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AND THAT'S THE WEEK THAT WAS...

For the Week Ended August 13, 2010

Market Matters...

Market/Index	Year Close (2009)	Qtr Close (06/30/10)	Previous Week (08/06/10)	Current Week (08/13/2010)	YTD Change
Dow Jones Industrial	10,428.05	9,774.02	10,653.56	10,303.15	-1.20%
NASDAQ	2,269.15	2,109.24	2,288.47	2,173.48	-4.22%
S&P 500	1,115.10	1,030.71	1,121.64	1,079.25	-3.21%
Russell 2000	625.39	609.49	650.68	609.49	-2.54%
Global Dow	1,984.48	1,710.71	1,908.24	1,827.75	-7.90%
Fed Funds	0.25%	0.25%	0.25%	0.25%	0 bps
10 yr Treasury (Yield)	3.85%	2.95%	2.82%	2.69%	-116 bps

And so the roller coaster continues. One day, the economy seems to be gathering steam (thanks manufacturing) and stocks move higher in anticipation of a healthy recovery. The next day, a weak labor number or earnings report sends shockwaves through the investment community and double-dip recession (or now deflation) may be just around the corner. Perhaps it's time to refocus long-term and not trade simply based on the latest economic or earnings release?

This week, retailers and techs highlighted the daily news and equity investors didn't like what they saw (for the most part). **Macy's**, **Kohl's**, and **JC Penney** each reported favorable quarterly earnings, but expressed concerns and uncertainty about the outlook for the near future. **Cisco Systems** posted a strong quarterly gain, but missed on the revenue side, another sign that cost-cuts are still contributing more to positive earnings than enhanced sales and consumer activity. (At some point, companies will not have any more "fat" to trim.) **HP** continued to reap the negativity of its CEO's departure (and its board's "rash" decision). Amid the PR disaster, a law firm filed suit on behalf of shareholders claiming the board breached its fiduciary responsibilities. For his part, Mark Hurd looks to walk away with over \$30 million in severance and other compensation. (Somehow he will recover from his lost job.) To add insult to injury, the Justice Department is investigating HP for an alleged bribery scheme involving sales to the Russian Federation. In other IT news, **Intel** was downgraded by analysts over lackluster August chip sales (didn't the month just start?); **Oracle** is suing **Google** over copyright infringement; and **Dell** hopes to take advantage of **Apple's** recent challenges by launching the Streak, its own (much cheaper) version of a tablet computer (though early reviews claim it to be more of a smartphone).

In transaction news, **Dealogic** reported an uptick in M&A activity in July as many companies continue to generate excess cashflow, though deal volume still has a long way to go to reach the go-go days prior to the financial debacle. Indian travel agency **MakeMyTrip** surged almost 90% in its first day of trading following its IPO as investors sought to benefit from the growth of that emerging country. And one time energy giant **Dynegy** is about to be taken private as **Blackstone Group** pays over \$500 million and assumes another \$4 billion in debt for control of the company.

Crude plunged during the week as signs of a stagnant economy included remarks from the Fed (see below) that raised new concerns about future oil demand. Likewise, investors digested the statement from the latest Fed meeting and concluded that Bernanke and Co. were growing more worried about the economic state of the country. The Dow suffered its worst daily decline in over a month (265 points) on the session following the policy meeting and news from China did little to generate any new optimism. Bonds benefited from another flight-to-quality as the yield on the benchmark 10-year treasury fell to its lowest level since April 2009 (despite an abundance of supply that hit the market during the week). But then...a decent report on "consumer" sentiment may have shifted "investor" sentiment again late week (or not). And the roller coaster continues.

Economic Calendar

Date	Release	Comments
August 10	Fed Policy Meeting Statement	Will reinvest mortgage proceeds into treasuries
August 11	Balance of Trade (06/10)	Widest gap with China since Oct. 2008
August 12	Jobless Claims (08/07/10)	Highest level in 6 months
August 13	CPI (07/10)	Increased on higher July energy prices
	Retail Sales (07/10)	Slight gain on increase in auto sales
The Week Ahead		
August 17	Housing Starts (07/10)	
	PPI (07/10)	
	Industrial Production (07/10)	
August 19	Jobless Claims (08/14/10)	
	Leading Eco. Indicators (07/10)	

For weeks now, a debate has raged over whether new stimuli is needed to jumpstart the recovery. Some “experts” claim that any rebound thus far has been artificially induced by the gov and politicians should focus on cutting the deficit and reducing the country’s debt. Other “experts” feel that new stimuli is needed to keep any momentum rolling and avoid an impediment to growth that may send the country back into recession. And the winner is...A recent *Wall Street Journal* survey showed that 30 out of 48 economists polled believe that the economy does NOT need any additional monetary or fiscal stimulus. And yet, when the Fed concluded its policy meeting early this week, the consensus begged to differ. Going forward, as its portfolio of mortgage-backed securities pays down, the Fed will reinvest the proceeds into long-term treasuries to ensure that rates remain low to help the economy grow. The Fed also acknowledged that the pace of the recovery may be “*more modest than had been anticipated*” and reiterated it plans to leave fed funds at the current level for an “extended period” (with one objection). Some “experts” view the reinvestment move to be a minor tweak in policy designed to counter any weakness by keeping rates low. Other “experts” fear it is the first step to a more expansive treasury purchase program which, in turn, means more artificial growth. (Just who are the real “experts?” Time will tell.)

Shifting to the data, the domestic trade deficit widened to a 21-month high as imports soared (perhaps on the recent strength in the dollar). Retail sales rose in July after two consecutive declining months, though naysayers pointed out that strong activity from automakers may have skewed the otherwise lackluster results. (Isn’t the auto sector still part of the economy?) CPI climbed in July by 0.3%, mainly on a surge in energy prices (which have since pared those gains) though the core release increased only slightly and those deflation voices begin to grow somewhat louder. On a more positive note, the **Thomson Reuters/University of Michigan** index of consumer sentiment bounced back from its recent poor showing in July, a hopeful sign for the upcoming “back-to-school” shopping season (though retailers remain fairly pessimistic).

In Europe, the 16-country euro-zone posted its strongest quarter since mid-2006 amid growing demand for German exports (perhaps on the recent weakness of the euro). On the other hand, the Bank of England cut its outlook for 2011, citing the uncertainty of global economic growth. Meanwhile, China’s industrial production increased by (a mere) 13.4% in July, down from the 13.7% expansion in June, and raising new concerns that its economy may be starting to moderate. (Didn’t its government take recent measures to slow its economy to prevent asset bubbles? Why would analysts grow so concerned about this “weaker” growth?)

On the Horizon...Retailers stay in the limelight as **Home Depot** (8/17), **Wal-Mart** (8/17), **Target** (8/18), **Gap Inc.** (8/19), **Ann Taylor** (8/20) and others report earnings. More significant than the actual results will be the forecasts for future quarters and the rest of the year (any signs of optimism at all?). **HP** (8/19) also releases its earnings report and stays on the front page of the news as the company plans for life without Hurd. Any new deals with Russian prosecutors?

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