

THOUGHT FOR THURSDAY

By: Dr. Barry Kendall

THE MARKETS

Investors entered the Holiday weekend with a feeling of confidence, as they heard mostly positive economic news in the equity markets. A larger than expected increase in both November Existing-Home Sales and the November Index of Leading Indicators helped every sector finish the week in positive territory. The market has made great strides recently, after nearly entering a bear market in early October. The vast majority of stocks either rose or fell sixty-seven times this year, a number equal to all the falls and rises that occurred between 1990 and 2004. Another sign that the U.S. economy is improving at year's end was the fact that unemployment claims dropped to the lowest level since April 2008. On Thursday, the Labor Department reported that last week claims fell by 4,000 to 364,000. It was the third weekly drop in a row. In addition to an improving job market, positive factors include strong holiday shopping and cheaper gas, all which allow people to spend more money elsewhere and helps to boost consumer confidence.

EUROPEAN NEWS

Struggling European banks snapped up 489 billion euros in cheap loans from the European Central Bank last Wednesday, a sign of just how hard or expensive it has become to borrow from each other. The demand for newly available three-year loans has increased, as fears rise that heavily indebted European governments could default and force banks and other bondholders to take big losses. The ECB wants banks to use the money in early 2012 to help pay or refinance some of the 230 billion euros in outstanding loans. Without the special support from the ECB, banks would have had to cut back on loans to businesses and further squeeze the European economy.

Many economists think that the Eurozone is heading toward at least a mild recession. Data released last week showed that Italy, the eurozone's third largest economy, contracted 0.2 percent in the third quarter.

HOLIDAY RETAIL SALES RESULTS

For retailers, the holiday season is the most important and profitable time of year. Although the final numbers for this holiday season will not be released until January 12, analysts are saying 2011 was an average year but certainly showed much improvement over recent years. The National Retail Federation raised its estimate on holiday sales to show a 3.8 percent increase from 2010.

Another positive for the holiday season was the developing trend that consumers are starting to do more shopping online than ever before. Cyber Monday saw a 33 percent increase in overall sales from 2010 and a 68 percent increase in home goods sales. This increase is in part due to the Smartphone revolution, as over 10 percent shopped on their mobile phones.

Retailers are hoping that post-Holiday sales will boost overall numbers, with stores such as Target planning to cut prices across the board up to 50 percent.

BEST STOCK PERFORMERS OF 2011

It's been an underwhelming year for stocks, with the Standard & Poor's 500 down 0.6 percent in 2011. Key players in the natural gas business powered stocks, despite the broad market's sputtering performance. Cabot Oil & Gas (COG) is the S&P 500's best performer with its 101

percent gain this year. Another gas player, El Paso (EP), came in second and was up 91 percent. Despite the fact that natural gas prices have been falling this year, producers such as Cabot Oil are gaining appreciation with investors due to their ability to boost production. TPI also believes this is a very strong segment of the market, as evidenced by our offerings in our Alternative Investments program (available to “Accredited Investors” only).

While consumers might be feeling the pinch of the economy, they are still shopping, as reflected by sales figures referenced earlier in this article. Leaders in serving the frugal consumer, such as Ross Stores (ROST) and TJ Maxx (TJX), are up 53 percent and 46 percent respectively. Investors are also rewarding financially conservative companies with A+ stock-quality ratings from S&P with up to 10.4 percent growth this year. Payment processors MasterCard (MA) and Visa (V) are up 67 percent and 43 percent respectively. Both eliminated all their long-term debt, fitting investor’s taste for quality. An overall theme seems to be that high quality stock is beating out low quality.

LOOKING AHEAD

TPI will be watching to see if the unemployment rates continue to decline and if existing and new home sales increase. Both would be indications that the economy is indeed getting stronger. Nobody can minimize the effect that the European Union financial and political status will have on world-wide markets. TPI believes this will dominate market news throughout 2012 and beyond. As long as corporate earnings reports continue to generate positive results, the long term market outlook remains promising. As the year winds down this week, there are very few economic reports or corporate earnings to look forward to. TPI wishes each of our clients and families a healthy and prosperous 2012. As always, please contact us if you have any questions or concerns.