Scribbler's
TSP and Economic Report

BROOKSIDE
ECONOMIC COMMENT

Last Week's Economic Data

Monday	
Existing Home Sales	+5.1% M/M
	- 4.6% Y/Y
Tuesday	
None	
Wednesday	
Durable Goods	+3.4% M/M
New Home Sales	+4.7% M/M
	-41.1% Y/Y
Thursday	
Initial Jobless Claims	652,000
Continuing Claims	5.56 million
GDP	- 6.3% Q/Q
Friday	
Personal Income	- 0.2% M/M
Consumer Spending	+0.2% M/M
Core PCE	+0.2% M/M

Media Blitz

Despite the continued fervor in the media that the beginning of the recession is upon us, the data released this week was not as nearly optimistic as advertised.

But the data did look marginally promising, but the calls that this is the bottom are certainly premature. If this is the bottom for equities, then it is the bottom. For the people who make the call that this is the bottom for equities – good luck. Because that is what it is: luck. There is nothing in this weeks data, or any of the prior weeks data, that gives any indication that the economy is at an inflection point.

Slowing is Not Turning

The primary reason some are so willing to call this a bottom is equities is a slowing of the decline in economic data – the so-called "second derivative." While the slowing of a decline is a prerequisite for a turn, it is not necessarily indicative of a turn. A secondary reason is, of course, there is no real downside to doing so – no one remembers all the people who were wrong when calling "the" bottom – and it is not exactly brave to propose the bottom is in when there is a 140+ point difference in the current quotation and the proposed bottom. So I would be cautious with declarations of any turn in the economy based on any proclamation of media-types.

There are still many pitfalls within the economy that can look to cause severe damage going forward – continued credit losses, an overall reduction in consumer and business lending, rising unemployment, the questionable effectiveness of government stimulus, uncertain tax policy going forward, falling industrial production and deteriorating capacity utilization. Each of these metrics will have to be tracked going forward to determine whether or not any turn has staying power.

Strong Economy Qualities

I still have concerns over there will be a generalized deflationary period over the intermediate to long-term. While the Federal Reserve has certainly taken many steps in order to stimulate the economy through monetary policy, the necessity of their continued involvement is concerning. Strong economies do not need backstops for lending. Bank assets that need significant purchase support by the federal government are not indicators of a strengthening economy. Strong economies don't need central banks to reduce rates 0.00%-0.25% and then initiate a quantitative easing policy.

So Now What?

Despite the lack of fundamental support in the economy, the equity markets have been rallying – providing a good trading opportunity. There is no strengthening in the economy to support this rally, so it must be looked at in a purely technical manner. This is a short term trade, nothing more.

It is a natural expectation to look for some sort of consolidation within the equity markets right now. We have recently breached the 50 day moving average (791) to the upside, and we should have an opportunity to pull back near this level. We could trade out of the C-Fund here – but I don't want to try an catch every undulation of the market as it just leads to over-trading and uses up inter-fund transfers too quickly. Instead, I'll let the market churn a little bit. Let it digest some gains, and so long as it remains above the 20 day moving average (753) in the short term it looks like a healthy consolidation. I would consider it a warning signal – but only a warning, not necessarily a call to action – if the S&P should break 775 in the next week.

The Coming Week

This week should be interesting on the data front, with Consumer Confidence, ISM Manufacturing Index, Factory Orders, and the all-important Employment Report. All should be weak.

The G-20 meeting – sort of board of directors for world finance – will also occur this week, but I would expect this more to be a media event than anything else. As Kent Lansing in *The Fountainhead* states, “a board of directors is one or two ambitious men – and a lot of ballast.” Expect nice junkets for participants, all talking amongst themselves in grave tones about seemingly very important subjects, finishing with the resolve that there should be “something” done, and declaring an inconsequential resolution saying nothing.

Current TSP Allocation: C-Fund 100%