

WEEKLY ECONOMIC UPDATE

October 12, 2010

WEEKLY QUOTE

“The digital revolution is far more significant than the invention of writing or even of printing.”
– Douglas Engelbart

WEEKLY TIP

Update your will. It is just as important as having one. If you drafted a will years ago, the information is likely in need of some adjustments. Be sure to revisit your will often and keep it up to date.

WEEKLY RIDDLE

I am a word that signifies a wide natural area – but remove my first letter, and you are left with a word signifying a narrow urban corridor. What word am I?

Last week's riddle:

Ian bought a bag of apples on Friday and ate a third of them. On Saturday he ate half of the remaining apples. On Sunday he looked in the bag and found that just two were left. How many apples were originally in the bag?

Last week's answer:

Six. He had six apples to start with, and ate two the first day and two the second day.

JOBS REPORT COULD PROMPT FED RESPONSE

The U.S. economy shed 95,000 non-farming jobs in September - mostly government jobs, according to the Labor Department. Economists surveyed by MarketWatch thought payrolls would shrink by only 8,000 last month. The unemployment rate held steady at 9.6% as the private sector added 64,000 positions. On Friday, stocks posted gains after the news – economists and investors alike felt the report would spur the Federal Reserve toward further quantitative easing.¹

PENDING HOME SALES UP 4.3% FOR AUGUST

The National Association of Realtors reported the second straight monthly advance in this indicator. August pending home sales were still 20.1% below year-ago levels.²

SERVICE SECTOR GROWTH RATE INCREASES

The Institute for Supply Management's service sector index rose for a ninth straight month, going from 51.8 in August to 53.2 in September. The employment sub-index moved north 2.0 points to 50.2, indicating hiring had increased.³

TWO BIG BANKS HALT FORECLOSURES

Responding to allegations that it may have seized homes using shortcuts and defective documents, Bank of America decided last week to extend its freeze on foreclosures to all 50 states. PNC Financial Services Group also announced last week that it was halting foreclosure sales for one month.⁴

FACTORY ORDERS HINT AT COMPANIES UPGRADING

In August, orders for non-military capital goods excluding aircraft rose 5.1%. This marks the best month for such orders since March 2010, according to Commerce Department data. Overall capital goods orders declined by 0.5%.⁵

DOW CLOSSES NORTH OF 11,000

The index gained 1.63% last week to settle Friday at 11,006.48 – the first close over 11,000 since May 3. The NASDAQ advanced 1.31% on the week to settle Friday at 2,401.91. The S&P 500 closed at 1,165.13 Friday after a 1.65% weekly gain.⁶

COMING NEXT WEEK: minutes from the 9/21 FOMC meeting (Tuesday), new jobless claims figures and September PPI (Thursday), and then a plethora of reports to digest on Friday - September CPI, the preliminary October University of Michigan consumer sentiment survey, and new data on retail sales and business inventories.

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+5.55	+12.46	+1.39	+0.41
NASDAQ	+5.85	+13.09	+2.98	-2.84
S&P 500	+4.49	+9.35	-0.51	-1.69
REAL YIELD	10/8 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.45%	1.49%	1.90%	4.03%

The TPI Perspective: By Dr. Barry D. Kendall

The Dow reached an incredible 11,000 last week, producing U.S. stocks' highest level of achievement in five months. Equities rallied on Friday despite an initial reaction of disappointment to the much anticipated jobs report. Encouragement continued for the day with a unexpectedly positive capital goods orders report.

Commodities showed improvement for the week with gold realizing a new high of \$1346.50 per ounce. Agricultural commodities were boosted by a USDA report forecasting diminished crop yields in the Midwest. This same report also had the effect of boosting agriculture related stock, especially those involved in fertilizers.

In the business sector, Bank of America imposed a 50 state moratorium on foreclosures as concerns about the foreclosure process spread. September chain store sales were in-line to better than expected for the all important back to school period. Abercrombie and American Eagle were among the standouts, while Gap struggled.

Looking forward, earnings will be the focus of attention for the next couple of weeks. The mid-term elections and FOMC meeting will both be occurring in early November. With businesses already running lean, improvement in the top line growth will likely be needed to sustain the earnings growth experienced in the past year.

One aspect of recent market performance that continues to perplex investors is the fact that while gold is going to the moon, 10-year Treasuries yielding 2.4% are getting more attention than blue-chip businesses yielding 4 to 5%. Usually gold is seen as an inflation hedge since it holds intrinsic value. In this case inflation erodes the value of fixed income assets like bonds, so the two should move inversely and this is not happening. Such a unique situation reinforces the value of the advice and services that TPI can provide for our clients. Please do not hesitate to contact us if you ever have any questions or concerns.

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