

Weekly Marketmail

Monday, June 27, 2011

Don't Let Political Sideshows Drown Out Business Fundamentals

By Louis Navellier

The stock market has seen a lot of distractions lately, with Greek riots being the biggest "hit" on TV last week. Since the Greek crisis has been "solved" for now, I expect TV producers will turn their attention to the U.S., where we may see protests against cuts in various state and federal programs, made necessary by the fast-approaching deficit ceiling. Amid all this drama, it is important to remember that stocks will be more influenced by upcoming quarterly earnings reports than by placard-carrying protestors.

Greek-Style Riots May Come to America This Summer

In Greece, the street protestors failed to oust Prime Minister George Papandreou, who survived a pivotal confidence vote in Parliament last Wednesday, 155 to 143. But the cost was steep: In order to fund high (up to 30%) interest payments, some of Greece's "crown jewels" will go on sale - including the postal bank, the national railway, the national lottery, Greek Telecom, major ports and other prime real estate.

On Thursday, a team of European Union (EU) and International Monetary Fund (IMF) inspectors reached a deal to provide 12 billion euros (\$17 billion) in aid to Greece in exchange for even more budget cuts, plus a broadening of the income tax threshold for people that make as little as 8,000 euros (\$11,400). These painful cuts and tax increases are expected to be approved by the Greek Parliament early this week.

The Greek rioters will likely take a summer break until the next fiscal Band-Aid is needed. But if you like to watch protestors fomenting chaos and anarchy on TV, you are in luck. The TV cameras will likely turn their focus toward the U.S. soon, due to our fast-approaching federal deficit ceiling. Negotiations between the White House and Congress hit an impasse last Thursday when Republican leaders walked out of the talks when tax increases were proposed. This may have been a bargaining ploy, but the latest impasse raises the probability of a federal government shutdown if the federal deficit ceiling is not raised.

By August 2, Treasury Secretary Tim Geithner will have to decide whether to make interest payments on Treasury securities (likely), Social Security payments (less likely), Medicare (not likely), Veterans benefits (not likely) or military compensation (less likely). This raises the prospect of a fascinating game of "chicken" as the shutdown date approaches. As long as Geithner makes interest payments on Treasury securities, he will avoid a technical default, but at the cost of a credit downgrade for U.S. sovereign debt.

Naturally, politicians will tell their constituents that the other side is "messing with" their Social Security, Medicare, Veterans benefits, etc. Meanwhile, income investors may seek greater safety in corporate bonds, which means that more companies could rush to sell even more debt at cheaper interest rates, which will likely boost stock buybacks and help boost earnings per share. As the government continues to avoid making sound business decisions, corporate bonds and stocks could seem like an oasis for investors.

As Bernanke's QE-2 Ends, Obama Releases More Oil!

In the last 30 months, the Federal Reserve and the Obama Administration have taken turns stimulating the U.S. economy through artificial measures. After the Fed finished its first round of quantitative easing (QE-1), President Obama pushed a \$787 billion "stimulus" program through Congress. Then came QE-2 from the Fed. And now, as QE-2 ends, the Obama Administration is picking up the torch with massive amounts of cheaper oil released on the market. It seems like a relay race in creating economic band-aids.

On Wednesday, Fed Chairman Ben Bernanke reinforced his reputation as a "party pooper" after the Fed's Federal

Open Market Committee (FOMC) meeting, by admitting that the U.S. economy has settled into a "disappointingly weak recovery" this year. The Fed lowered its 2011 GDP forecast to 2.8%, down from its previous forecasts of 3.2% in April and 3.65% in January. The bleak economic picture that Bernanke painted caused the stock market to immediately sell off. The fact that Bernanke said "We don't have a precise read on why this slower pace of growth is persisting" did not exactly inspire investor confidence.

Frankly, I cannot wait to read the minutes from last week's FOMC meeting when they are released July 13, since I suspect there was a lot of vigorous debate among FOMC members. In the meantime, with the economy slowing and no budget cut deal in sight, the Obama Administration surprised the world when they agreed last week to release 30 million barrels of oil from the Strategic Petroleum Reserve (SPR).

This move is surprising because gasoline prices had already been declining for the previous 20 days in a row before Obama's move, so this release of more oil did not seem to be a response to any shortages or higher prices. This seemed like a political move to lower gasoline prices before the 4th of July holiday.

We'll see a lot more of these pre-election-year political games in upcoming months, in a no-holds-barred attempt to promote higher growth and lower unemployment by next year. This kind of artificial stimulus is frankly one reason why the stock market usually rallies in the third year of a Presidential cycle. This, on top of a stellar earnings reporting season about to begin, should revive the stock market this summer.

Stat of Week: Durable Goods Orders Up 9.7% in 12 Months

In the meantime, there was some great economic news last week! The Commerce Department announced on Friday that durable goods orders resumed growing, rising 1.9% in May after three straight monthly declines. In the past year, durable goods orders are now up 9.7%. Civilian aircraft orders, up 36.5% last month, were largely responsible for May's impressive durable goods report. However, excluding aircraft orders, durable goods still rose 0.6% in May, which implies that the economy's "soft patch" may be over.

In a more dismal report, the Labor Department announced on Thursday that new jobless claims rose by 9,000 to 429,000 in the latest week, the 11th straight week that jobless claims were over the 400,000 level. We'll have to wait to see if this trend is confirmed by the June jobs report coming out this Friday, July 1.

This morning (Monday), May personal income rose 0.3%, just below the consensus expectation of 0.4%, but real (after-inflation) spending fell by 0.1%, matching April's decline. That was the first back-to-back decline in over two years. Falling auto sales, caused in part by May's rising gas prices, was a major cause. This translates into second-quarter GDP growth of just 1%, which will not make the White House happy.

Turning to the stock market, I should add that this is also the time of year when the Russell indexes are realigned, pushing some index stocks up, while deflating stocks that are cut from one or more indexes. Today, the final list will be posted for the Russell Global Indexes and the U.S. benchmarks - the Russell 1000, 2000, 3000, Midcap and Microcap indexes. But regardless of any Russell realignment, the advent of the second-quarter earnings season will likely drive the market up over the next month to six weeks.

Marketmail gets updated on Fridays and whenever the DOW closes up or down 300 points or more.

None of the stock information, data and company information presented herein constitutes a recommendation by Navellier or a solicitation of any offer to buy or sell any securities.

Information presented is general information that does not take into account your individual circumstances, financial situation, or needs, nor does it present a personalized recommendation to you. Individual stocks presented may not be suitable for you.

Although information has been obtained from and is based upon sources Navellier believes to be reliable, we do not guarantee its accuracy and the information may be incomplete or condensed. All opinions and estimates constitute Navellier's judgment as of the date of the report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security.

Past performance is no indication of future results.

FEDERAL TAX ADVICE DISCLAIMER: As required by U.S. Treasury Regulations, you are informed that, to the extent this presentation includes any federal tax advice, the presentation is not intended or written by Navellier to be used, and cannot be used, for the purpose of avoiding federal tax penalties.

Navellier does not advise on any income tax requirements or issues. Use of any information presented by Navellier is for general information only and does not represent tax advice either express or implied. You are encouraged to seek professional tax advice for income tax questions and assistance.

IMPORTANT NEWSLETTER DISCLOSURE: The performance results for investment newsletters that are authored or edited by Louis Navellier, including *Louis Navellier's Quantum Growth*, *Louis Navellier's Emerging Growth*, *Louis Navellier's Global Growth*, and *Louis Navellier's Blue Chip Growth*, are not based on any actual securities trading, portfolio, or accounts, and the newsletters reported performances should be considered mere "paper" or *proforma* performance results. Navellier & Associates, Inc., does not have any relation to or affiliation with the owner of these newsletters. The owner of the newsletters is InvestorPlace Media, LLC and any questions concerning the newsletters, including any newsletter advertising or performance claims, should be referred to InvestorPlace Media, LLC at (800) 718-8289. Investors evaluating any of Navellier & Associates, Inc.'s, (or its affiliates') Investment Products **must not** use any newsletter information, including newsletter performance figures, in their evaluation of any Navellier Investment Products. Navellier Investment Products include the firm's mutual funds, managed accounts, and hedge funds. InvestorPlace Media, LLC newsletters **do not** represent actual funded trades and **are not** actual funded portfolios. There are material differences between Navellier Investment Products' portfolios and the InvestorPlace Media, LLC, newsletter portfolios. Newsletter portfolios (1) may contain stocks that are illiquid and difficult to trade; (2) may contain stock holdings materially different from actual funded Navellier Investment Product portfolios; (3) do not include trading costs, commissions, or management fees; and, (4) may not reflect prices obtained in an actual funded Navellier Investment Product portfolio. For these and other reasons, the performances claimed by InvestorPlace Media, LLC newsletter portfolios **do not** reflect the performance results of Navellier's actually funded and traded Investment Products. In most cases, Navellier's Investment Products have materially lower performance results than what InvestorPlace Media, LLC newsletter portfolios claim to have. **The InvestorPlace Media, LLC newsletters and advertising materials typically contain performance claims that significantly overstate the performance results an investor may expect from any Navellier Investment Product.**

Navellier claims compliance with Global Investment Performance Standards (GIPS). To receive a complete list and descriptions of Navellier's composites and/or a presentation that adheres to the GIPS standards, please contact Tim Hope at (800) 365-8471 or timh@navellier.com.