RB

Brounes & Associates

4607 BRAEBURN DR. ▪ BELLAIRE, TEXAS 77401 ▪ 713.962.9986 ▪ ron@ronbrounes.com

AND THAT'S THE WEEK THAT WAS…
For the Week Ended August 6, 2010

Market Matters…

Market/Index	Year Close (2009)	Qtr Close (06/30/10)	Previous Week (07/30/10)	Current Week (08/06/2010)	YTD Change
Dow Jones Industrial	10,428.05	9,774.02	10,465.94	**10,653.56**	**2.16%**
NASDAQ	2,269.15	2,109.24	2,254.70	**2,288.47**	**0.85%**
S&P 500	1,115.10	1,030.71	1,101.60	**1,121.64**	**0.59%**
Russell 2000	625.39	609.49	650.89	**650.68**	**4.04%**
Global Dow	1,984.48	1,710.71	1,855.79	**1,908.24**	**-3.84%**
Fed Funds	0.25%	0.25%	0.25%	**0.25%**	**0 bps**
10 yr Treasury (Yield)	3.85%	2.95%	2.91%	**2.82%**	**-103 bps**

Ah…the doldrums of summer. As the calendar flipped to August, investors realized they have but a few weeks left before the lazy days come to an end and "back-to-school" is again upon us. (Retailers wait with bated breath, though little optimism.) During the week, Europe showed signs of a rebound; China experienced a bit of a slowdown; companies reported strong earnings, though most remain hesitant to hire at all (see below); **BP** claimed victory over the spill in the Gulf and finally moved off the front page of the daily news; **Goldman** took steps toward "acceptance" of financial reform (Volcker rule); and the markets began the month on a very positive note, only to brace for reality late in the week after the labor numbers. (Wake us in September.)

Across the pond (rivers, oceans, and seas), European financial behemoth **HSBC** posted very strong quarterly profits and France's **BNP Paribas** also beat analysts' expectations. Additionally, German-based **BMW** realized growing demand for luxury autos and even raised its outlook for the rest of the year. Closer to home, however, **Procter & Gamble** suffered as consumers become more cost-conscious, and media giant **Viacom** reported lower than anticipated revenues. The **US Post Office** proved again that government is not the answer to effective management as its loss expanded on declining volume (thanks Al Gore for inventing the Internet), and another postage hike lurks on the horizon. Though **AIG** incurred a loss over one-time charges on a unit sale, its ongoing insurance biz experienced a profitable quarter. While earnings season ultimately may be deemed a success on the surface, some analysts remain leery of the lackluster revenue growth and fear future quarters will face tougher relative comparisons since the economy began to rebound during the latter half of 2009. (Bear in mind, GDP surged by 5% in the 4th quarter of last year.)

In other corporate news, **Intel** settled with the FTC over anti-competitive practices; **GM** and the other domestic (and foreign) automakers reported higher US July sales, though **Toyota** continued to struggle with an image problem; **RIM** (Blackberry) launched its own version of a touch-screen phone (though users in Dubai may not be able to use it); Goldman announced plans to spin off its proprietary trading unit and major investment banks are expected to follow-the-leader; **Barnes & Noble** put out feelers for a "white knight" as e-readers change the way the world shops for books; and **Harman International** will be acquiring *Newsweek* from **The Washington Post**.

Investors showed up to work Monday confident in July's strong market showing and eager to keep the good times rolling. After a 200-plus day surge on the Dow, many took a few days off to await the unemployment and payroll news (and unfortunately they did not like what they saw). The weaker releases sent the bulls back into hibernation (hopefully temporarily) as traders, analysts, and (probably) the Fed began to reevaluate the exact state of the economy. Oil surged early in the week to a three-month high above $82/barrel, only to sell off on escalating supply data and the poor labor numbers. Next week, Bernanke and friends get together to map out a plan of action for the weeks ahead (though some investors may be enjoying a late-summer vacation).

Economic Calendar

Date	Release	Comments
August 2	Construction Spending (06/10)	Slight increase, though all from gov't activity
	ISM Manu (07/10)	12th straight month of sector expansion
August 3	Personal Income/Spending (06/10)	Both flat in June
	Factory Orders (06/10)	2nd straight monthly drop
August 4	ISM Services (07/10	Slightly better than expected showing
August 5	Jobless Claims (07/31/10)	Highest level in almost 4 years
August 6	Unemployment Rate (07/10	Held steady at 9.5%
	Non-farm Payroll (07/10)	Larger than expected decline
	Consumer Credit (06/10)	Credit-card debt down for 21st straight month
The Week Ahead		
August 10	Fed Policy Meeting Statement	
August 11	Balance of Trade (06/10)	
August 12	Jobless Claims (08/07/10)	
August 13	CPI (07/10)	
	Retail Sales (07/10)	

Though the economy continues to remain in recovery mode (good news), the labor statistics confirmed that it may not be as strong as many were hoping and several quarters of lackluster growth appear to be on the horizon (bad news). Over 130,000 total jobs were eliminated from the economy in July as the lower-than-expected 71,000 private job additions could not overcome the government census workers who moved on. Though the unemployment rate held steady at 9.5%, the June payroll data was revised lower and the "underemployment" rate (folks who would like full-time positions, but have been forced to work temp jobs or even give up their searches) stands at a high 16.5 percent. The poor labor news diminished the favorable showing from manufacturing where the ISM reported a 12-consecutive month of sector expansion. Bernanke acknowledged the labor weakness and knows his team has its work cut out for itself as the policymakers debate the best remedy to overcome the 8.5 million jobs that have been lost over the past few years. Dr. B. even turned to clichés in his assessment by stating "the worst is over," before adding that the economy has a "way to go" to achieve full recovery. Retailers braced for a feeble "back-to-school" shopping season as same-store sales for July came in below expectations and department stores and teen retailers reported the most disappointing results.

Overseas, the euro-zone reported stronger-than-expected export activity (a weak euro can do that) as its manufacturing sector accelerated more than anticipated in July. The European Central Bank left its benchmark rate unchanged at 1% and its president warned that the recent expansion results do not mean that all "challenges" have been resolved. On that note, Greece prepared to receive stage two of its scheduled aid package as it continued to meet the goals set forth in its austerity plan. China's manufacturing sector, on the other hand, exhibited signs of a slowdown and analysts worried that the rapid growth rate in the emerging market may begin to contract in the second half of the year as tightening measures take effect. (Isn't that why the measures were enacted in the first place…to prevent an overheating economy and bursting bubble?)

On the Horizon…Retailers take center stage as **Macy's** (8/11), **Kohls** (8/12), **Nordstrom** (8/12), **JC Penney** (8/13) all report earnings. For now, the pessimistic voices ring the loudest and management may initiate greater discounting to get back-to-school shoppers back to the malls. Interestingly, studies have shown that consumers continue to maintain a hearty appetite for electronic gadgets like iPads and flat-screens, so other retailers fear parents may tighten their budgets and cut back on lunch kits, children's clothing, and school supplies. (Last year's number 2 pencils still work fine!) The Fed meets next week and watchers expect increased debate about renewing its mortgage and/or treasury bond buying programs as the economy falters and new stimuli may be in order. An optimistic assessment (with cool clichés) could go a long way, Dr. B.