

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE
THAT WAS THE WEEK THAT WAS



Monday, January 25TH

The National Association of Realtors reports U.S. existing home sales declined by 16.7% in December to a seasonally adjusted annual rate of 5.45 million units, from a pace of 6.54 million units in November

MONDAY, JANUARY 25TH

- South Korea's gross domestic product (GDP) expands by 0.2% in the 4th. quarter, following a growth rate of 3.2% in the 3rd. quarter
- Wall Mart Stores announces 11,200 job layoffs at subsidiary Sam's Club
- The Bank of Japan holds its benchmark overnight lending rate steady at 0.1%, citing it remains committed to fighting deflation
- A report by the Canadian Centre for Policy Alternatives, citing 2006/2007 federal government statistics, reveals more Canadians are exhausting their unemployment benefits but are not finding work, suggesting many will have to turn to savings, loans or welfare for financial assistance
- Michael Sabia, President and Chief Executive Officer of the Caisse de Depot et Placements du Quebec, announces a list of priorities to be met within the next 18 months, promising a return to "plain old common sense" when it comes to investing pension monies on behalf of Quebecers
Boldly spoken, Mr. Sabia , it's high time the Caisse divested itself of an historical superiority complex and donned the cloak of humility. However, since your track record of arrogance while Chairman and Chief Executive Officer at BCE Inc. still haunts you to the present, the proof of your "common sense" enlightenment will be in the pudding.
- Greece raises \$11.3 billion (U.S.) via a 5-year bond issue on a 6.20% yield basis
- U.S. President Barack Obama proposes a middle class financial aid package which is a product of a task force chaired by Vice President Joe Biden. Among the initiatives: a doubling of the child care tax credit for families earning under \$85,000 (U.S.) per year; a \$1.6 billion (U.S.) increase in federal funding for child care programs and a program to cap student loan payments at 10% of income above "a basic living allowance." The President's initiatives also include expanding tax credits to match retirement savings and increasing aid for families taking care of elderly relatives.
There is just no end to the spending or the socialism, which is why we deemed Mr. Obama to be a one-term President six months ago. (See Winter Warning, July 20, 2009 – The Scourge of Unemployment).

TUESDAY, JANUARY 26TH

- Standard & Poors lowers its assessment of Japan's fiscal health by revising its outlook to 'negative' from 'stable'. S&P warns that "the outlook change reflects our view that the Japanese government's diminishing economic policy flexibility may lead to a (sovereign debt rating) downgrade unless measures can be taken to stem fiscal and deflationary pressures."

- CN Rail posts a net profit of \$582 million (CAD) in the 4th. quarter and increases its quarterly dividend to 27 cents per share from 25 cents per share
- U.S. Steel posts a net loss of \$267 million (U.S.) in the 4th. quarter compared with a net profit of \$290 million (U.S.) in the same period a year ago, citing a slow construction market but an improving demand from the auto industry
- Verizon Communications Inc. announces 13,000 additional job layoffs in 2010, approximately the same number of cuts made in each of the past two years
- President Obama proposes a three-year freeze in spending that accounts for one-sixth of the federal budget, to take effect in 2011. The White House will propose limits on discretionary spending unrelated to the military, veterans, homeland security and international affairs, Medicare, Medicaid and Social Security.
Alas, this weak initiative by this one-term President is nothing more than a mere exercise in tokenism. It is unacceptable to the electorate and will neither, impress holders of U.S. Treasury notes and bonds, nor, credit rating agencies.
- Meanwhile, the Congressional Budget office (CBO) projects, that if current laws and policies remained unchanged, the (U.S.) federal budget would show a deficit of \$1.3 trillion for the fiscal year ending September 30, 2010. "At 9.2% of gross domestic product (GDP), that deficit would be slightly smaller than the shortfall of 9.9% of GDP (\$1.4 trillion) posted in 2009. Last year's deficit was the largest as a share of GDP since the end of World War II, and the deficit expected for 2010 would be the largest. Moreover, if legislation is enacted in the next several months that either boosts spending or reduces revenues, the 2010 deficit could equal, or exceed last year's shortfall."
- Home Depot announces 1,000 job layoffs, citing consolidation of support positions in its human resources and finance divisions
- The yield on Greek 10-year bonds soars 45 basis points to 7%, representing a yield spread of 350 basis points over comparable German bunds, as fixed income investors demand a higher coupon for future debt issues. Similarly, the yield on Greek 5-year bonds climbs by 35 basis points to 6.55%, following the \$11.3 billion (U.S.) 5-year issue marketed on a 6.20% yield basis just two days ago, causing those buyers to record a swift paper loss of 1 ½ points, or \$150,000 (U.S.) per \$10,000,000 bond holding.
- The Commerce Department reports U.S. new home sales declined by 7.6% in December from November, to a seasonally adjusted annual rate of 342,000 units
- Caterpillar Inc. posts a net profit of \$232 million (U.S.) in the 4th. quarter, down 65% from the \$661 million (U.S.) earned in the comparable period of 2008
- Portugal reports a budget deficit equal to 9.3% of the country's gross domestic product (GDP) for 2009
- The Chicago-based aerospace company Boeing Co. posts a profit of \$1.27 billion (U.S.) in the 4th. quarter, compared with a loss of \$86 million (U.S.) in the same period a year ago

THURSDAY, JANUARY 28TH

WEDNESDAY, JANUARY 27TH

- After a two day policy meeting, the Federal Open Market Committee (FOMC) announced it will continue to keep the Fed Funds rate in a range of 0 – 0.25% for an "extended period." In a statement, the FOMC noted "the economy continued to strengthen, business spending is picking up, but the (economic) recovery would be moderate for a time."
- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 8,000 to 470,000 from a revised 478,000 in the week ended January 23rd. while continuing claims declined by 57,000 to 4.602 million in the week ended January 16th.
- The Commerce Department reports U.S. durable goods orders rose by 0.3% in December versus a revised decline of 0.7% in November, previously reported as an increase of 0.2%
- Munich-based industrial conglomerate Siemens AG announces 2,000 job layoffs in Germany due to lower market demand for its products
- By a margin of 70 to 30, Ben Bernanke wins a confirmation vote in the U.S. Senate for a second 4-year term as Chairman of the U.S. Federal Reserve Board
- Ford Motor posts a net profit of \$868 million (U.S.) in the 4th. quarter, compared with a net loss of \$5.98 billion (U.S.) in the same quarter of 2008

FRIDAY, JANUARY 29TH

- The European Union (EU) affirms that it will not abandon Greece and allow Athens' mounting debt crisis to jeopardize the euro zone. According to high level EU officials, as a last resort Greece would receive emergency support in an operation involving euro zone governments and the European Commission (EC), but not The International Monetary Fund (IMF).
- Amazon.com, the world's largest online retailer, posts a net profit of \$384 million (U.S.) in the 4th. quarter, compared with a net profit of \$225 million (U.S.) in the same period a year ago, citing free shipping and its expanded selection of goods
- Microsoft, the world's biggest software maker, recorded a net profit of \$6.7 billion (U.S.) in its fiscal 2nd. quarter, compared with a net profit of \$4.2 billion (U.S.) in the same quarter a year ago
- According to a report by Chief Executive Officer Jack Ehnes of the California State Teacher's Retirement System (Calstrs), the second largest U.S. public pension fund suffered significant investment losses in its fiscal year ended June 30, 2009 leaving a cumulative unfunded liability of \$42.6 billion (U.S.). Mr. Ehnes said the fund would have to earn more than 20% in each of the next five years to restore the shortfall without a higher taxpayer subsidy. Accordingly, the fund plans to wait until 2011 to seek a 14% rate increase from the state legislature because lawmakers would not be currently receptive while, simultaneously, attempting to erase a \$20 billion (U.S.) deficit in the state budget.
- The State of Wisconsin Investment Board, which manages \$78 billion (U.S.) of State pension funds, approves a plan to borrow and invest an amount equivalent to 20% of its funds' assets over the next three years, in an attempt to improve its rate of return. (Surely, this is a classic example of throwing good money after bad).
- The Commerce Department reports that the initial estimate for U.S. gross domestic product expansion was at an annual rate of 5.7% in the 4th. quarter, citing inventory rebuilding accounted for 3.4% of the growth rate
- Statistics Canada reports that the country's gross domestic product grew by 0.4% in November, citing eight of ten industries posted growth and both the goods-produce and service sectors made positive contributions
- The United States Senate votes to raise the statutory debt limit for federal government borrowing by a record \$1.9 trillion (U.S.) to \$14.3 trillion (U.S.) enabling the government to function into early 2011
- The venerable Richard Russell of Dow Theory fame now cites Dow 1,000 as a potential downside target in this stock bear market. We don't know whether Mr. Russell had read our piece 'Dow 1,000 Is Not A Silly Number', as we had mailed him a hard copy, but we are very comfortable being joined in our target by such an illustrious stock market maven-"Thus, if the 7,286 level recorded in 2002 is violated, I see the Dow declining to the 1,000 level. Seems impossible? Seems out of the question? Call it anything you want, but that's where I stand." Richards Remarks, January 29th, 2010, www.dowtheoryletters.com

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"Those who cannot remember the past are condemned to repeat it." Santayana