brinkley

WEEKLY TIP

When it comes to couples and money, a plan is better than an assumption. Discuss your financial goals together and stick to the strategy you make to pursue them.

WEEKLY RIDDLE

A train moving as fast as it can go strikes a man's hand, yet he is uninjured and the train goes off its tracks. Under what circumstances could this happen?

LAST WEEK'S RIDDLE:

The wind is blowing east through the mountains. A lone pine tree stands on a cliff. Which way do its leaves blow?

WILL THE MORTGAGE ACCORD BRING MUCH RELIEF?

While the \$25+ billion settlement reached last week between five large mortgage servicers and 49 states was momentous, it may not help many borrowers in trouble. Only about 1 million of the estimated 11 million underwater homeowners will see relief as loans sold to Fannie Mae and Freddie Mac aren't included in the deal. Much of the settlement money will go toward mortgage modification. Roughly 750,000 homeowners are slated to receive financial compensation from the accord (an average of about \$2,000 per household). The lenders involved are JPMorgan Chase, Bank of America, Ally Financial, Citigroup and Wells Fargo; other banks could join them. (The state of Oklahoma forged its own agreement with the five lenders.)^{1,2}

CONSUMER CONFIDENCE TAKES A DIP

The University of Michigan's initial February consumer sentiment survey fell to 72.5 from its one-year peak of 75.0 at the end of January. Economists polled by Bloomberg News had expected a 74.8 reading. However, the percentage of consumers who felt the jobless rate would fall in future months was at the highest level the survey had seen in 28 years.³

GOLD SLIPS, OIL GAINS

Gold futures pulled back \$14.60 last week, settling at \$1,723.30 on the COMEX Friday; that left gold up 10.06% YTD. Oil is still hovering around \$100: NYMEX crude finished Friday at \$98.67, advancing 0.85% for the week.⁴

STOCKS RETREAT FOR THE WEEK ON FRIDAY LOSSES

When the Dow's worst day of 2012 brings only an 89-point loss, it seems the year is off to a good start. That loss occurred Friday after another stall in the Greek debt negotiations. On the week, the major U.S. indices pulled back a bit: DJIA, -0.47% to 12,801.23; S&P 500, -0.17% to 1,342.64; NASDAQ, -0.06% to 2,903.88.^{5,6}

THIS WEEK: Monday, President Obama submitted his 2013 fiscal budget proposal to Congress. Tuesday, the Census Bureau publishes January retail sales figures and MetLife issues Q4 earnings. Wednesday, the Fed issues the 1/25 FOMC minutes, the federal government comes out with figures on January industrial output and Q4 results arrive from Comcast, Deere, CBS, Abercrombie & Fitch and Nvidia. On Thursday, General Motors, Nordstrom and Baidu come out with earnings and new initial jobless claims are announced; January's PPI is also released plus data on January housing starts, and Fed chairman Ben Bernanke speaks at an FDIC hearing. Friday, January's CPI comes out along with the Conference Board's newest leading economic indicator index; Q4 results come in from Heinz and Campbell's Soup.

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+4.78	+4.68	+0.35	+2.95
NASDAQ	+11.47	+4.06	+3.61	+5.73
S&P 500	+6.76	+1.57	-1.33	+2.07
REAL YIELD	2/10 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
	10 YR TIPS	-0.24%	1.39%	2.43%
				3.48%

LAST WEEK'S

ANSWER:

A pine tree has needles, not leaves. So no leaves are blowing in the first place.

The TPI Perspective: By Dr. Barry Kendall

THE MARKET NEWS

Stocks sank Friday after eurozone finance ministers postponed a decision on additional bailout funds for Greece, saying the government's latest austerity program did not go far enough. Friday's retreat pushed the major indexes lower for the week. The Dow Jones Industrial Average and the S&P 500 both lost 0.5 per cent last week, while the NASDAQ shrank 0.8 per cent. Despite this being the first down week of 2012, stocks have been sailing higher this year. The Dow is up nearly 5 per cent, the S&P 500 has gained nearly 7 per cent and the NASDAQ has rallied over 11 per cent year to date. The best performing sectors have been information technology, financials and materials. The worst performers have been telecom services and utilities. This week has started off with a positive reaction by investors surrounding the Greece debt negotiations. The good news pushed the Dow Jones up 0.57 per cent. Apple reached a significant milestone when its shares punched through the \$500 level to end the day at \$502.60.

At no point between December 19 and now has the S&P 500 fallen more than 1 per cent. Everything else has been up repeatedly. If this feels unusual, it might only be because we are comparing it to recent memory – the September-November 2011 debacle, during which no trend lasted more than a few days, whether good or bad. The fact is that was an unusual scenario. The rally we are in the midst of right now is actually "normal". Dating back to December 2010, there have been several 47-59 day spans which managed 13 to 16 per cent gains without interruptions. As of Friday, we are in a 36 day span which has seen an almost 12 per cent rally. The question then arises- are we at the end of the bullish cycle? Clearly this is a dilemma for anyone trying to figure out just what the market's limits are. Some analysts believe the current market rally has ended and that stocks are vulnerable to a pullback over the next several weeks.

So far this season, 352 companies in the S&P 500 have reported results, of which only 63 per cent have beaten Wall Street estimates. This compares to a rate of about 70 per cent on average for the last 4 quarters beating estimates. This is the lowest since the fourth quarter of 2008. The fact that investors are overlooking weaker earnings indicates the demand for risky assets is strong but potentially volatile in the short term. This is supported by Wall Street's favorite pulse of investor sentiment, the CBOE Volatility Index, or VIX, which jumped 12 per cent on Friday. The VIX, a 30-day risk forecast of expected stock market volatility suggests a serious concern over the European debt crisis.

NEWS OVERSEAS

This Monday, Greek lawmakers approved harsh new austerity measures demanded by bailout creditors to save the debt-crippled nation from bankruptcy. These new measures came after rioters in central Athens torched buildings, looted shops and clashed with riot police. The historic vote paves the way for Greece's European partners and the International Monetary Fund to release \$170 billion in new rescue loans. Sunday's clashes erupted after more than 100,000 protestors marched to the parliament to rally against the dramatic cuts, which will axe one in five civil service jobs and slash the minimum wage by 22 per cent. For the deal to materialize, Greece will need to persuade its deeply skeptical creditors that it has the will to implement spending cuts and public sector reforms. Germany's Vice Chancellor Philip Roesler said "It is not enough just to give financial aid – they must tackle the second cause of the crisis, the lack of economic competitiveness. For that, they need massive structural reforms." Unfortunately, creditors and European politicians remain skeptical, remembering many similar promises that have been broken by the Greeks in the past.

China has told its banks to start a huge roll-over of loans to local governments, aiming to give itself more time to deal with the \$1.7 trillion debt hangover from the global financial crisis. Following the 2008-09 financial crisis, Beijing ordered local governments to spend massively on infrastructure projects to buoy economic growth, which they did by borrowing heavily. China has said that over one half of the loans will mature over the next three years. These moves may force state banks to take some bad debt losses potentially suffering billions of losses which could hobble the world's growth engine at a time of anemic global economic growth.

PRESIDENT OBAMA'S BUDGET PROPOSAL

President Obama has sent Congress a new budget that seeks to achieve \$4 trillion in deficit reduction over the next decade through cuts in government spending and higher taxes on the wealthy. Program spending cuts include a reduction of military spending. The Pentagon plans to spend \$487 billion less over ten years. At the same time, he wants to boost spending in key areas such as transportation and education. The White House bills the document as a "blueprint for how we can rebuild an economy where hard work pays off and responsibility is rewarded." There is certain to be an election-year battle with Republicans, who are vowing to oppose tax hikes. They contend the President is not doing enough to attack a dangerous deficit problem. As it is written, the budget deficit for fiscal year 2012 will top \$1.3 trillion, before falling in 2013 to \$901 billion, or 5.5 per cent of gross domestic product (GDP). By 2022, the deficit is forecasted to fall to \$704 billion, or 2.8 per cent of GDP.

The White House is proposing \$1.5 trillion in tax hikes, including a provision that will allow the Bush tax cuts to expire for high-income earners. The budget also incorporates the Buffett Rule, a guideline to ensure that the wealthiest do not pay a lower overall tax rate than those who earn substantially less money. In addition, the White House wants to reform the individual tax code in a way that "eliminates inefficient and unfair tax breaks for millionaires while making all tax breaks as least as good for the middle class as for the wealthy." Later this month, the President will unveil a plan to reform corporate taxes, including lowering rates. President Obama is opposed to eliminating the estate tax, but instead wants to see it have a more generous \$5 million exemption and lower the top rate to 35 per cent.

The budget includes many of the job creation provisions laid out in the American Jobs Act, a piece of legislation delivered by the President last year with great fanfare but was almost totally ignored by Congress. The administration is also proposing a series of investments focused on infrastructure, education and domestic manufacturing, including \$30 billion to modernize schools and an additional \$30 billion to retain and hire teachers and first responders.

The release of the budget comes just as both political parties are ramping up efforts to fundraise and compete in both the presidential contest and crucial down-ballot races that will shape the next Congress.

LOOKING FORWARD

The retail-sales report for January tops a busy week of data, which will show whether consumers are still spending at elevated levels. The closely followed retail report will be issued Tuesday morning. Also on the docket are reports on manufacturing, home construction and inflation. The consumer price index will be released on Friday. Fifty-one S&P 500 companies are expected to report earnings this week. In addition, the Federal Reserve will release details of its last big meeting to discuss the economy. In a speech last Friday, Chairman Ben Bernanke issued a call to action to restore U.S. housing markets, saying depressed house prices and sales are a serious drag on the economy. He called on lenders and regulators to look at rules and practices that may hold back the origination of sound mortgages, pointing to overly tight credit as one reason the housing recovery has been slow. He said it could make sense to turn some foreclosed homes into rental properties.

TPI believes that the markets are prone to a pull back in the near future. We believe that the deteriorating economy in Europe, a major destination for industrial exports, could hurt U.S. companies. TPI also is watching very closely, rising tensions in Iran, which could threaten to block a key body of water through which much oil is shipped. Verbal threats between Israel and Iran are becoming increasingly serious. In general, we feel the biggest dangers to the U.S. economy are these ongoing external issues. On a positive note, TPI still believes stocks are well undervalued at their current levels. Without adverse external factors, we expect them to end 2012 higher than where they started the year.

We extend to all of our clients and their families a Happy Valentine's Day. If you have any questions or comments, please do not hesitate to contact us.