

Timothy C. Hucks, CEP, President, Rising Tide, Inc., presents Monthly Economic Update for March, 2010

Quote of the month. "I always have to dream up there against the stars. If I don't dream I will make it, I won't even get close." – Henry J. Kaiser

The month in brief. We saw a very pleasant 180° from January. New M&A action, nice corporate profits and the possibility of a rescue for Greece helped the market. By the end of February, 457 companies in the S&P 500 had issued 4Q earnings reports, with earnings per share about 154% above a year ago.¹ The S&P 500 had its best February since 1998, rising to 1,104.49.²

Domestic economic health. Consumer spending increased, even though consumer confidence didn't. Personal spending advanced by 0.5% in February, and the Commerce Department also noted a 0.7% gain in inflation-adjusted purchases of durable goods and a dip in the personal savings rate to October 2008 levels. It suggested consumers were shopping enthusiastically.³ Yet consumer confidence indices went south: the Reuters/University of Michigan index went from 74.4 to 73.6 and the Conference Board barometer went from 46.0 from 55.9.⁴

How about the manufacturing and service sectors? The February data showed more growth. ISM's manufacturing index came in at 56.5, and its service sector index read 53.0 (up from 50.5 in January.)^{5,6}

As for consumer and producer prices, something really notable happened: core CPI fell by 0.1% in January. It was the first monthly decline since 1982. Overall CPI rose 0.2% for January. PPI rose 1.4% in January, 0.3% factoring out food and energy costs.⁷

In Washington, it appeared to be reconciliation or nothing when it came to health care reform. (Since 1980, reconciliation has been used 22 times in Congress and succeeded 19 times, one of those results being the Bush administration tax cuts.)⁸ Sen. Harry Reid (D-NV) introduced a jobs bill that would exempt employers from payroll taxes on new hires for the rest of 2010. Its fate was uncertain in the House.⁹

In February, the Federal Reserve took a small but notable step away from the emergency tactics put in place during the recession. It unexpectedly raised the discount rate from 0.50% to 0.75% - a little move that luckily didn't send a big shock wave through the stock market.¹⁰

Global economic health. Would the Eurozone ride to the rescue of Greece? At the close of the month, it formally asked Greece for a plan to control its debt. Meanwhile, some economists speculated that the nation would be bailed out by some kind of unprecedented EU action. The respected Markit Economics PMI survey showed manufacturing increasing in Europe at the fastest rate in over two years; Eurozone joblessness also ticked down 0.1% to 9.9% in February.¹¹

Japan's jobless rate was 4.9% in February, down from 5.1% a month earlier. Its GDP, which had been flat in 3Q 2009, came in at +1.1% for 4Q 2009. New data showed that China's economy grew by 8.7% in 2009. Impressive? Certainly. Yet look at Taiwan: we learned last month that its economy was growing at an annualized rate of 18.0% during 4Q 2009.^{12,13,14}

World financial markets. It was truly a mixed bag last month – some indices had great gains, others big losses. Some gains in the Asia-Pacific region: Shanghai Composite, +2.10%; Hang Seng, +2.42%; Australia All Ordinaries, +1.18%; Sensex, +0.44%. Losses in that region: South Korea's Kospi, -0.49%; Nikkei 225, -0.71%. In Europe, the FTSE 100 gained 3.20% while the DAX and CAC 40 respectively declined -0.18% and -0.82%. Russia's always volatile RTSI was -4.51%. The best-performing and worst-performing indices of the month were the benchmark indices of Mexico (+4.09%) and Turkey (-9.05%). The MSCI Emerging Markets Index declined by 0.27% in February, while the MSCI World Index gained 1.77%.^{2,15}

Commodities markets. The broad commodities market staged a rebound last month – and the dollar kept strengthening. The U.S. Dollar Index gained another 1.12% in February to go +3.20% on the year. On the NYMEX,

% Change	2/10	YTD
DJIA	+2.56	-0.99
NASDAQ	+4.23	-1.36
S&P 500	+2.85	-0.95
10YrTIPS Real Yield	+13.85	0.00

(Source: CNBC.com, ustreas.gov, 2/26/10)^{2,21} Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

the big mover was oil, which had its finest month since May 2009, advancing 9.29% to erase some severe January losses. Other fuels did well last month: RBOB gasoline futures gained 8.64% and diesel fuel gained 8.00%.²

In metals, copper shot up another 7.58%. Other metals logged nice gains in February: gold rose 3.31%, silver 1.91%, platinum 2.25% and palladium 5.11%.²

It was winter, and when it came to crops, there was volatility. Pork bellies performed better than any other notable commodity in February, posting a 12.02% gain. Other commodities had banner months: soybean oil, +9.82%; wheat, +9.55%; copper, +7.58%. Sugar futures cratered, dropping 21.07% on the month. Orange juice was +5.51% last month and +11.27% through the first sixth of 2010.²

Housing & interest rates. Snow or no snow, the January numbers weren't pretty. Existing home sales fell 7.2% from the previous month – on the bright side, they were 11.5% above January 2009 figures.¹⁶ New home sales dropped 11.2% to a record low adjusted annualized sales rate of 309,000 units – and that was a 6.9% descent from year-ago levels.¹⁷

We all knew mortgage rates would rise; it was just a question of when. Last month turned out to be “when”. By the end of February, rates on 30-year FRMs averaged 5.05%. As for averages on other kinds of mortgages, the percentages were as follows: 15-year FRMs were averaging 4.40%, rates on 5-year hybrid ARMs were averaging 4.16% and rates on 1-year ARMs averaged 4.15%.¹⁸

Oh yes, Fannie Mae asked for \$15.3 billion more from the Treasury to keep its net worth in the plus column. It also announced plans to buy up as many as 200,000 delinquent home loans out of mortgage-backed security trusts in March.^{19,20}

Major indexes. Stocks made up a lot of ground last month. It was not only the S&P 500's best February in 12 years, but also the NASDAQ's best February since 2000. At the end of February, the real yield on the 10-year TIPS was at 1.48% - right where it was at the end of 2009.^{2,21}

March outlook. We had some really nice signals at the start of the month – consumer spending increasing by the biggest monthly amount since mid-2008, a mid-50s ISM manufacturing index reading, and some strong M&A activity, all welcome after some very poor numbers concerning housing and consumer confidence in preceding days. The market ultimately decided to pay attention to mergers and earnings in February and take some of its collective mind off economic challenges. Will that trend continue this month? The markets have weathered the sovereign debt crisis nicely, and seem resilient enough to handle all but the biggest geopolitical shocks. Worth noting: at the start of March, the Dow, NASDAQ and S&P 500 had each crested their 50-day moving averages.²²

The major economic releases for the balance of March: January factory orders and pending home sales (3/4), February's jobless data (3/5), January wholesale inventories (3/10), February retail sales, January business inventories and the University of Michigan's February consumer sentiment index (3/12), February industrial production (3/15), February housing starts and building permits (3/16), February PPI (3/17), February CPI and the Conference Board's February leading indicators (3/18), February existing home sales (3/23), February new home sales and durable goods orders (3/24), February consumer spending (3/29), the Conference Board's February consumer confidence survey and the Case-Shiller home price index for January (3/30), and February factory orders (3/31).

Riddle of the month. A rope ladder hangs over the side of a docked ship and dips into the water. The rungs are 15.75" apart, all equally distanced. At low tide, two of the ladder's rungs are underwater. At high tide, which is exactly 3.5' above low tide, how many rungs will be underwater?

Contact my office or see next month's Update for the answer.

Last month's riddle. Some months have 30 days, others 31. How many have 28?

Last month's riddle answer: All of them – all 12 months have at least 28 days.

***Please feel free to forward this article to family, friends or colleagues.
If you would like us to add them to our list, please reply with their address
and we will contact them and ask for their permission to be added.***

Timothy C. Hucks, CEP, is a Certified Estate Planner, Registered Investment Advisor and President of Rising Tide, Inc. He may be reached at www.risingtideinc.com, 919-968-8675, or tim@risingtideinc.com. Securities offered through [Capital Investment Group, Inc.](#) Corporate Office: 17 Glenwood Avenue, Raleigh, NC 27603 • 919.831.2370. Member [FINRA/SIPC](#).

These views are those of Peter Montoya Inc., and not the presenting Representative or the Representative's Broker/Dealer, and should not be construed as investment advice. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is not possible to invest directly in an index. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. (NYMEX) is the world's largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions – the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. The Shanghai Stock Exchange Composite Index is a capitalization-weighted index that tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange. The Hang Seng Index is a free-float capitalization-weighted index of selection of companies from the Stock Exchange of Hong Kong. The S&P/ASX All Ordinaries Index represents the 500 largest companies in the Australian equities market. The BSE Sensex or Bombay Stock Exchange Sensitive Index is a value-weighted index composed of 30 stocks that started January 1, 1986. The Korea Composite Stock Price Index or KOSPI is the index of all common stocks traded on the Stock Market Division of the Korea Exchange. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The FTSE 100 Index is a share index of the 100 most highly capitalized companies listed on the London Stock Exchange. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The RTS Index (RTSI) is an index of 50 Russian stocks that trade on the RTS Stock Exchange in Moscow. Mexican Stock Exchange (BMV: BOLSA) is the second largest stock exchange in the Latin America after Brazil's BM&F Bovespa. The Istanbul Stock Exchange (ISE) is the only securities exchange in Turkey. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. Neither the named Representative nor Broker/Dealer gives tax or legal advice. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. All economic and performance data is historical and not indicative of future results. The market indices discussed are unmanaged. Investors cannot invest in unmanaged indices. The publisher is not engaged in rendering legal, accounting or other professional services. If other expert assistance is needed, the reader is advised to engage the services of a competent professional. Please consult your Financial Advisor for further information. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards.

Citations.

- 1 businessweek.com/investor/content/feb2010/pi20100226_522398.htm [2/28/10]
- 2 cnbc.com/id/35609513 [2/26/10]
- 3 washingtonpost.com/wp-dyn/content/article/2010/03/01/AR2010030103604.html?hpid=topnews [3/1/10]
- 4 smartmoney.com/investing/economy/the-other-consumer-confidence-index/ [2/26/10]
- 5 ism.ws/ISMReport/MfgROB.cfm [3/1/10]
- 6 news.briefing.com/GeneralContent/Investor/Active/ArticlePopup/ArticlePopup.aspx?ArticleId=SI20100303100810 [3/3/10]
- 7 washingtonpost.com/wp-dyn/content/article/2010/02/19/AR2010021905362_pf.html [2/19/10]
- 8 blog.nj.com/njv_editorial_page/2010/03/health_care_reform_reconciliat.html [3/2/10]
- 9 boston.com/business/personalfinance/managingyourmoney/archives/2010/02/tax_incentives.html [2/24/10]
- 10 ft.com/cms/s/0/f5330a36-1d89-11df-a893-00144feab49a.html [2/19/10]
- 11 cfdtrading.com/category/european-markets/ [3/1/10]
- 12 cfdtrading.com/category/asian-markets/ [3/1/10]
- 13 cfdtrading.com/category/asian-markets/page/2/ [3/1/10]
- 14 nytimes.com/2010/02/23/business/global/23asiaecon.html?pagewanted=print [2/23/10]
- 15 mscibarra.com/products/indices/international_equity_indices/gimi/stdindex/performance.html [2/26/10]
- 16 articles.latimes.com/2010/feb/27/business/la-fi-home-sales27-2010feb27 [2/27/10]
- 17 latimesblogs.latimes.com/money_co/2010/02/new-home-sales-tumble-112.html [2/24/10]
- 18 freddiemac.com/pmms/ [3/2/10]
- 19 housingwire.com/2010/03/02/fannie-to-buy-up-to-200000-delinquent-mortgages-in-march/ [3/2/10]
- 20 reuters.com/article/idUSTRE61P5KY20100226 [2/26/10]
- 21 ustreas.gov/offices/domestic-finance/debt-management/interest-rate/real_yield_historical.shtml [3/2/10]
- 22 marketwatch.com/story/us-markets-edge-above-significant-resistance-2010-03-02?dist=afterbell [3/2/10]