

April 22 & 29, 2007 Review

Comments

Wednesday April 18, 2007 at the close overheard on Bloomberg News Channel:

Bloomberg Anchor, "so what is it that is driving this market higher? Is it earnings or what?"

Guest "expert" - "people want stocks and they are going to go get them no matter what they cost" Harry Clark, Clark Capital Management

That folks says it all. The statement was equally applicable in 1929 and in 1999.

April 30 UPDATE – Yes I have shameless waited for a down day to send this out. [Just kidding](#). Actually I have been swamped with MBA things, they expect me to use complex math forgetting that guys my age had geometry in 10th grade not first like my nephew. In any event, the economic news continues to be dismal, the pain is being felt on Main and the party continues on Wall unabated. Oil is a real issue as will be power this summer. The failure to build reserves the last month places gas shortages and 4 bucks a gallon gas on the front burner as early as July IMO.

I will be back on schedule end of this week and will include anything of great interest I missed the last couple.

Credit

Commercial Real Estate

Commodities

- **RIYADH, Saudi Arabia Apr 27, 2007 (AP)**— Police arrested 172 Islamic militants, some of whom had trained abroad as pilots so they could fly aircraft in attacks on Saudi Arabia's oil fields, the Interior Ministry said Friday. A spokesman said all that remained in the plot "was to set the zero hour." The ministry issued a statement saying the detainees were planning to carry out suicide attacks against "public figures, oil facilities, refineries ... and military zones" some of which were outside the kingdom "They had reached an advance stage of readiness and what remained only was to set the zero hour for their attacks," Interior Ministry spokesman Brig. Mansour al-Turki told the Associated Press in a phone call. "They had the personnel, the money, the arms. Almost all the elements for terror attacks were complete except for setting the zero hour for the attacks." The ministry did not say the militants would fly aircraft into oil refineries, as the Sept. 11, 2001 hijackers flew planes into buildings in New York and Washington, but its statement said some detainees had been "sent to other countries to study flying in preparation for using them to carry out terrorist attacks inside the kingdom." [\[Several years ago I read a series of articles written by a former CIA operative about the vulnerability of the Saudi oil facilities to terrorist attacks. The basic impression I was left](#)

with is that there are a limited number of choke points any of which, if taken out, would substantially impeded the shipment of oil. Being this is the second time in the last nine months that an attack was thwarted, it would be safe to assume that the bad guys are aware of this also] <http://abcnews.go.com/International/wireStory?id=3088178> update: April 27 (Bloomberg) -- Crude oil surged to the highest in almost eight months in New York and gasoline jumped after Saudi Arabian authorities said they had arrested more than 170 people suspected of plotting to attack the country's oil fields. The suspects included Saudis and non-Saudis who planned to use aircraft in assaults on the country's oil fields and military, Interior Ministry spokesman General Mansur al-Turki said in an interview aired on Dubai-based Al-Arabiya television. The desert kingdom is the Organization of Petroleum Exporting Countries' biggest producer and the world's top oil exporter. ``**The reaction to the Saudi Arabian headlines was very muted** at first but once it became clear how big a bullet we dodged, the market took off," said Peter Beutel, president of Cameron Hanover Inc., a New Canaan, Connecticut, energy consultant. ``There's no telling how high prices would have gone if this plot had succeeded. It's impossible to know what else is planned." [I have presented the story in this fashion because when I wrote the first part and referenced abc it was because I could not even find the story on any of the "financial news" sources. Yet another example of why you need to think for yourself.]
<http://www.bloomberg.com/apps/news?pid=20601087&sid=atKAGvKQvjUc&refer=home>

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Currency

April 28 (Bloomberg) -- The dollar declined to a record low against the euro as a slowdown in the world's largest economy reduces the allure of U.S. assets among global investors. A Federal Reserve index measuring the dollar against other major currencies sank this week to the weakest level in the index's 36-year history. The yen fell to an all-time low against the euro as falling consumer prices in Japan damped bets on increased borrowing costs. ``We're continuing to see weak macroeconomic numbers in the U.S. pan out," said Paresh Upadhyaya, who helps manage \$29 billion in currency assets at Putnam Investments in Boston. ``That is clearly weighing on the dollar." The dollar fell 0.45 percent this week to \$1.3652 per euro. It reached \$1.3681 yesterday, eclipsing the previous record low of \$1.3666, which was touched April 25 and first set Dec. 30, 2004. The euro debuted in January 1999 at about \$1.17.
<http://www.bloomberg.com/apps/news?pid=20601109&sid=a3MO2jtIbVt8&refer=home>

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- **LONDON, England** (Reuters) -- The dollar hit a 26-year low against the British pound and neared an all-time trough versus the euro on Wednesday as expectations of U.S. rate cuts contrasted with prospects for more monetary tightening in other countries. The dollar was down across the board, hitting a 22-year low versus the New Zealand dollar on Wednesday and holding near Tuesday's 17-year low against the Australian dollar. The fall in the dollar was exacerbated by below-forecast U.S. core consumer prices for March released on Tuesday. The U.S. data contrasted sharply with a jump in UK consumer

prices that stoked expectations for a rate hike, driving sterling above \$2 for the first time since 1992 when Britain was forced to exit the Exchange Rate Mechanism, and then higher still to levels last seen in 1981. "Growth currencies are doing well against the dollar and one currency which is clearly going into that camp is sterling," said Benedikt Germanier, currency strategist at UBS in Zurich. "Sterling benefits from three things -- growth, rising inflation expectations and psychological levels being taken out." The euro is also closing in on historic highs versus the dollar, rising above \$1.3600 for the first time in two years and coming within 60 ticks of record peaks set in December 2004. "I think we will see the euro moving beyond \$1.37, its all time high," said Michael Klawitter, currency strategist at Dresdner Kleinwort in Frankfurt. "Rate differentials between the dollar and the euro on a longer and shorter term basis are continuing to favor a stronger euro," he added. **Dollar takes pounding, 26-year low**
<http://edition.cnn.com/2007/BUSINESS/04/18/dollar.low.reut/index.html>

Diversification

Derivatives

Housing

- **April 27, 2007** — - Given all the concerns over the housing market these days, the question on everyone's mind is: Is this a good time to buy or sell real estate? "It all depends on who you are and what you hope to accomplish," Stephanie Singer, a spokeswoman for the National Association of Realtors, told ABC News. If you are looking to buy, this is a great time for you. Interest rates are still at a very low mark, there are a lot more houses available in certain areas and buyers can take their time selecting a home because places are staying on the market longer. For sellers, it's a bit more tricky. Some markets have seen significant drops of property value -- some areas, such as parts of Florida, have seen a 20 percent or even greater drop -- leaving homeowners with less equity than they had a few months ago. "People need to realize that a home is where you live. It's not a lottery ticket," said Jim Gillespie, president and CEO of Coldwell Banker.
<http://www.abcnews.go.com/Business/CreativeConsumer/story?id=3090667&page=1>
- April 24 (Bloomberg) -- Sales of previously owned homes in the U.S. declined more than forecast in March to the lowest level in almost four years, delaying housing's recovery from a slump that's shown some signs of reaching bottom. Purchases dropped 8.4 percent last month to an annual rate of 6.12 million, from 6.68 million in February, the National Association of Realtors said today in Washington. Sales fell 11.3 percent compared with a year earlier. The decline in sales, while partly weather related, may renew concern that the housing recession will linger and put at risk the Federal Reserve's forecast for moderate economic growth. Subprime mortgage defaults are rising, and owners' reluctance to reduce prices may keep more unsold properties on the market. **"I have no reason to believe that this particularly is the low,"** said Kevin Logan, senior market economist at Dresdner Kleinwort in New York. **[there is however reason to believe this is simply the start as this problem has been snowballing and will**

accelerate]` A lot of forces that drove sales higher in recent years are still weakening." Concern about mortgage defaults helped depress consumer confidence in the U.S. to the lowest level in eight months during April, a separate private report showed. **U.S. Home Resales Fall in March to Lowest Since 2003 (Update1)**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aesO8EJYxVUo&refer=home>

- April 16 - Universal Forest Products Inc. (UFPI shares were last down \$7.67 at \$44.95. The company, which provides wood and wood-alternative products, reported a 76% drop in first-quarter net earnings to \$3.89 million, or 71 cents a share, from a year ago. Revenue fell to \$549 million from \$665.6 million. Analysts were expecting earnings of 45 cents a share on revenue of \$590 million. The company also said that it is now too early to assess the relative accuracy of the growth targets for net earnings and unit sales it issued at the start of the year. "We predicted that the housing market would be soft, but it turned out to be even weaker than we anticipated," Universal Forest Chief Executive Michael Glenn said in a statement. "In addition, supply continues to exceed demand in an already depressed lumber market, keeping prices low and adversely affecting our sales numbers. These factors combined to create a tough quarter."
<http://www.marketwatch.com/news/story/amazon-active-black-decker/story.aspx?guid=%7B9B9C278C%2DD21A%2D419C%2DAD7C%2DCDB761B1BB2A%7D>
- April 16 (Bloomberg) -- An index of U.S. homebuilders' confidence fell to the lowest level of the year this month amid concern that an increase in mortgage defaults is resulting in tighter lending standards that are discouraging would-be buyers. The National Association of Home Builders/Wells Fargo index of sentiment fell to 33 from 36 in March, the Washington-based association said today. A reading below 50 means most respondents view conditions as poor. According to today's report, single-family home sales have fallen this month and builders' outlooks for the next six months are at the lowest level since October. That, along with rising defaults on subprime mortgages and excess inventory levels, suggests a greater drag on construction this year. ``The tightening of mortgage lending standards in connection with the subprime crisis has shaken the confidence of both consumers and builders," David Seiders, chief economist at the NAHB, said in a statement. ``While we still expect to see some improvements in housing market activity beginning later this year, the downside risks and uncertainties surrounding that forecast are considerable." The homebuilders group has lowered its forecast for housing starts this year to 1.44 million, from an originally projected 1.65 million, spokesman Paul Lopez said. In 2008, starts will rise to 1.53 million. **U.S. Homebuilder Confidence Index Falls to 33 in April From 36**
http://www.bloomberg.com/apps/news?pid=20601087&sid=aI0OJt_rd2wI&refer=home

Housing Finance

Macro Economic

- April 16 - Business inventories in February 2007 were \$1,368.5 billion, up 0.3% from January and up 5.9% from February 2006. <http://www.economicindicators.gov>

Retail

- April 24 - The slow-motion drop in retail spending appears to be gaining speed after **Target** (TGT) said April same-store sales will be "much weaker" than its initial guidance, which came less than two weeks ago. Additionally, the company now expects comparable same-store sales for the combined March/April period to be in a range of 3% to 4%, which is down from the March 8 guidance of 4% to 6%. Because Target reported a high +12% comp in March, this implies a negative mid-high single-digit comp decline in the current month. It is important to note that Target, unlike **Wal-Mart** (WMT), has been gaining market share, so its comps provide a relatively good barometer of retail spending health. Many will contend that this is the retail pause that refreshes, a temporary slowdown. Some might even, like **General Motors'** (GM) Bob Lutz did yesterday, blame the subprime meltdown on slowing auto sales. Others -- especially of a Wall Street sell-side kind -- will rationalize the disappointment by citing unfavorable weather and, astonishingly, "the negative impact of an Easter shift," as **Citigroup's** retail analyst did on First Call last night. Excuse me, but didn't Target forecast April comps with the knowledge that there was an Easter shift? And people wonder why I am so distrustful of Wall Street research. I believe retail spending is about to "hit the fan" due to a number of factors: a tapped-out consumer; a levered balance sheet (both absolutely and to the price of homes); pressure on disposable income with inflation climbing; the absence of MEWS (mortgage equity withdrawals); lower home prices and activity; and a generally more restrictive environment for credit. The worst is yet to come for the consumer, for retail spending, for the economy and for corporate profits.
<http://www.thestreet.com/pf/newsanalysis/investing/10352355.html>
- **MarineMax Shares Hit New 52-Week Low As Company Slashes Guidance Due to Weak Boating Market** NEW YORK (AP) -- Shares of MarineMax Inc. tumbled to a new 52-week low Thursday, after the recreational boat maker cut its full-year profit outlook by more than half, citing a weak boating market. Analysts agreed that the worsening housing market, particularly in the boat-plentiful Florida region, is contributing to an "awful" year for boatmakers and their suppliers. Clearwater, Fla.-based MarineMax forecast earnings for the fiscal year ending Sept. 30 between 45 cents and 65 cents per share, down sharply from prior estimates of \$1.40 to \$1.50 per share. **[Last November -- only five months ago -- it forecast \$2.05- to \$2.15.]** The guidance assumes flat to low-single-digit same-store sales increases, and excludes any impact from acquisitions. "Based on recent industry reports, challenging marine retail conditions are continuing," said William H. McGill Jr., company chairman, president and chief executive, in a statement. "Industry data suggests that unit sales in the segments in which we operate have fallen as much as 20 percent." McGill also said the company reduced purchases from manufacturers for June to reflect a cautious outlook for the industry. BB&T Capital Markets analyst Laura A. Richardson said the results show the industry is having an "awful" 2007. "While a modest decline in boat sales was expected this year, the company believes industry sales (based on new boat registration data) are down close to 20 percent in the March quarter, **with all segments being affected except the very highest end,**" Richardson wrote in a note to investors Thursday. J.P. Morgan analyst Steven Rees agreed the industry appears to be worsening. "While there are many factors at play, we believe softness in the housing market -- especially in the important Florida market (accounting for 45 percent to 50 percent of MarineMax's sales) -- is the largest

factor influencing consumer purchase behavior," he wrote in a client note on Thursday http://biz.yahoo.com/ap/070412/marinemax_mover.html?.v=2

Retirement

The wealth of aging nations

Most discussion of aging focuses on the rapidly escalating cost of pensions and health care, not the potentially far more damaging effects on wealth, savings, and economic well-being. A McKinsey Global Institute (MGI) study of Germany, Italy, Japan, the United Kingdom, and the United States shows that as more and more people retire, lower savings rates will hold back growth in household financial wealth. By 2024, it will be 36 percent—\$31 trillion—less than it would have been if historical rates of expansion had persisted. This reality will depress investment, growth, and living standards in the largest, wealthiest economies and threaten the future development of poor ones.

MGI argues that the policy changes fashionable today—promoting immigration, raising the retirement age, and encouraging households to have more children—won't mitigate the crisis. Yet a sustained effort to allocate capital more efficiently, boost savings rates, and close government deficits could. "The demographic deficit: How aging will reduce global wealth" (Web exclusive, March 2005) explains the solutions as well as the problems.

Efficacy of given approach on mitigating coming shortfall in global financial wealth



¹Estimated by prolonging peak saving years by 5–10 years.

Source: McKinsey Global Institute household-financial-wealth model; McKinsey analysis

- This is an article on a position called “trust protector” – a person who in effect oversees a trustee. For those of you who have set up trusts, it might of interest. <http://www.aicpa.org/pubs/jofa/mar2007/allmon.htm>

Risk

Savings Rate

Tech

Wall Street

I Disagree . . . and why

[Article of the week:](#)

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