

Posted on August 1, 2011 - by Henry C. Walter

## August Review of Global Financial Markets (plus 10-yr returns of financial newsletters.)

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**1. U.S. Markets** – The first chart is a short-term (6 months) chart of the S&P 500 which covers large-cap U.S. stocks. Note how range-bound the market has been during that period, from 1260 to about 1350. Year-to-date the S&P 500 is up 2.8% and the Dow up 4.9%.



Next is a long-term chart of the S&P 500 covering 12 years. As you can see, we still have a ways to go to match the highs in 2000 and 2007. Superimposed over the price bars is a 10-month moving average.



The next chart shows the percent of NYSE stocks above their 200-day averages. Percentages above 80 indicate that the market is overbought, and it might be advisable to take some chips off the table. Percentages below 20 indicate the market is oversold, and it might be a good time to add to positions or enter new positions. Patience is required, however. Note in 2008-9 the percentage stayed below 20 for 5 months, would you have stayed the course?



Not all sectors were range-bound. The KBW Bank Index shown below, which includes 24 of the nation's largest banks, was down as much as 19% in just 5 months. Banks are considered to be a canary in the market coal mine. Banks are involved in every transaction, so bank earnings tell us a lot about the health of the underlying consumer and corporate sectors.

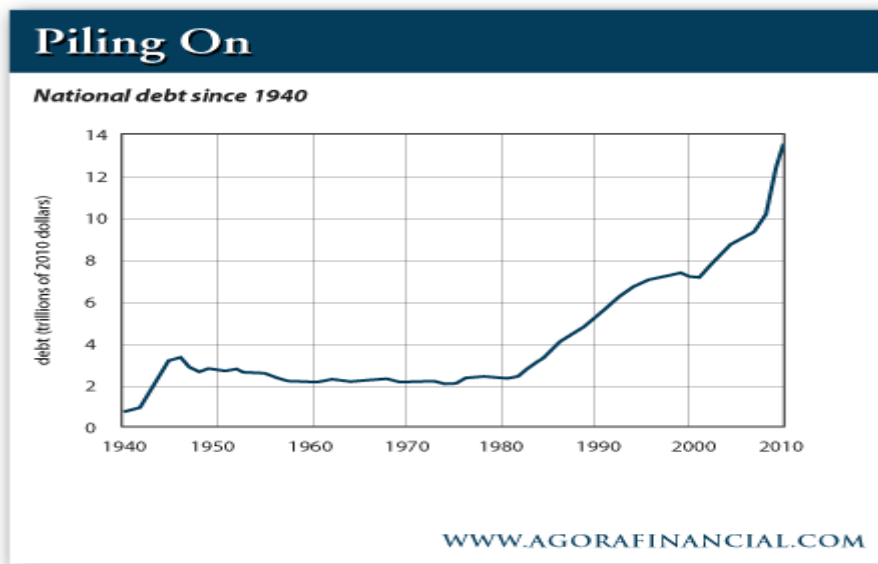


**2. Foreign Markets** – Overall these markets are also range-bound as the chart below of the Vanguard FTSE All-World ex-US ETF (VEU) illustrates. Year-to-date the best foreign markets are South Korea (+4.0%) and Germany (+3.5%), and the worst are Brazil (-15.1%), India (-11.3%), Chile (-10.2%), and Switzerland (-10.1%).



**3. National Debt** The chart below shows the national debt through 2010. It is now \$14.3 trillion.

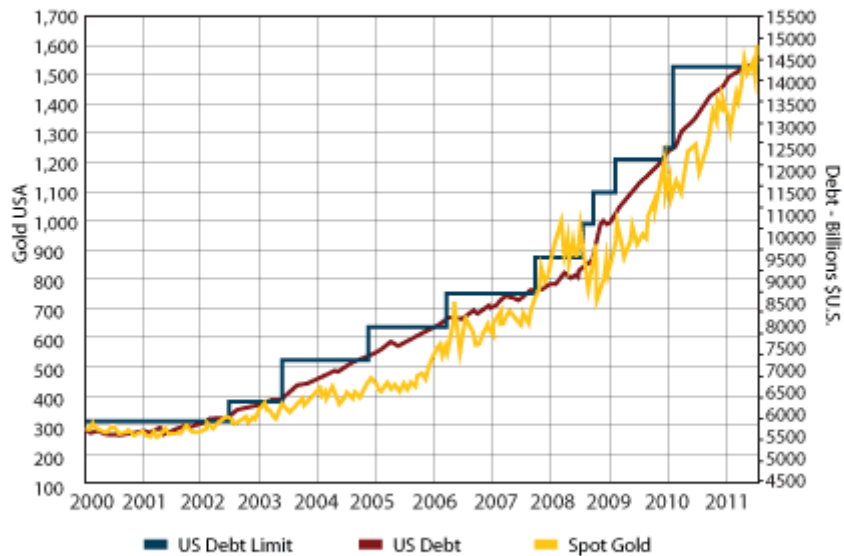
Two days before the deadline for a possible U.S. government default, President Obama and congressional leaders reached agreement Sunday (7/31) on a legislative package that would extend the federal debt ceiling while cutting spending and guaranteeing further deficit-reduction steps. However, there was no guarantee the plan will win enough support to pass both chambers of Congress.



We found the next chart showing the relationship between the debt ceiling and the price of gold interesting. For gold bugs, the implication is that if, or more likely when, the debt ceiling is raised, the price of gold will rise further. There is also a strong correlation between rising incomes in China and India and the price of gold.

## An Uncanny Relationship

Gold rises in tandem with the debt ceiling



Source: ShareLynx.com

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**4. US Dollar, Interest Rates and Inflation** – The implications of a falling dollar are multifaceted and beyond the scope of this review. One positive effect is on US exports. They become cheaper to foreign buyers. But on the other hand imports become more expensive, and we import a lot of oil and other products.

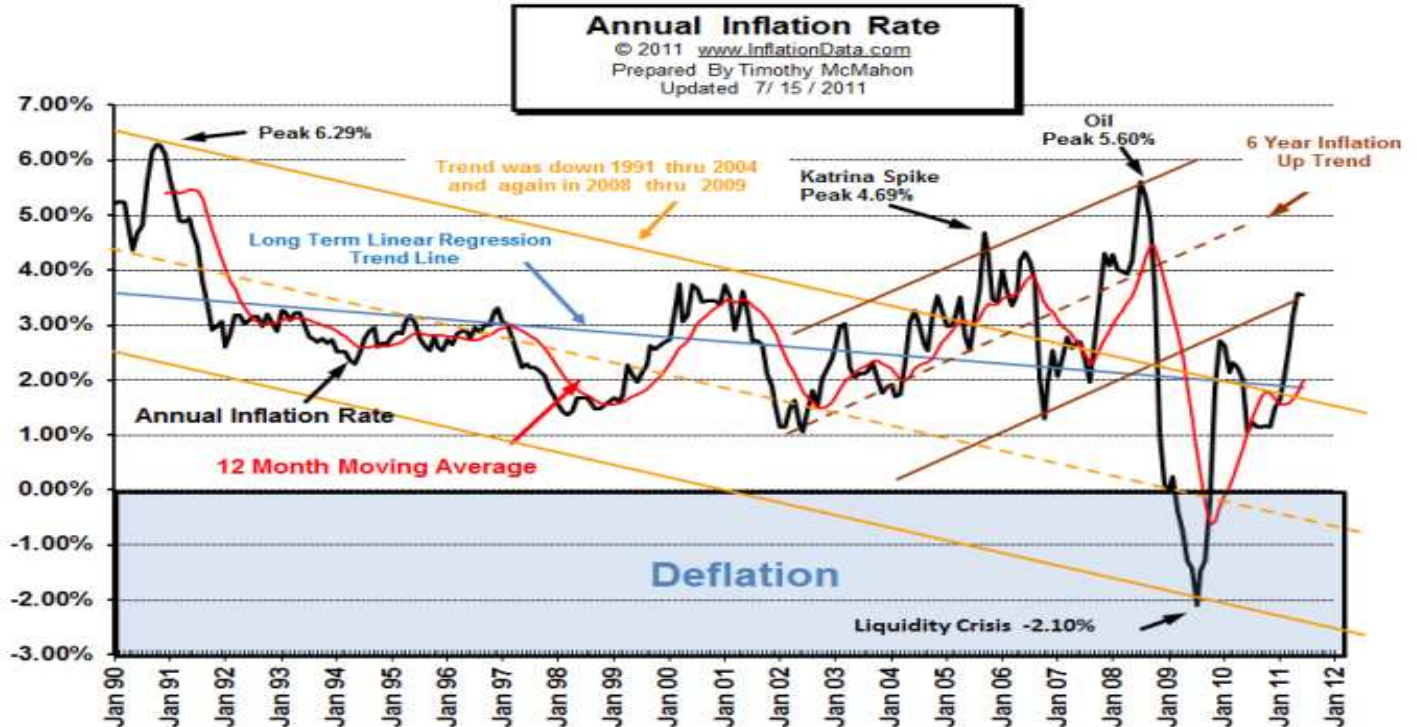


As shown in the chart below, interest rates on the 10-year Treasury note are 2.8% (28 = 2.8%). Real interest rates are negative with inflation running at 3.6%, see second chart below. (2.8 – 3.6 = -0.8%). Gold performs well when real interest rates are negative. Also worth noting is that \$3 trillion in Treasuries mature in the next four years

and will need to be refinanced. That should put a lot of upward pressure on interest rates.



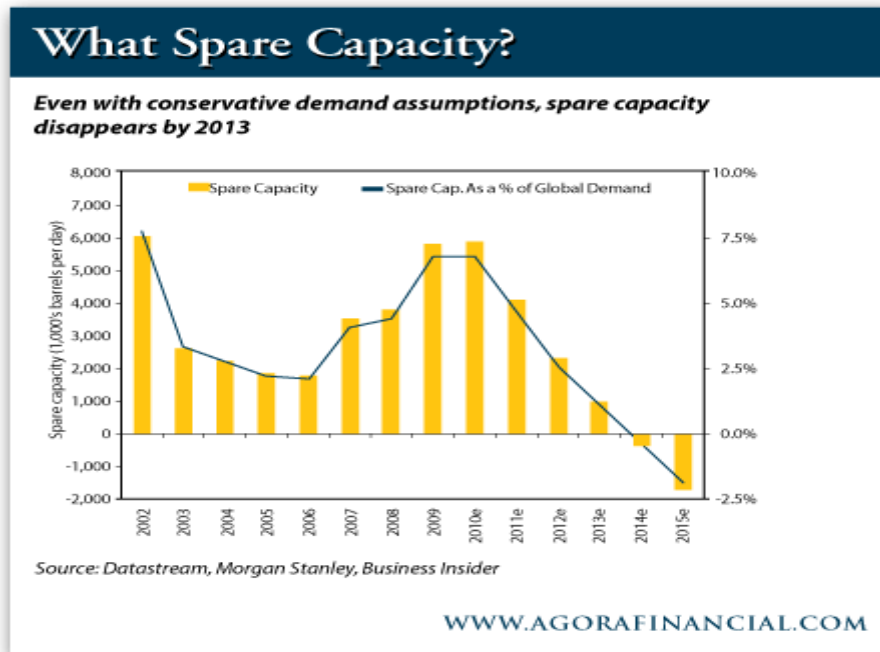
Timothy McMahon does a nice job in keeping this inflation chart up to date but it is a little busy. Just follow the black line, ignore the rest.



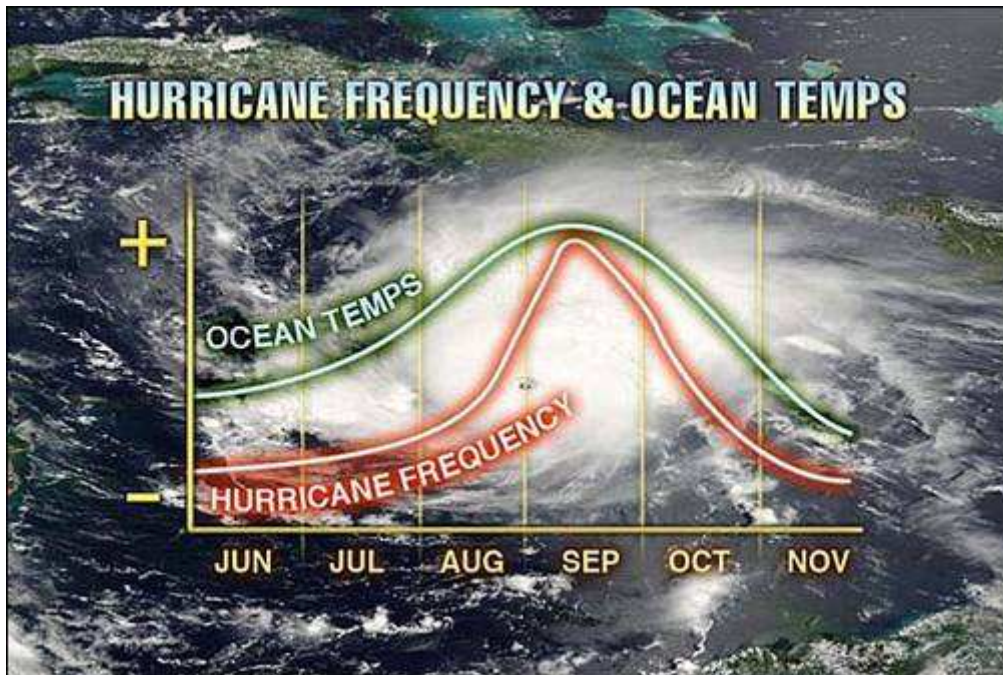
**5. Energy** – The price of Brent crude oil (and West Texas Intermediate) has backed off since April partially due to the release of 60 million barrels from reserves by the 28 members of the International Energy Agency (IEA) and partially over concerns of weakness in the global economy, but usage in developing countries like India and China continues to soar.



According to the experts, spare capacity will disappear by 2013 putting upward pressure on oil prices.



Also, we are heading into peak hurricane season. It was a bust last year but this year the Commodity Weather Group expects nine hurricanes, including five majors. All it takes is one major to rip through “energy alley” in the Gulf of Mexico, the source of 1/3 of U.S. domestic production, for oil prices to move higher in a hurry.



Source: Accuweather.com

**6. 30-Day Forecast** - NewArc Investments has a good track record of forecasting the market on a short-term basis. Below is their most recent forecast. If interested in this approach Google “A Dash of Insight”.

Indicator	Current	Last Week	Last Month	Interpretation
<b>Economy</b>				
ECRI WLI	127.5	128.4	127	Moderate Growth
ECRI Growth	1.70%	1.70%	2.90%	Slowing Pace of Growth
<b>Risk</b>				
SLFSI	0.106	0.007	0.106	Normal Risk
<b>Market</b>				
% Positive sectors	53%	85%	13%	Bullish
Median Strength	3	46	-35	Weak
% Penalty Box	71%	91%	95%	High Uncertainty
<b>30-Day Forecast</b>	Bullish	Bullish	Bearish	

Sources: ECRI, Stlouisfed.org, and NewArc Investments, Inc. ©2011

**7. Financial Newsletters** – The Hulbert Financial Digest is a service that has been monitoring financial newsletters for 31 years. Here are the 100 newsletters that have been monitored by the HFD for at least 10 years. The return shown is the ten year annual return.

**19.9% Outstanding Investments**  
**15.9% Closed-End Country Fund Report**  
**13.5% Global Investing**  
**13.4% Ruff Times (The)**  
**12.6% Nate's Notes**  
**12.6% Coolcat Explosive Small Cap Growth Stock Report**  
**12.5% Dines Letter (The)**  
**12.3% Sound Advice**  
**11.6% Investment Reporter (The)**  
**11.5% Aden Forecast (The)**  
**11.3% Turnaround Letter (The)**  
**11.2% National Investor (The)**  
**9.9% Oxford Club (The)**  
**9.7% 2 for 1 Stock Split Newsletter**  
**9.1% Prudent Speculator (The)**  
**8.9% InvesTech Research Portfolio Strategy**  
**8.2% Buyback Letter (The)**  
**8.0% Investor Advisory Service**  
**7.8% Value Line Convertibles Survey (The)**  
**7.7% Roger Conrad's Utility Forecaster**  
**7.7% Bob Brinker's Marketimer**  
**7.5% Louis Rukeyser's Mutual Funds**  
**7.4% Moneyletter**  
**7.3% Zacks Premium**  
**7.2% Investment Quality Trends**  
**7.2% Cabot Market Letter**  
**7.1% Chartist Mutual Fund/ETF Letter (The)**  
**6.9% Oberweis Report (The)**  
**6.8% Sound Mind Investing**  
**6.8% Fidelity Monitor**  
**6.8% Richard C. Young's Intelligence Report**  
**6.7% Morningstar StockInvestor**  
**6.7% Louis Navellier's Blue Chip Growth**  
**6.6% Personal Finance**  
**6.5% Morningstar Mutual Funds**  
**6.1% No-Load Mutual Fund Selections & Timing Newsletter**  
**6.1% F.X.C. Newsletter (The)**  
**6.1% Louis Rukeyser's Wall Street**  
**6.1% Fidelity Independent Adviser**  
**6.0% No-Load Fund Investor (The)**  
**5.9% No Load Fund\*X**  
**5.9% Fidelity Sector Investor**  
**5.7% Investor's Guide to Closed-End Funds**  
**5.7% Professional Timing Service**  
**5.6% No-Load Fund Analyst**  
**5.6% Independent Adviser for Vanguard Investors**  
**5.6% Fidelity Investor**  
**5.5% Dow Theory Forecasts**  
**5.5% Jack Adamo's Insiders PLUS**  
**5.3% No-Load Portfolios**  
**5.3% Mark Skousen's Forecasts & Strategies**  
**5.3% Mutual Fund Prospector**

**4.9% Investors Intelligence**  
**4.9% Ford Equity Research Investment Review**  
**4.8% Bob Carlson's Retirement Watch**  
**4.8% FundAdvice.com**  
**4.7% Value Line Inv. Survey Small & Mid-Cap Ed**  
**4.7% Bowser Report (The)**  
**4.6% PAD System Report (The)**  
**4.5% Fidelity Insight**  
**4.5% Chartist (The)**  
**4.2% AI Stock Forecast**  
**4.1% Good Fortune**  
**4.0% Growth Stock Outlook**  
**3.8% Peter Dag Portfolio Strategy & Mgmt (The)**  
**3.8% Vickers Weekly Insider Report**  
**3.8% Contrarian's View (The)**  
**3.7% Richard E. Band's Profitable Investing**  
**3.7% Value Line Investment Survey (The)**  
**3.4% Value Line Fund Advisor (The)**  
**3.4% Index Rx**  
**3.2% Blue Chip Investor (The)**  
**3.0% Superstock Investor**  
**2.6% On The Money**  
**2.5% All Star Fund Trader**  
**2.3% Michael Murphy's New World Investor**  
**2.3% Timer Digest**  
**2.2% Standard & Poor's Outlook**  
**1.7% Systems and Forecasts**  
**1.6% Louis Navellier's Emerging Growth**  
**1.5% Doug Fabian's Successful Investing**  
**1.5% National Trendlines**  
**1.4% Buyback Premium Portfolio (The)**  
**1.3% Eric Dany's Stock Prospector**  
**1.1% BI Research**  
**1.1% Mutual Fund Strategist (The)**  
**0.9% Almanac Investor Newsletter**  
**-0.1% Peter Eliades' Stockmarket Cycles**  
**-0.6% Cabot China & Emerging Markets Report**  
**-0.9% Reminiscences**  
**-2.0% Richard Schmidt's Stellar Stock Alert**  
**-2.2% U.S. Investment Report**  
**-2.3% Equities Special Situations**  
**-2.6% Martin Weiss' Safe Money Report**  
**-6.8% Value Line Special Situations Service (The)**  
**-13.1% Bernie Schaeffer's Option Advisor**  
**-14.3% Currin Technology**  
**-14.9% Medical Technology Stock Letter**  
**-17.0% Doug Fabian's ETF Trader**  
**-23.0% Charlie Buck's Situational Strategies**

Here are some benchmarks over the same time period:

2.62% Vanguard S&P 500 Index Fund (VFINX).  
7.23% Vanguard Small Cap Index Fund (NAESX)  
5.11% Russell Micro Cap Index or ETF (IWC)

The table is courtesy of Weimer and Wirth, a couple of local stock pickers, who celebrated their tenth anniversary on June 30, 2011, and claim over the same time period a return of 25.6% per year. Your writer knows them both and believes their claim.