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Headline GDP not in sync with real GDP

Here is the headline statement about the GDP revision. [Real gross domestic product](#) -- the output of goods and services produced by labor and property located in the United States -- increased at an annual rate of 5.9 percent in the fourth quarter of 2009 (that is, from the third quarter to the fourth quarter) according to the "second" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 2.2 percent.

Further down the page in the same report, here is the summary entitled, “2009 GDP”

Real GDP decreased 2.4 percent in 2009 (that is, from the 2008 annual level to the 2009 annual level), in contrast to an increase of 0.4 percent in 2008.

The decrease in real GDP in 2009 primarily reflected negative contributions from nonresidential fixed investment, exports, private inventory investment, residential fixed investment, and personal consumption expenditures (PCE), that were partly offset by a positive contribution from federal government spending. Imports, which are a subtraction in the calculation of GDP, decreased.

The downturn in real GDP primarily reflected downturns in nonresidential fixed investment and in exports and a larger decrease in private inventory investment that were partly offset by a larger decrease in imports and a smaller decrease in residential fixed investment.

The difference is that the headline statement takes quarterly statistics and reports them as annualized numbers. That is why you must read the entire report, including the fine print to get the real (in their own words) truth of the matter.

The stock “rally” meets resistance.



critical mass.

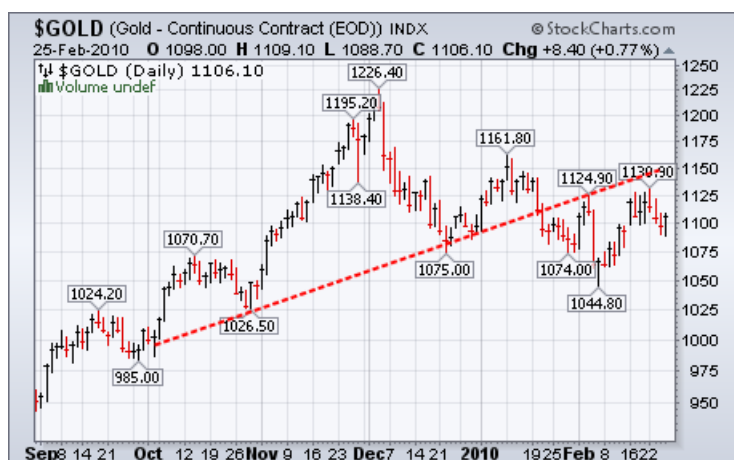
Treasury Bonds rally on bad news.



-- Stocks have held up remarkably well, considering the spate of bad news recently. [Unemployment](#) claims have gone up unexpectedly. [Consumer Confidence](#) has crashed to lows seen a year ago. The present situation index is at its lowest in 27 years. [Existing home](#) sales dropped 7.2% last month. What holds the market up, you ask? Cycles suggest a turn is coming. The bad news may just have to reach a

-- [Treasuries](#) headed for a weekly gain as the threat of ratings cuts for Greece fueled demand for the safety of U.S. debt. A rally pushed the 10-year note yield to a two-week low as an unexpected rise in first-time jobless insurance claims reported yesterday indicated the labor market is still struggling to recover. Sales of existing homes unexpectedly fell last month, while consumer spending rose less than forecast in the fourth quarter, reports showed today.

Gold is stuck in a trading range.



-- [Gold](#) rose for a second straight day, heading for a monthly gain, on speculation that concern over Greece’s debt will increase demand for the precious metal as an alternative to holding currency. Traders are still looking up for gold, thinking that investors will be looking towards gold as a safe haven. The chart does not agree.

The Nikkei is on a roller coaster.



-- **Japanese stocks** rose, driving the Nikkei 225 Stock Average to a third weekly advance, as carmakers and retailers climbed following government reports on factory output and sales. The **Nikkei 225 Stock Average** rose 0.2 percent to 10,126.03 at the close in Tokyo, and added 24.07 points this week, or less than 0.1 percent. *It appears that the Nikkei may be rolling over from here.*

China still appear to be advancing.



-- **China's stocks** fell for the first time in three days, trimming a monthly advance, as commodity companies declined after raw-material prices dropped yesterday. Automakers advanced on earnings prospects. The **Shanghai Composite Index** dropped 8.68, or 0.3 percent, to 3,051.94 at the close. The gauge added 2.1 percent this month as easing inflation delayed prospects for higher interest rates. China's markets

were shut last week for Lunar New Year holidays.

The U.S. Dollar is looking more attractive to investors.



The **dollar fell** against the euro and the yen as German lawmakers said aid to Greece may come through a state-owned lender and sales of U.S. existing homes unexpectedly declined last month.

The talk of financial aid to Greece may be put into more concrete action, but no promises were made yet. The euro was oversold, so they got the bounce on anticipated good

news for Greece.

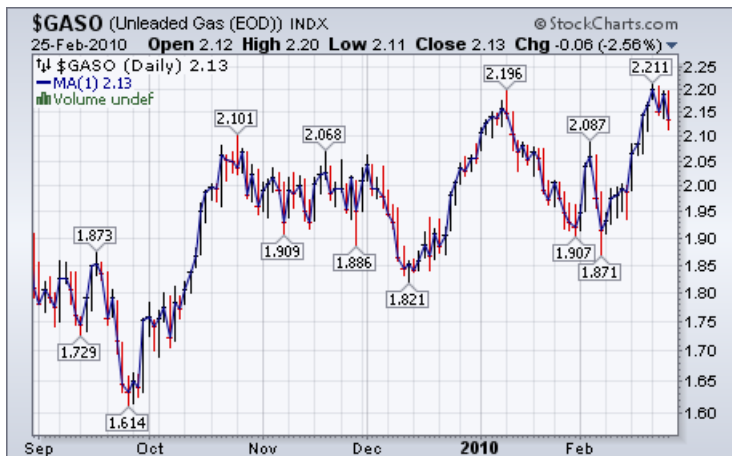
Freddie Mac loses \$7.8 billion, warns of foreclosure wave



-- Freddie Mac lost almost \$26 billion last year, ominous news for taxpayers, who are footing the bill to rescue the mortgage finance company and its sibling, Fannie Mae. In the final three months of last year, Freddie Mac posted a loss of \$7.8 billion, or \$2.39 a share. Freddie Mac, which has lost almost \$80 billion since the housing crisis started in 2007, is bracing for more pain. The McLean, Va., company said a record 4 percent of

its borrowers are at least three months behind on their payments and facing foreclosure.

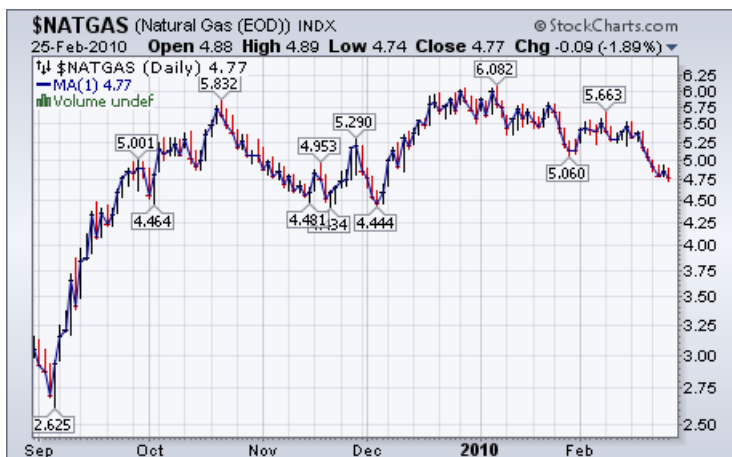
Gasoline prices are still jumping.



The Energy Information Agency weekly report suggests, “Jumping nearly a nickel to hit \$2.66 per gallon, the U.S. average price for regular gasoline rose for the first time since January 11. The price was \$0.75 above last year at this time. The averages on the East Coast and in the Rocky Mountains each increased about two cents to \$2.66 per gallon and \$2.62 per gallon, respectively. In the Midwest, the average price surged over ten cents

to \$2.61 per gallon.”

Massive snowstorm not affecting Natural Gas prices.



The Energy Information Agency’s [Natural Gas Weekly Update](#) reports, “Natural gas spot prices fell across the board, possibly as a result of relatively warm weather in much of the United States over the weekend, although temperatures dropped somewhat after the weekend. Despite a massive snowstorm headed toward the Northeast, prices failed to

post an overall increase over the week.”

Retaliation Against Germany Escalates: Airbrushed Venus Statue Flipping Off Greeks?

Have we just crossed the historic Rubicon when a photoshopped classical statue is about to lead to a [collapse in a monetary and customs union](#), and possibly something a tad more serious? Also, is the KFW bailout rumor too little too late? It appears the Greeks are two minutes away from saying "take you bailout and shove it." The reason: The Focus cover which shows a statue of Venus de Milo flipping off the Greeks, who were characterized as the "cheats of the eurozone."

Thoughts from Art Cashin

As just indicated, some testy words from Greek politicians sharply heightened fears that a [rescue package might fail](#). The resultant plunge in the Euro combined with a surprise jump in jobless claims to send stock futures sharply lower as the New York opening loomed.

While the reaction was undeniable, the headline it was based upon was somewhat flawed. It turned out that the EU did not make the statement as the buzz assumed. But that realization came only after the rally was a full throttle. *The market was abuzz with all kinds of rumors yesterday to egg the rally on.*

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Regards,
Anthony M. Cherniawski, Manager

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