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A State Registered Investment Advisor



## Weekly Market Digest January 29, 2010

### **The economy grew, but were the numbers real?**

The [economy in the U.S. expanded](#) in the fourth quarter at the fastest pace in six years as factories cranked up assembly lines and companies increased investment in equipment and software.

The 5.7 percent increase in gross domestic product, which exceeded the median forecast of economists surveyed by Bloomberg News, marked the best performance since the third quarter of 2003, figures from the Commerce Department showed today in Washington. Efforts to rebuild depleted inventories contributed 3.4 percentage points to GDP, the most in two decades.

*The problem with this calculation is that government spending is included in the calculations and government employees are counted twice! This skews the numbers, especially in a quarter that saw government intervention in the markets and an expansion of government jobs (at the expense of private employers).*

### **...and maybe too late?**

**Ben S. Bernanke**, who won Senate approval for a second term as Federal Reserve chairman over a record number of opponents, may now have a tougher fight against threats to the central bank itself.

Lawmakers are considering legislation to remove a shield from congressional audits of monetary policy and strip the Fed of bank-supervision powers, measures that Bernanke opposes. *Bernanke denies being involved in the [AIG bailout fiasco](#). Nonetheless, the New York Fed is one of 12 Federal Reserve Banks that operate under the supervision of the Federal Reserve's board of governors, chaired by **Ben Bernanke**. Member-bank presidents are appointed by nine-member boards, who themselves are appointed largely by other bankers.*

*As Representative **Marcy Kaptur** told Geithner at the hearing: "A lot of people think that the president of the New York Fed works for the U.S. government. **But in fact you work for the private banks that elected you.**" [That's right](#), Mary.*

## The S&P 500 plunging through thin ice.



-- The uptrend in the S&P 500 Index was broken last week. It has been resting on the bottom trendline of an expanding formation. This is not bullish, since an expanding formation is often considered a topping pattern. Today's break of this trendline leaves a lot of technical "empty space" with no support until the July low. Take measures to protect your investment in equities.

## Treasury bonds do an about-face.



-- [Treasuries](#) did an abrupt turn this week. Could it be the potential passage of another expansion of the debt ceiling? The U.S. Senate **voted** to increase the federal debt limit by \$1.9 trillion, to \$14.3 trillion, a figure lawmakers said would be enough to accommodate borrowing for the rest of 2010. The vote was 60-39 to send the measure to the House, which will take it up next week. The increase is *more than twice the size* of any of the four previous debt increases

lawmakers approved in the past two years.

## Gold has declined below support.



-- [Gold](#) dropped in London and headed for a second monthly decline as a stronger dollar curbed the metal's appeal as an alternative investment. "Speculators are still liquidating gold, with no physical buying in sight," **Andrey Kryuchenkov**, an analyst at VTB Capital in London, said today in a report. "Bullion is still trading on the back of swinging currency markets." *The dollar carry trade unwinds.*

## The Nikkei turns south.



-- The **Nikkei 225 Stock Average** fell 2.1 percent to close at 10,198.04 in Tokyo. The broader **Topix** dropped 1.4 percent to 901.12, erasing this year's gain. For the week, the Nikkei lost 3.7 percent and the Topix slumped 4.2 percent, its biggest drop since the five days ended Oct. 2.

*Japan has one of the most unstable economies in the world, mainly due to its 20 years of unwillingness to deal with its massive debt problems.*

## Shanghai lost its uptrend, too.



-- **China's Shanghai Index** fell, capping its biggest weekly loss in two months, on concerns government measures to fight inflation will hurt growth and as investor George Soros warned the market was "overheating." Chinese regulators began restricting new loans after a surge in bank lending since Jan. 1 and unprecedented credit growth of 9.59 trillion yuan in 2009 fanned concerns of a property market bubble.

## The dollar is showing bullish tendencies.



The dollar has made an upside breakout. The "line in the sand" in red is a technical pattern called a neckline of an inverted Head and Shoulders pattern.

The mainstream **media** reports that, "The dollar rose to a six-month high against the euro as evidence of a recovery in the world's largest economy encouraged demand for U.S. assets."

*What may be more correct is that money is fleeing from crumbling economies to the US, which is still considered the safest currency.*

## Why Obama Wants High Home Prices.



new loans and save an average of \$1,500 on mortgage payments.” *And deeper in debt.*

-- During President Obama’s State of the Union Speech tonight, he didn’t talk long about the housing market. But, what he did say speaks volumes about his [policy intentions](#) and the questionable philosophy of his economic advisers.

“That’s why we’re working to lift the value of a family’s single largest investment – their home. The steps we took last year to shore up the housing market have allowed millions of Americans to take out

## Gasoline prices are starting to deflate.



per gallon, respectively. The largest drop occurred in the Midwest where the average fell six cents to \$2.62 per gallon.”

The Energy Information Agency [weekly report](#) suggests, “Declining for the second week in a row, the U.S. average price for regular gasoline dropped three cents to \$2.71 per gallon, \$0.87 above the average a year ago. While the average in the Rocky Mountains increased by less than one cent to stay at \$2.62 per gallon, prices slipped in all other regions. On both the East and the Gulf Coasts, the averages dropped about three cents to \$2.72 and \$2.59

## Frigid weather releases its grip on NatGas prices.



The Energy Information Agency’s [Natural Gas Weekly Update](#) reports, “Natural gas prices fell at most market locations, with the exception of most locations in the Midcontinent and Rocky Mountains. At most market locations, prices hit their high for the week on Monday, January 25, likely the result of colder weather during the report week. Frigid temperatures also likely led to a jump in natural gas demand on Tuesday, according to Bentek Energy LLC.”

## **“We are willing to treat the (GDP) report with an entire saltshaker — a few grains won’t do.”**

[Rosenberg](#) spots an oddity in today's GDP report: where did the boost in inventory come from? It sure wasn't from imports.

*It was a tad strange to have had inventories contribute half to the GDP tally, and at the same time see import growth cut in half last quarter. Normally, inventory adds are at least partly fuelled by purchases of foreign-made inputs. **Not this time.***

## **Is the Bottom in Home Prices a Decade away?**

Humans are an [optimistic breed](#) by nature. There are some pessimists (or “realists” as they prefer to be called) among us; but on balance humans believe in a better future. This ensures that investment professionals will continue to track investor psychology for many years to come. When the naturally optimistic demographic becomes a group of Doom and Gloomers (or vice versa), we take notice. The same is true for participants in the real estate as well as stock markets.

The general public seems to believe the bottom in housing has arrived; however, I believe no one will make any money on their real estate investments for the next decade. There may be an exception or two with a fixer-upper or a foreclosure, but buying a home for your primary residence under typical circumstances will be a net loser. The real estate market has absolutely no sustainable drivers for a price floor, let alone price appreciation. With taxes, interest, maintenance and insurance, you are guaranteed to lose money, especially when compared to what you could be paying in rent for comparable property.

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Regards,  
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