Peter's Weekly Market Analysis

April 9th, 2012

Commentary at a glance:

-LAST WEEK!!!!! Make sure that you have made all of your contributions for tax year 2011.

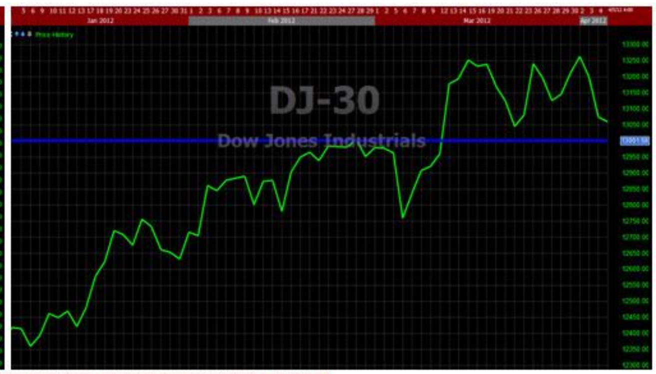
-US Markets trended lower last week on light volume.

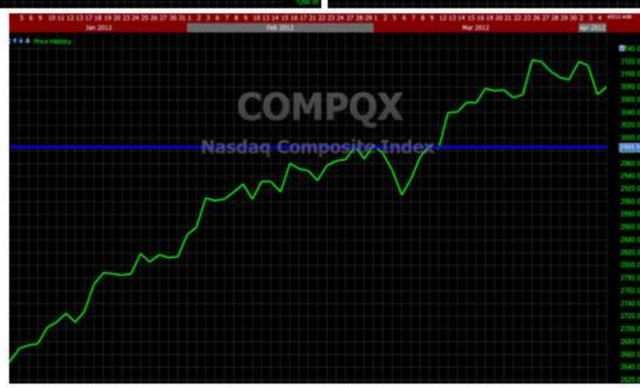
-JOBS bill has passed the House and Senate and was signed by President Obama.

-Gasoline prices remained steady.

-Economic news releases last week were largely negative.

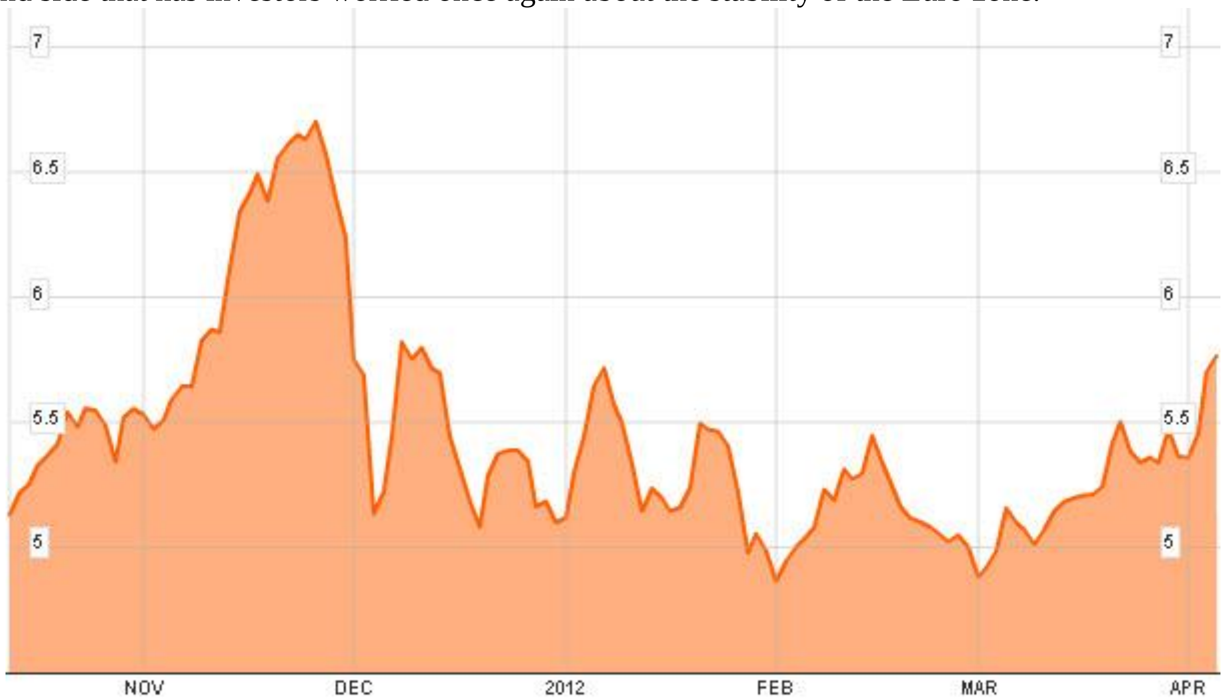
Market Wrap-Up: All three of the major US financial averages moved lower over the course of the shortened previous week. As has been the case for the last three weeks, Monday of last week was an up day across the board, followed by a slow decline across the major US indexes throughout the remainder of the week. To illustrate the moves, the following three charts represent the S&P 500, Dow and NASDAQ (green lines), with the recent level of support/resistance being signified by the horizontal blue line.





As you can see from the charts above, we remain well above the key levels of support: Dow 13,000 (blue line), NASDAQ 2,985 (blue line) and S&P 500 1,364 (blue line). With the NASDAQ now also moving sideways, much like the S&P 500 and the Dow, it looks like all three of the indexes are in a classic consolidation mode, meaning that sideways chopping is likely to continue in the immediate future. There are a few existential items that could happen that could either move the markets higher or lower. One of the biggest drivers for moving the markets high is any action being taken by the Federal Reserve in the form of quantitative easing. This would be seen as very positive for the markets, potentially resulting in upward movement. Another driver that could move the markets upward would be a decline in the price of oil, for one reason or another and doing so by a substantial amount. Yet another driver that could move the markets higher would be a strong second quarter earnings season, which is just around the corner. Some of the factors that could cause the markets to break out of their trading range to the downside would be further uncertainty and or deterioration in Europe, escalations in Iran that lead to oil prices sky rocketing or a poor second quarter earnings season. Earnings season officially kicks off this week with Alcoa releasing their second quarter earnings on Tuesday after the market close. Apple is another company that will be releasing earnings. Investors will be watching their earnings release on the 24th as a signal for how technology fared over the second quarter. Other names to watch this week include Rite Aid, JP Morgan Chase, Google and Wells Fargo. Overall, second quarter's earnings are setting up to be a little weaker than the first quarter's earnings, in part because the year over year comparisons are going to be harder to beat because the second quarter of 2011 was pretty strong whereas the first was fairly weak, making it a low hurdle to clear last quarter.

__International News:__ International news last week once again focused on the Euro zone, but instead focusing on how the Greeks are happily spending their latest round of bailout cash, the news focused on Spain and was less positive. Spain held a government bond auction at which there was much less investment interest than the government had hoped for and which required a higher interest rate than the government would have liked. Spain had hoped to raise €3.5 billion but instead only raised €2.5 billion and the interest rate paid increased 0.25 percent. Below is a chart from Bloomberg of the interest rate on 10-year Spanish bonds. You can see the latest spike on the right-hand side that has investors worried once again about the stability of the Euro zone.



The main issue with the increase in the interest rates Spain is paying does not pertain to the rate so much as it suggests contagion that everyone fears is coming to fruition. With the European "firewall" in place it will be very interesting to see how the Europeans deal with the current situation, if they do anything about it at all. It is unlikely that the European Stability Mechanism (ESM) will be triggered by just one poor auction, but the reaction by the global financial markets about the Spanish debt offering was very negative and seemed to be saying "here we go again." If Spain does turn into another Greece it will be much harder to save as the economy and amount of debt outstanding is much larger than it was in Greece. The solution applied to Greece, including many investors taking haircuts on their bonds and accepting longer term low interest bearing investments, is also unlikely to be successful in Spain. For now, the global financial markets seem to be taking a wait-and-see approach to the situation, but it could turn lower very quickly if the situation in Spain appears to be getting out of hand. In other global news, North Korea and Syria both made headlines last week, but for very different reasons.

North Korea was in the news last week because of their planned launch of their first ever orbiting satellite. Japan has said that if the missile/rocket crosses into their airspace they will shoot it down. The rocket was moved to a launching pad late last week and could be launched in as fast as one week according to the US. The added tension in the region is not helping the already weak economic growth being experienced. Over the weekend there were also reports that North Korea is also preparing for an underground nuclear test, the first since Kim Jong-Un took control of the country. Syria also made headlines last week as the cease fire and or peace agreements that President Assad seemed to agree to now appear to be nothing more than a stalling technique, as his government continues to crack down on its own people. Amid tough economic sanctions against Syria, President Assad is still finding a way to persist, utilizing his friends (Russia, China and Iran) to continue fighting. Instability in the region around Syria in general is bad for the price of oil as there is a terrorism premium that traders build into the price of a barrel of oil based on certain amounts of oil from the region having a hard time getting to the world market.

National News: The biggest piece of national news last week was political in nature and was the passage of the Jumpstart Our Business Startups Act (JOBS). The bill passed the Senate by a vote of 73 to 26 and the US House of Representatives 380 to 41. President Obama signed the bill into law on Thursday. The main focus of the bill is to increase ease of funding to both small businesses and entrepreneurs wishing to start up a business. The primary mechanism through which funds can now be raised is through crowd lending, during which a business puts their idea out before the American public and everyday Americans can put money into the business at the ground level, something which used to only be available to accredited investors. The thought behind the bill is that small businesses and startups are the driving force behind the US economy as they employ more employees than large businesses, so getting the funding will hopefully add to the number of people that are gainfully employed in the US. Wall Street seemed to be pretty indifferent to the passage of the legislation, but was quick to point out that wise start up investments take a lot of research that everyday Americans would have a hard time doing. Wall Street also pointed to the fact that the system is ripe for fraud since there are very few controls in place to limit the number of companies or amount of funds that any individual or group may accumulate. Also making headlines last week was Treasury Secretary Tim Geithner, who made a speech on Wednesday to the Economic Club of Chicago. During the speech secretary Geithner pretty much towed the line of the administration, poking holes in the Republican budget and some of their proposed policies, while at the same time he seemed to be leaning toward supporting further government action. This was taken positively by Wall Street in the sense that there was renewed optimism that a third round of quantitative easing may in fact be coming. He pointed out that the housing market was still weak and could use some further stimulus, adding to speculation that any QE3 will be aimed at least partly at the US housing market.

On the political front, Presidential hopeful Mitt Romney had a strong showing in Wisconsin, Washington DC and Maryland on April 3rd, winning all three states. After claiming victory in the three races he did something that he has not done before, he took on President Obama directly and did not mention any of the other Republican candidates. Romney currently stands at 660 delegates, and is more than half way to the 1,144 needed to win the nomination. While the others are not mathematically out of the running, they are becoming even further long shots with each state that goes by. Romney picked up some key supporters after his victories on April 3rd , including former President Bush, who said that others in the race need to stop running and the party would be stronger with one candidate going into the convention. Rick Santorum is still holding out hope on some of the bigger states that have yet to cast their votes, like Texas and California, but Romney is now running well ahead of him in almost all early polls. April 24th is the next day of vote counting for the Republicans when Connecticut, Delaware, New York, Pennsylvania and Rhode Island all hold their primaries. At stake are 226 delegates. If Romney wins a majority, it would make it mathematically impossible for Ron Paul or Newt Gingrich to win the nomination. Without some major change in events it looks like Romney may end up with the Republican nomination. Now the big question is whether he can win a general election against President Obama. Most of the early polls seem to indicate that the race is far too close to call and many of the key issues have yet to be debated between the two. One of the main points of contention between Republicans and Democrats will likely be the budget, as is normally the case. The Republicans passed their version of the budget through the House back at the end of March and it is very close to the Ryan plan released several months ago. There was no chance the budget would get to the floor in the Senate so it was a non market moving event at the time, but it does provide a foundation from which a debate about the budget and different ideologies can be had. So far the buzz word that has come from the Democrats in response to the Republican budget has been "social Darwinism," which should make for some pretty funny political fodder in the coming race.

The ever rising price of gasoline was not in the news very much last week as prices held steady over the course of the previous week, a welcome break from the seemingly endless march higher. Related to the price of gasoline, there were continued talks last week in Washington DC about opening up the Strategic Petroleum Reserves in order to lower the price at the pump for the summer driving season. This idea is being met with both optimism and pessimism as most people see any such release as political maneuvering during an election year. Additionally, some argue that the supply bottleneck stems from limited (and maxed out) refining capacity, rather than the available supply of crude oil. If a release is going to be made that would have an impact on the start of the summer driving season, it would have to be done quickly as it take more than 45 days to actually get oil moving out of reserves, into the refining process and finally to the pump.

Market Statistics: Over the course of the shortened trading week last week, with the markets being closed on Friday due to the Easter holiday, all three of the major US averages declined. The best performance of the week was turned in by the NASDAQ, which posted a decline of 0.36 percent. The S&P 500 came in second place with a decline of 0.74 percent and the Dow Jones Industrial Average had the toughest time last week, declining by 1.15 percent. The best-performing sector of the markets was the Health Care Providers sector for the second week in a row, with an increase of 0.61 percent. The worst-performing equity sector last week was technology related networking, which decreased by 4.19 percent. Fixed-income investments had a good short week as there was less hope by the markets of a third round of quantitative easing by the Fed. The long end of the curve saw the best returns in fixed income, but the increases were seen across the fixed income ETFs. Commodities advanced last week, thanks in large part to an increase in the price of oil, ending the week with an advance of 0.20 percent on the GSCI Index. Oil increased by 0.22 percent. All of the main traded metals had a negative week last week; Silver declined 2.10 percent, Copper declined 2.18 percent and Gold declined 2.35 percent. If the markets continue to increase in volatility we could see investors move toward the perceived safety of gold, while at the same time we could see the continued decline in the more industrially used silver and copper. The US Dollar Bull ETF increased by 1.32 percent as there was further weakness in the Euro zone, this time emanating from Spain. On the international investing front, the best-performing non-US index for the past week was found in China, with the Shanghai SE Composite Index, which increased by 1.74 percent. The worst-performing index for the second week in a row was found in Taiwan, with the Taiwan Weighted Index declining by 3.70 percent. Volatility ticked up over the course of the shortened week with the VIX increasing by 7.74 percent. This marks two weeks in a row that we have seen an increase in the VIX. The last time we saw two weeks of increases was back in August of 2011. The move over the past two weeks has been an increase of nearly 13 percent, but the overall level of the VIX remains near its lowest point seen in the past year, as illustrated in the chart below:

For the shortened trading week ending on 4/5/2012, returns in FSI's hypothetical models (gross of fees) were as follows:

	Last Week	Year to Date
Aggressive Model	-0.40%	3.71 %
Growth Model	-0.24 %	2.77 %
Moderate Model	-0.19%	2.30 %
Income Model	-0.20 %	1.54 %
S&P 500 (benchmark)	-0.74 %	11.17 %

I made no significant changes to my models over the course of the previous week.

Economic News:

Economic Impact	Date	Economic News Release	Date Range	Actual	Expectation
Slightly Positive	4/2/2012	ISM Index	March 2012	53.4	53
Slightly Negative	4/2/2012	Construction Spending	February 2012	-1.10%	0.50%
Neutral	4/3/2012	Factory Orders	February 2012	1.30%	1.40%
Negative	4/4/2012	ADP Employment Change	March 2012	209K	217K
Slightly Negative	4/4/2012	ISM Services	March 2012	56	56.7
Neutral	4/5/2012	Initial Claims	Previous Week	357K	355K
Neutral	4/5/2012	Continuing Claims	Previous Week	3338K	3360K
Negative	4/6/2012	Nonfarm Payrolls	March 2012	120K	200K
Negative	4/6/2012	Nonfarm Private Payrolls	March 2012	121K	215K
Slightly Positive	4/6/2012	Unemployment Rate	March 2012	8.20%	8.30%
Slightly Negative	4/6/2012	Consumer Credit	February 2012	$8.7B	$14.0B

Data for table from Econoday.com, Bloomberg and Yahoo Finance

Overall last week the economic news that was released had a negative tilt to it. The most troubling of the releases pertained to employment and were the Nonfarm and Nonfarm Private Payroll figures, which came in well below many of the economists' projections. The market viewed these two figures as being much more representative of what is going on in the employment market than the headline number, which by the government's calculations actually went down one tenth of a percent to 8.2 percent. Other areas of concern in last week's releases were the construction sector, after an unexpected decline in spending, and a large decline in consumer credit. Construction spending is probably of most concern to the US housing market as it is already weak and will have a tough time getting back on its feet if spending dries up. This would also have a negative impact on employment as there are many construction workers who are counting on summer jobs to take them off the unemployment rolls. One positive news release last week was the release of the ISM Index for the month of March, which came in at 53.4, slightly higher than was expected and well above the all important level of 50, indicating that manufacturing in the US is currently in expansionary mode. The FOMC meeting minutes released on Tuesday held very little new information other than to see the vast differences in opinion as to whether more Fed action is needed to get the market moving forward faster. In the end, the minutes make it seem like the Fed will not be taking any additional actions should the current situation remain unchanged in the future, but would be ready with actions if things like inflation started upward or if other signs that the economy was faltering started to show.

This week is a pretty slow week for economic news releases with the majority of the releases being non market moving releases, provided they are reasonably close to expectations.

Date	Release	Release Range	Market Expectation
4/10/2012	Wholesale Inventories	February 2012	0.50%
4/11/2012	Treasury Budget	March 2012	-$193B
4/12/2012	Initial Claims	Previous Week	355K
4/12/2012	Continuing Claims	Previous Week	3350K
4/12/2012	PPI	March 2012	0.30%
4/12/2012	Core PPI	March 2012	0.20%
4/13/2012	CPI	March 2012	0.30%
4/13/2012	Core CPI	March 2012	0.20%
4/13/2012	University of Michigan Sentiment	First Estimate April 2012	76.1

The economic news release with the potentially largest impact will come at the end of the week with the release of the University of Michigan's Consumer Sentiment Index for the month of April. This is a release where we could really start to see the impact of the increased prices of gas. The other major releases of the week this week are related to price levels and are the Producer Price Index (PPI) and the Consumer Price Index (CPI). These are two releases that the Fed will be watching for indications that inflation is making its way into the system. So far the increases have been benign and hopefully they stay that way. Adding to the excitement of this week is the release of the Federal Reserve's beige book on Wednesday, which will detail all of the data that the Fed is currently looking at in its decision making process. This may provide some more clarity as to what is being watched and how close various signals are to levels of concern. Overall, it should be an exciting week.

Have a great week,

Peter Johnson