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AND THAT'S THE WEEK THAT WAS...

For the Week Ended February 12, 2010

Market Matters...

Market/Index	Year Close (2009)	Qtr Close (12/31/09)	Previous Week (02/05/10)	Current Week (02/12/10)	YTD Change
Dow Jones Industrial	10,428.05	10,428.05	10,012.23	10,099.14	-3.15%
NASDAQ	2,269.15	2,269.15	2,141.12	2,183.53	-3.77%
S&P 500	1,115.10	1,115.10	1,066.18	1,075.51	-3.55%
Russell 2000	625.39	625.39	592.98	610.72	-2.35%
Global Dow	1,984.48	1,984.48	1,835.66	1,857.02	-6.42%
Fed Funds	0.25%	0.25%	0.25%	0.25%	0 bps
10 yr Treasury (Yield)	3.85%	3.85%	3.55%	3.69%	-16 bps

“Neither snow nor rain nor heat nor gloom of night stays these (financial professionals) from the swift completion of their appointed rounds” (or maybe not). Harsh weather blanketed much of country this week as ALL 50 states were expected to get some snow. With many businesses (and the government) requiring that only “essential personnel” show up for work, economic releases were delayed and markets remained choppy as folks tried to determine whether or not they were needed. The retail sales (see below) report was delayed for a day; Fed Chair Bernanke’s did not grant oral testimony as DC literally shut down (though not the White House); and traders worked from home or took much needed “vacations” as the blizzards impacted daily volume. Analysts predict that 100,000+ workers may join (or remain on) the unemployment line in February as folks were not able to get to work and companies temporarily halted any hiring.

Earnings results were mixed at best as signs of favorable news often came with negative caveats. **Coca Cola** posted solid growth as emerging markets like China and India helped compensate for continued domestic challenges. **Disney** bested Street estimates on cost-cutting measures, though weakness at theme parks and other consumer divisions disappointed investors. **UBS** returned to profitability for the first time in over a year, though its private-banking group struggled as high net worth clients sought (perceived) greener pastures away from Swiss institutions. In other corporate news, **Google** looked to expand into social networking to compete with **Facebook**; struggling **Toyota** recalled over 400,000 Prius cars; **McDonald’s** posted decent same-store sales results for January; **AIG** announced a new peer performance-based compensation plan; and **Goldman Sachs** warned that this year’s bonus reductions may not be repeated in the future.

In the transaction world, investors continued to shun IPOs and activity has come to a standstill since late 2009. On Thursday, for example, three new deals came to market, but only after their respective managements agreed to reduce sales prices to generate sufficient demand. Another proposed IPO was delayed due to overall lack of investor interest and other global exchanges (i.e. London) have experienced similar results (or lack thereof) as well. Meanwhile, electricity provider **FirstEnergy** is attempting to acquire **Allegheny Energy** for just under \$5 billion.

Investors took cues from international developments in Europe and Asia; all eyes were watching for signs of a Greek bailout (good), while China initiated new steps at restricting its economic growth that could lead to price pressures (bad). Equities encountered the all-too-typical volatility as the Dow closed below 10,000 for the first time in three months only to rebound nicely on new rhetoric from the Euro-zone. Bonds suffered from lackluster auction results and analysts blamed the weaker demand on the harsh domestic weather and also on holidays in China and Japan. Likewise, the chilling temperatures prompted a rebound in crude from its recent weakness, though oil analysts do not expect any change to production quotas at next month’s OPEC meeting because of the ongoing global economic uncertainties. For now, the best advice...stay warm.

Economic Calendar

Date	Release	Comments
February 10	Balance of Trade (12/09)	Largest deficit in a year
February 11	Initial Jobless Claims (02/06/10)	Lowest total in a month
	Retail Sales (01/10)	Better than expected report
The Week Ahead		
February 17	Housing Starts (01/10)	
	Industrial Production (01/10)	
February 18	PPI (01/10)	
	Initial Jobless Claims (02/13/10)	
	Leading Eco. Indicators (01/10)	
February 19	CPI (01/10)	

To bail out or not to bail out? Over a year removed from the heights of the global economic debacle and some countries are continuing to struggle, especially given their ballooning debt positions. At its recent summit, the European Union announced plans to support Greece as it attempts to reduce its deficit and avoid defaulting on government debt. For now, the EU will take a “wait and see” attitude as Greece tries to work its way out of its own problems, but leaders have promised financial assistance if needed. (Undoubtedly other EU countries are watching closely as they prepare to get in line for a potential bailout of their own.) The combined GDP for the 16 euro countries was virtually flat (+0.1%) in the 4th quarter, missing expectations and raising new concerns about the strength (or longevity) of an economic recovery. Meanwhile, in Asia, many emerging economies continue to show signs of significant growth and the dreaded “I” word (inflation) has become a chief concern. In China, auto sales soared in January and regulators again increased the banks’ reserve requirements to prevent its economy from overheating. The surprising action came on the heels of a better-than-expected inflation report that showed price pressures to be moderating, despite ongoing fears of runaway inflation.

Closer to home, a slow week on the economic calendar gave folks time to thaw out (or freeze some more). Investors had to wait an extra day for the stronger-than-expected retail sales report that depicted increased activity at general merchandising stores like **Wal-Mart**. Likewise, the jobless claims report showed fewer individuals seeking unemployment benefits, a welcome sign for the labor picture. On a related note, the annual Economic Report of the President was released during the week and the Administration expects non-farm payroll to jump by an average of 95,000 jobs a month during 2010. (For the record, 20,000 non-farm jobs were LOST from the economy in January so companies better start hiring if Prez O can meet his average forecasts.)

Dr. B. began preparing the country for “life-after-stimulus” by revealing the Fed’s initial plans to shift monetary policy in the near future. For one, fed funds may lose its significance over the short-term as the Fed looks to raise the rate that banks earn on excess reserves held at the central bank. While many analysts agree that enhanced lending activity is needed to help jumpstart business and consumer spending, the Fed hopes that by raising this rate, banks may choose to maintain more in reserves and reduce the possibility of an overheating economy accompanied by inflation. For now, Bernanke has not set any timetable on the imminent actions as they pertain to the more closely-watched funds rate, though some Fed watchers expect such a move by the summer months.

On the Horizon... Inflation data highlights the economic calendar of the upcoming week, though virtually no one expects price pressures to be much of a problem these days (though if the treacherous weather conditions persist, crude and overall energy costs may start to see a more steady rise upward). **HP** (2/17) joins the earnings parade as do retailers **Abercrombie & Fitch** (2/16), **Wal-Mart** (2/18), and **JP Penney** (2/19) all of which post their latest quarterly reports (weather permitting, of course).

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