

## **December 24, 2006 Review**

### **Summary**

I happened to have the radio on during the President's news conference this week. He said something that surprised and saddened me. After talking about recent retail sales figures, he said "I hope everyone goes out shopping". It is that mentality that has created the tremendous credit problem in this country. Until that "spend it today" mentality is replaced by a "save, invest and build for tomorrow" ethic, we will continue to sell out our future to those overseas.

This is a short week with little new. A good time to point out that markets are not about right and wrong. They are about risk and reward. In terms of performance was I wrong in saying that the time to exit was last summer? Absolutely. In terms of the risk involved in getting the extra return for the additional risk? I don't think so. For those of you who remain in the market, you have been given a huge gift. Take it now and be very glad that a high risk move paid off.

The compression of volatility and the risk being taken to chase any return can not continue on indefinitely. We are approaching a very interesting time where the "bonus" push is over. We will now go through the January effect and then we will see. I think even now, the weak end to the "Santa Claus" rally is interesting. IMO, there is little if any gas left in the bull tanks and the slide down will begin in earnest some time 1Q 2007. However, timing has been a futile endeavor, so I will simply restate that there is tremendous risk being taken and that is not likely to continue to pay off for the risk takers.

### **Credit**

### **Commercial Real Estate**

### **Commodities**

### **Currency**

### **Diversification**

### **Derivatives**

### **Housing**

- In the latest round of bad news on the insurance front, rates may skyrocket even higher for Citizens Property Insurance customers with second homes or rental property. In May, the Florida Legislature passed new laws that treat those property owners different from Citizens policyholders who insure their primary, homestead residence through the state-run insurer of last resort. Starting with new policies and renewal notices that go out after March 1, investors with rentals and other non-homestead property as well as snowbirds with vacation homes will be kicked out of Citizens and forced to try again to buy insurance on the private market. In order to get back into the state-backed Citizens pool, the property owner will need denial letters from one standard insurance

company, such as State Farm, and three unregulated surplus lines carriers, such as Lloyd's of London, whose prices are not regulated by the state. "Unregulated carriers can charge any rate they want," Citizens spokesman Rocky Scott said. "They just have to be licensed in the state. The policies cost more -- four to six times more than ours -- has been our experience." Tourism officials and Realtors say the new laws could seriously hurt the economy because the second-home and beach-rental market contribute a fair chunk to the Pensacola area's \$1 billion tourism industry. [Hard to know what impact this will have on home values other than to know it won't make them go up.] **Second-home hassle**

<http://www.pensacolajournal.com/apps/pbcs.dll/article?AID=/20061210/NEWS01/612100321/1006#>

## Housing Finance

- December 7, 2006 – As home prices cool, the Pew Research Center surveyed homeowners to learn more about the impact of shifting home values. The researchers discovered some not so surprising information about senior citizens – as usual, they tend to be the most pessimistic about values going up in the future. But, they also found one amazing statistic and another that is at least surprising. The amazing fact – 72 percent of those ages 65 and older have no home mortgage. And, surprisingly, more seniors own second homes than the average for all adults. [I recall reading that something like 1/3 of homeowners have no mortgage. It strikes me that it means the figures mortgage debt as a percentage of home value understate the overleverage occurring in the housing industry at the margins] <http://www.seniorjournal.com/NEWS/Money/6-12-07-SurveyOfHomeOwners.htm>

## Macro Economic

Dec. 21 (Bloomberg) -- Manufacturing in the Philadelphia region this month contracted by the most in more than three years as orders continued to fall, a Federal Reserve survey showed today.

The Fed Bank of Philadelphia's general economic index fell more than expected to minus 4.3, the weakest since April 2003, from 5.1 in November. A number less than zero means that most factories reported business was weakening. Prior to increasing in November, the measure contracted for two months.

U.S. manufacturers are throttling back and reducing inventory growth to avoid being saddled with unsold goods as demand cools. The slowdown in auto production and other industries is adding to the woes of an economy already burdened by a housing slump.

“The factory sector as a whole is having a hard time,” said Kevin Harris, chief economist at Informa Global Markets in New York. “It's losing jobs. It's struggling because it produces components for houses and autos.”

The Philadelphia Fed's index of new orders was minus 2.4 following a minus 3.7 in November. The shipments index jumped to 19 from 6.5 in November. The employment gauge improved to 7.9 from 0.2 the prior month. Expectations for the next six months dropped to 6.7 from 12.4.  
[http://www.bloomberg.com/apps/news?pid=20601087&sid=aLS262oM\\_q\\_I&refer=home](http://www.bloomberg.com/apps/news?pid=20601087&sid=aLS262oM_q_I&refer=home)

## Retail

## Retirement

## Risk

## Savings Rate

## Tech

## Wall Street

- Dec. 21 (Bloomberg) -- **Fidelity Investments, the world's largest mutual-fund company, agreed to pay \$42 million to compensate fundholders for potential damage from the scandal in which employees took lavish gifts from brokers.** The penalty was recommended by Fidelity's independent fund trustees after their 18-month investigation of the gift-taking, the Boston-based company said today in a statement. Fidelity, which manages \$1.3 trillion in mutual funds, also will reimburse the funds for the review's expenses, plus interest. Fidelity said in December 2004 that the U.S. Securities Exchange Commission and NASD were examining whether traders took improper gifts in exchange for directing business to brokers at outside firms. After conducting an internal probe, the company fired some employees and transferred others, saying its policies had been violated. **Fidelity to Pay Funds \$42 Million After Gifts Review (Update2) By Danielle Kost** [When I got on Bloomberg just now, three of the nine break news stories dealt with Wall Street abuses. I am sure the day before the Holiday break is a good time to try and sneak this news through]  
<http://www.bloomberg.com/apps/news?pid=20601087&sid=ablhIwxoVFM0&refer=home>
- Dec. 21 (Bloomberg) -- **Deutsche Bank AG agreed to pay \$208 million** to end investigations by New York State Attorney General Eliot Spitzer and U.S. regulators into improper mutual- fund trading by Germany's biggest bank. The company will pay \$102 million to clients and cut fees by \$86 million over five years after its funds let favored investors conduct late and rapid, short-term trades, Spitzer's office said today. The accord, reached with the U.S. Securities and Exchange Commission, also includes a \$20 million fine. **The investigation by the state and federal regulators revealed that Deutsche Bank entered into a series of arrangements with preferred investors that permitted them to engage in improper, frequent short-term trading,** Spitzer's office said. Deutsche Bank to Pay \$208 Million, End Spitzer Probe (Update5)  
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aySCY1YRcmNI&refer=home>
- Dec. 21 (Bloomberg) -- Philippe Jabre, the hedge fund manager who received a record fine from U.K. authorities for market abuse, will start raising money for his new firm

today. **Jabre Plans to Raise \$4.5 Billion for Hedge Funds, People Say**

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Article of the week: