

Anthony M Cherniawski, CLU, ChFC, LIC

The  
**PRACTICAL INVESTOR, LLC**  
A State Registered Investment Advisor



## Weekly Market Digest August 6, 2010

### **Private employment rises less than forecast, prior month hiring revised down.**

Total [nonfarm payroll employment](#) declined by 131,000 in July, and the unemployment rate was unchanged at 9.5 percent, the U.S. Bureau of Labor Statistics reported today. Federal government employment fell, as 143,000 temporary workers hired for the decennial census completed their work. Private-sector payroll employment edged up by 71,000.

The [employment-to-population ratio](#) tells a more accurate story than the Bureau of Labor Statistics.

Private payrolls that exclude government agencies rose by 71,000 last month, less than forecast, after a June gain of 31,000 that was smaller than previously reported, Labor Department figures in Washington showed today. Economists projected a 90,000 July increase, according to the median estimate in a [Bloomberg News](#) survey.

### **The Russian Heartland is ablaze.**

([Bloomberg](#)) Acrid smoke from forest and peat-bog fires east of Moscow shrouded the city in smoke, causing flight delays and raising pollution to “very dangerous” levels. Emergency crews are battling 558 fires covering 179,596 hectares (693 square miles) across Russia, the Emergency Situations Ministry said on its [website](#) today. So far this year, fires have scorched 729,761 hectares, an area about three times the size of Luxembourg, according to the ministry. The fires have [killed](#) at least 52 people, the Health Ministry said.

([ZeroHedge](#)) For all those curious to see just what an entire country on fire looks like, the [University of Maryland Fire Information for Resource Management Services](#) provides an interactive map of all currently raging fires in Russia.

## The bad news catches up with the market.



target misses and massive layoffs may be just around the corner.

--[Investment Company Institute](#) reported that domestic equity (stock) funds reported their 13<sup>th</sup> sequential outflow of \$4.1 billion last week. The total Y-T-D outflow now approaches \$50 billion, as the current sentiment seems to be saying, "No thanks" to the increased volatility. According to the Financial Times, banks are starting to panic that as a result of collapsing trade volumes, profit

## Treasury bonds get a new lease on life.



-- Treasury bonds went from a shaky position last week to a new rally, as stocks start to sell off again.

Investors believe that as long as the economy weakens, bonds will strengthen. But the true picture is more complex. Bonds may be a temporary safe haven, but as the leverage unwinds, bonds, which are in the carry trade, will have to be sold at some point as well to raise cash.

## A rally in gold takes back some losses.



--The continued rally in gold seems to be attributed to the declining dollar. Unfortunately, this relationship may be misplaced, since gold had previously been declining alongside the dollar until the past two weeks. Nonetheless, investors are piling back on to gold in the hopes that the uptrend may resume.

## Nikkei rallies on old news.



--[Japanese stocks](#) had a back-and-forth week as economic cross-currents from the U.S. kept investors guessing about the direction of the economy.

After a hefty gain of 1.7 percent on Thursday, the Nikkei Index almost gave it all back this morning. It's too bad that the Nikkei was closed by the time bad unemployment news arrived in the U.S.

## The Shanghai index shrugs off banking issues.



-- [China's stocks](#) rebounded, extending gains for the benchmark index to a third week, as concerns about banks' stress tests eased and agriculture companies advanced after the worst floods in a decade boosted food prices.

The [Shanghai Composite Index](#), which tracks the bigger of China's stock exchanges, added 37.64 to 2,658.39 at the close, reversing an earlier 0.8 percent decline.

## The dollar continues its decline, but not for long.



-- [The dollar](#) dropped to an eight-month low against the yen and fell versus the euro as data showed the U.S. lost more jobs in July than forecast, adding to concern the economy may need additional stimulus measures.

The [Dollar Index](#) was poised for its ninth straight weekly loss, the longest string since 2004.

## Tax credit purchases suggest home prices are still too high.



credit.

## Gasoline prices are reluctant to decline.



-- Tuesday's [pending home sales report](#) is the latest indicator that the U.S. housing market is bogged down by an inventory problem: Too many houses, not enough buyers.

Pending sales, signed contracts on the purchase of new homes tracked by the National Association of Realtors, were down 3% in June compared to May. That month saw a 30% drop in the index, after the April 30 expiration of the home buyer's tax

--The Energy Information Agency [weekly report](#) observes, "The U.S. average retail price for regular gasoline decreased over one cent to \$2.74 per gallon after increasing by almost three cents the previous week. This week's price is still \$0.18 per gallon higher than this time last year. Price changes were mixed throughout the country, with the Midwest seeing the largest price decrease of almost 5 cents to \$2.70 per gallon."

## Hot weather keeps natural gas prices aloft.



--. The [U.S. Energy Information Administration](#) reports, "Summer temperatures engulfed much of the country this week, with continued power demand likely supporting price movements this week in spot markets. The short-lived tropical storm Colin served as yet another reminder of the 2010 Atlantic hurricane season, marking the second tropical storm formation in 3 weeks."

## **Thanks for the Invitation Mr Geithner, But You Forgot to Mention Which Planet You're On**

([ZeroHedge](#)) Tim Geithner recently wrote an Op-Ed piece in the New York Times titled, "Welcome to the Recovery."

The title sort of says it all, but just by skimming over it my immediate conclusion is that Mr. Geithner is either outright insane or a total liar. Neither of those are welcome realizations, though I doubt they are news to anyone with a working brain. However, for the sake of manners, I'll simply assume Mr Geithner is outright insane, in which case I am indeed, quite honored to be invited to his recovery... I only wish he'd mentioned the planet where it was taking place.

Let's have a look at some data points on Earth, courtesy of the Bureau of Labor Statistics.

	<b><u>June</u></b> <b><u>2009</u></b>	<b><u>June</u></b> <b><u>2010</u></b>	<b><u>Change</u></b>
Civilian Labor Force	154.7 million	153.7 million	-1 million
People Employed	140 million	139.1 million	-900,000
People Unemployed	14.7 million	14.6 million	-100,000
People Out of the Workforce	80.8 million	83.9 million	+3.1 million
People working part-time for economic reasons	8.9 million	8.6 million	-300,000
Discouraged Workers	793,000	1.2 million	+407,000
People unemployed 27 weeks of greater	4.4 million	6.7 million	2.3 million

## **International Savings Rates Bode Ill for US Markets**

([ZeroHedge](#)) Often while searching for a piece of data through Google (see above) I stumble across something else which is far more interesting. That is how I found the table below of international savings rates.

Why should you care? Because countries with high savings rates tend to have strong economies and great stock markets, since there is plenty of excess cash available to pour into investments. Those with low savings rates suffer from weak economies and poor stock markets, because of a shortage of available capital.

## **IF IT'S NOT A DOUBLE DIP THEN IT'S MR. SOFTEE**

([ZeroHedge](#)) Again, U.S. nonfarm payrolls came in weaker than expected, and while some of the components offered up some good news, like a 36,000 rise in manufacturing employment and an uptick in the workweek, the report overall was quite soft. If this were summer school, I'd be tempted to give it a C-minus, and only because after a terrific week vacationing in Chicago, I'm in a generous mood.

The headline came in at -131,000 versus the consensus estimate of -65,000 (private payrolls did rise 71,000 but this was below the 90,000 increase that was widely expected). And, the net revisions to the prior two months was -97,000, so in effect the "level" of employment was 153,000 lower than what the economics community was penning in the for the month. So, the shortfall was even greater than the headline "miss" would suggest, counting in the revisions.

The Establishment survey tends to understate what is happening at the small business level, which is why it is imperative to keep a close eye on the household survey — and employment here contracted 159,000 in July after sliding 301,000 in June and 35,000 in May. Historically, the odds of seeing three whiffs in a row in this survey without the economy either being in a recession or quickly heading into one is 50 to one.

### **Traders alert:**

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Regards,  
Anthony M. Cherniawski, Manager

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