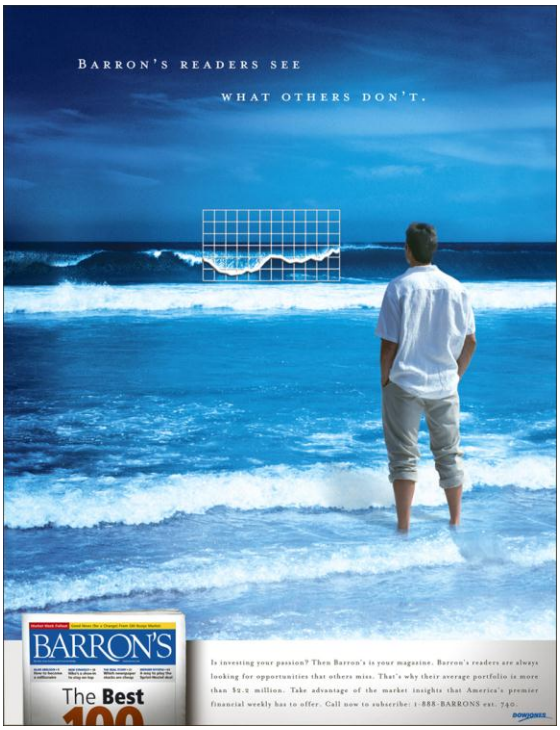


BARRON'S

America's premier financial weekly.

AAII Seattle Chapter
2014

DOWJONES

BARRON'S

Letter From the Editor

Alan Abelson: 1925-2013

Financial journalism lost one of its leading lights on Thursday when Alan Abelson died at the age of 87. Alan had served *Barron's* as a writer, editor, and chief columnist for the past 57 years.

For many readers, there can be no substitute for Alan's witty, wise, and wonderfully written comments each week in Up & Down Wall Street. But Alan's contributions to *Barron's*, and to financial journalism, go beyond his marvelous column. During his career, Alan trained dozens of journalists to be skeptical, to be exacting, to help average investors, and to be on the lookout for Wall Street's crooks. About 10 of these fine journalists still work at *Barron's*. I'm happy to say. Others have gone on to do groundbreaking work at the New York Times, Bloomberg Businessweek, and numerous financial newsletters.

One of the unique things about Alan was that his keen knowledge of Wall Street was matched by his love of artful writing. Before Alan began his newspaper career in 1947, he earned a bachelor's degree in English and chemistry from The City College of New York and a master's degree from the prestigious Writers' Workshop at the University of Iowa, which counts among its alumni Flannery O'Connor, June Smiley, and John Irving. In our view, Alan ranks among them.

Alan arrived at *Barron's* in 1956 and began writing his column in 1966.

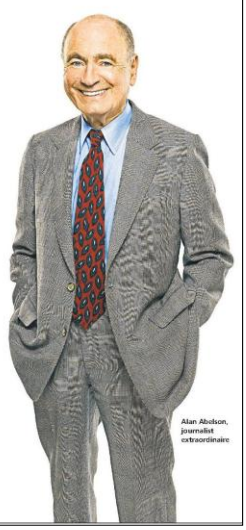
When Alan interviewed me for a job at *Barron's* in 1993, he was 67. He had been *Barron's* editor for a dozen years and its managing editor for 16 years before that. He told me he didn't really want to manage people or edit stories anymore, but that he did enjoy writing his column. That's when I came to *Barron's* to manage and edit. Fortunately for me, for *Barron's*, and for our readers, Alan kept writing his column for the next 20 years, week in and week out, always with gracious prose, sharp insights, and a hilarious sense of humor.

Alan's quest for truth and justice greatly enriched the traditions begun by Clarence Barron, who bought Dow Jones & Co. in 1902 and founded this magazine in 1921. A year earlier, Clarence Barron's stories had exposed Charles Ponzi, the Boston swindler who gave rise to the phrase "Ponzi scheme."

In 2001, thanks in large part to editors who trained under Alan, *Barron's* published the first major story that questioned the investment claims of Bernie Madoff. Seven years later, Madoff was charged by the government and proved to be the Ponzi of our era.

Now is the time to salute Alan and to rededicate ourselves to carrying on his mission. If you would like to contribute a remembrance or tribute to Alan for publication in next week's issue, please leave a comment at the bottom of this letter on Barrons.com (subscription required), send an e-mail to editors@barrons.com, or write to *Barron's*, 1211 Avenue of the Americas, New York, N.Y., 10036.

EDITOR AND PRESIDENT Edwin A. Finn Jr.



Alan Abelson, journalist extraordinaire

DOWJONES

Alan was a mentor to many here at Barron's and beyond.

"Yes, he is a treasure, but only because each of us recognizes this to be so."
Gilbert Sherman

DOWJONES

Take it apart!

- Wrap
- Market Week

DOWJONES

Barron's Wrap

- Up & Down Wall Street **PG 5**
  - Alan we miss you…
  - Unruly 5 year-old
- Streetwise **PG 9**
  - Nasdaq 14% below high
- Index To Companies **PG 10**

DOWJONES

Barron's Preview **PG 13**

- Preview This Week
  - Consensus Estimates
    - Feb Retail Sales (Thurs)
    - Feb Michigan Sentiment (Fri)
      - Consumer Sentiment
  - Coming Earnings
    - American Eagle (Tues)

THIS WEEK

PREVIEW

For more information about coming economic reports—and what they mean go to Barrons.com's free Economic Calendar.

Sunday 16: Crimea holds a referendum on whether to become a part of Russia. Ukraine considers the referendum, which lacks a "no" option, to be illegitimate.

Monday 10

Japan releases fourth-quarter gross-domestic-product growth.

In Brussels, the fourth round of negotiations toward a transatlantic free-trade agreement begins.

World Trade Organization Director-General Roberto Azevêdo speaks at the U.S. Chamber of Commerce.

SAP holds a meeting with investors and analysts at a digital-industry conference in Hanover, Germany.

Tuesday 11

The House Appropriations Committee holds four days of hearings to discuss President Obama's budget plan.

The February NFIB index, measuring small-business optimism, is released.

The Bank of Japan makes a monetary policy announcement following a two-day meeting.

Former Pakistani president Gen. Pervez Musharraf is expected to be indicted for treason at a special court in Islamabad.

Chevron holds a meeting with analysts in New York.

American Eagle Outfitters and Dick's Sporting Goods report quarterly results.

Wednesday 12

The Senate Foreign Relations Committee holds a hearing with Secretary of State John Kerry to discuss foreign-policy priorities.

German finance minister Wolfgang Schäuble holds a news conference about the budget.

Repsol meets with analysts in London.

Audi meets with investors and analysts.

Express and Krispy Kreme announce results.

Thursday 13

The Senate Banking Committee weighs the nomination of Stanley Fischer, Jerome Powell, and Lael Brainard for the Federal Reserve Board.

Chinese Premier Li Keqiang holds a news conference at the end of the annual National People's Congress.

Both total and nonauto February retail sales are expected to rise 0.2%.

Look for February import prices to rise 0.6% over the January reading.

Weekly jobless claims are released.

United Technologies hosts its annual investor and analyst meeting.

Aeropostale, Dollar General, Mens Wearhouse and Ulta Salon, Cosmetic & Fragrance report results.

Friday 14

The Median Forecast for the February producer-price index is a 0.2% increase in the headline number and 0.1% rise in the core figure.

Little change is expected in the preliminary March University of Michigan consumer-sentiment index.

The Formula One season kicks off with the Australian Grand Prix in Melbourne, through Sunday.

Russia's central bank holds a monetary-policy meeting after holding an emergency meeting to raise interest rates earlier in March.

Federal Reserve vice chair nominee Stanley Fischer speaks at the Stanford Institute for Economic Policy Research Economic Summit 2014.

Saturday 15

The war in Syria, which has killed an estimated 140,000 people, enters its fourth year.

Coming Earnings

Inc	Consensus Estimate	Year Ago
M		
Carnival (CCL)	$ –0.08	$0.08
United Natural Foods (UNFI)	0.66	0.46
Men's Wearhouse (MW)	–0.12	–0.07
Scientific Games (SGMS)	0.07	–0.28
Mens Wearhouse Pugs Mkt.		

Consensus Estimate

Day	Time	Consensus Est	Last Period
F	10:00	0.2%	0.1%
Th	8:30	0.3%	0.1%
	8:30	0.2%	0.6%
	10:00	0.4%	0.5%
F	8:30	0.1%	0.1%
	9:55	81.0	81.8

Incredible Edibles

Wrap Cuisine

INNOVATION IN FOOD PACKAGING USUALLY AMOUNTS TO little more than keeper readers or hearing tackle or new cartoon creatures on cereal boxes. But one Harvard professor thinks he has a better idea: edible packaging.

David Edwards, a professor of biomedical engineering, is dreaming up new, futuristic foods with packaging almost as natural as the skin of a grape or apple. Imagine golf ball-sized edibles with biteable, flavored skin enveloping instant-hand soup or sipping of French fries but containing a splash of orange soda. Through a Cambridge, Mass., firm he founded, Wiki-Foods, Edwards is working with other companies to make it all happen.

Come mid-March what began as a thought bubble will show up in your supermarket's frozen-foods aisle. Organic yogurt maker Stonyfield will be the first to roll out products made in collaboration with Wiki-Foods. Frozen Yogurt Pearls will be available at four Whole Foods stores in the Boston area for about $4 for two. In a Harvard's taste test, we found the one with a cherry-berry water shell a cille island, but for all edibles a pea, it's possible as a gulliver treat. Pearls will arrive in 5-oz. Uber will show bags for the time being as grocery stores and consumers adjust to the idea of treating snacks as if they grew on trees.

It won't stop at snacks. Wiki's CEO, Greg Horn, sees endless possibilities, envisioning everything from bridal water to sock hotshes. The firm is screening cocktails too, with balls containing margaritas, mimosas, and Champagne. It's inviting to raise a glass to, yet, not soon enough, you may stop reaching for one. – *Corrosa, Kim*

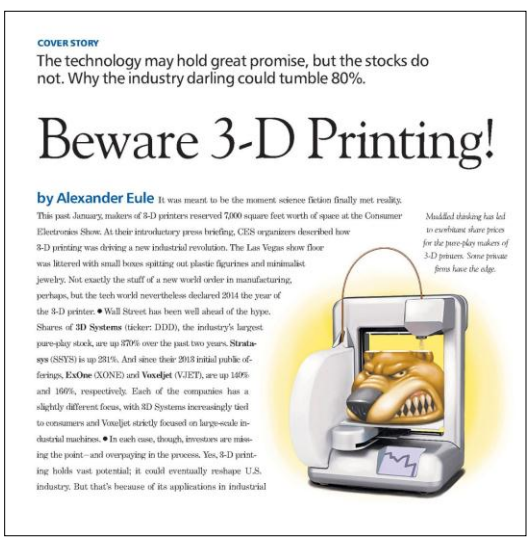
Future Food

A Harvard professor is cloaking treats with edible skins. He hits the market this month with frozen yogurt in flavored shells.

Edited by Christopher C. Williams and Michael Vallo

Cover Story **PG 23**

Barron's Moves The Markets…



COVER STORY

The technology may hold great promise, but the stocks do not. Why the industry darling could tumble 80%.

Beware 3-D Printing!

by Alexander Eule It was meant to be the moment science fiction finally met reality. This past January, makers of 3-D printers reserved 7,000 square feet worth of space at the Consumer Electronics Show. At their introductory press briefing, CES organizers described how 3-D printing was driving a new industrial revolution. The Las Vegas show floor was littered with small boxes spitting out plastic figurines and minimalist jewelry. Not exactly the stuff of a new world order in manufacturing, perhaps, but the tech world nevertheless declared 2014 the year of the 3-D printer. ● Wall Street has been well ahead of the hype. Shares of **3D Systems** (ticker: DDD), the industry's largest pure-play stock, are up 870% over the past two years. **Stratasys** (SSYS) is up 281%. And since their 2013 initial public offerings, **ExOne** (XONE) and **Voxeljet** (VJET), are up 140% and 166%, respectively. Each of the companies has a slightly different focus, with 3D Systems increasingly tied to consumers and Voxeljet strictly focused on large-scale industrial machines. ● In each case, though, investors are missing the point—and overpaying in the process. Yes, 3-D printing holds vast potential; it could eventually reshape U.S. industry. But that's because of its applications in industrial

Muddled thinking has led to exorbitant share prices for the pure-play makers of 3-D printers. Some private firms have the edge.

Barron's Hedge Funds/Mutual Funds **PG 31**

- Mutual Funds Profile
  - ETF Profile $1.6 tril
  - Hedge Funds Monthly
    - Best, Worst, Biggest
  - Special Packages
    - Barron's 500
    - Best Fund Families

BARRON'S

Mutual Funds

March 3 through March 7, 2014

Taizo Ishida, left, and Kenichi Amaki are betting Japan will finally emerge from its slump, benefiting both global giants and smaller companies.

Talking With Taizo Ishida, Kenichi Amaki

Portfolio Managers, Matthews Japan

How to Play Japan

by Amy Feldman

DOWJONES

Market Watch **PG 40**

- Sample Advisory Opinions
  - "We maintain our bullish bias for the S&P500 as it continues to all-time highs…upside target around 1900-1919"
    Sam Stovall / S&P Cap IQ
  - "Although this year might prove the economic performance of the recovery, it may also produce a volatile and frustratingly flat stock market."
    James Paulson / Wells Cap Mgmt

Market Watch

A Sampling of Advisory Opinion • *Edited by Paul Farrell*

"Absent 'sufficient' demand playing its necessary role, which is a big problem still going on, there is virtually zero chance of the economy chewing through the still-heavy dose of slack."

—Sam Stovall, Prudential

A Bull Market for Real

Back to Basics

Emerging-Market U-Turn

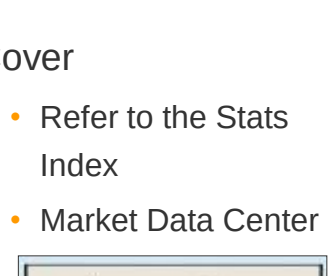
Service Sector Slips, Falls

What's the Right Word for the Ukrainian Situation?

DOWJONES

Barron's Market Week Every Week

- Cover
  - Refer to the Stats Index
  - Market Data Center



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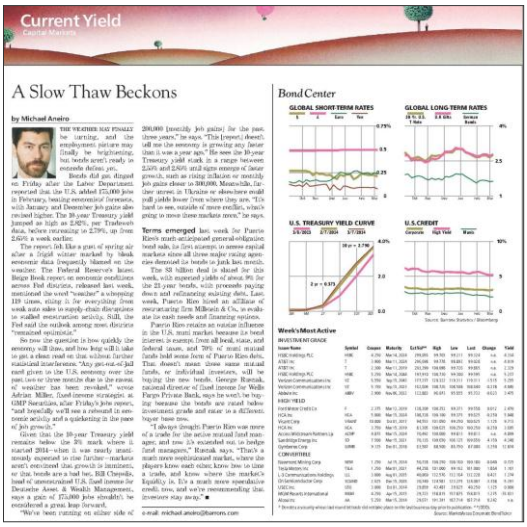
Barron's Striking Price PG M11

- Equity Options
  - CBOE VIX:
    - VIX close
    - VIX Futures
  - Equity-Only Put-Call Ratio:
    - Is a buy/sell indicator
  - Skews: When skew is high, it means puts are in more demand, and investors are pricing in more downside risk
    - SPX (options S&P 500)
    - NDX (NASDAQ)

DOWJONES

Barron's Current Yield **PG M13**

- Bond Center
  - Global:
    - Short Term rates
    - Long Term rates
  - Yield Curve
  - US Credit
  - Week's most active
    - Investment grade
    - High Yield
    - Convertibles



Current Yield
Capital Markets

A Slow Thaw Beckons

by Michael Aneiro

Bond Center

GLOBAL SHORT-TERM RATES

GLOBAL LONG-TERM RATES

U.S. TREASURY YIELD CURVE

U.S. CREDIT

Week's Most Active

INVESTMENT GRADE

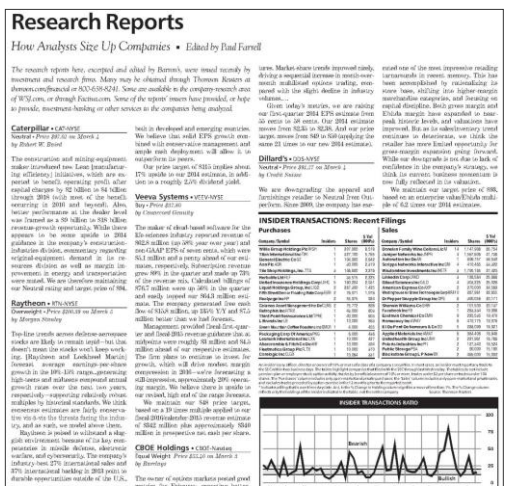
HIGH YIELD

CONVERTIBLE

DOWJONES

Barron's Research Reports **PG M14**

- Insiders Transactions
  - Recent Filings
- Insider Transactions Ratio
  - Bullish/Bearish/Neutral



Research Reports

How Analysts Size Up Companies • Edited by Paul Farrell

Caterpillar • CAT-NYSE

Raytheon • RTN-NYSE

Dillard's • DDS-NYSE

Veeva Systems • VEEV-NYSE

CBOE Holdings • CBOE-Nasdaq

INSIDER TRANSACTIONS: Recent Filings

Purchases

Sales

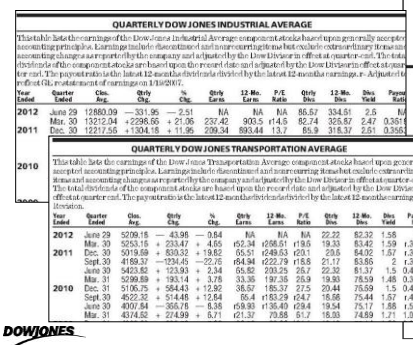
INSIDER TRANSACTIONS RATIO

Bearish

Bullish

DOWJONES

- How To Read **M15**
  - Bonus Tables
  - Phone & Email
  - Tables online



QUARTERLY DOW JONES INDUSTRIAL AVERAGE

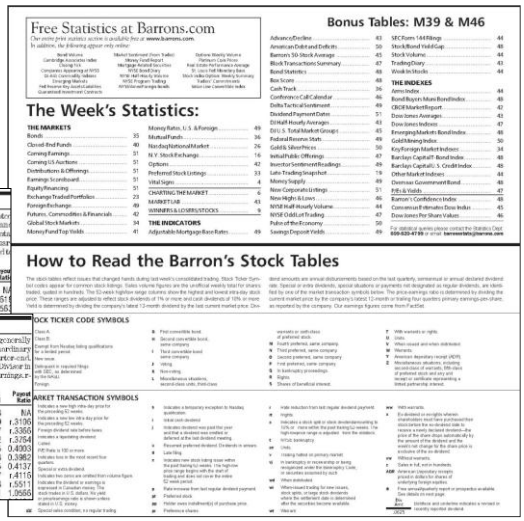
This table lists the earnings of the Dow Jones Industrial Average component stocks based upon generally accepted accounting principles. Earnings include discontinued and nonrecurring items but exclude extraordinary items and accounting changes as reported by the company and adjusted by the Dow Divisor in effect at quarter-end. The data for dividends of the component stocks are based upon the record date and adjusted by the Dow Divisor in effect at quarter-end for that. The payout ratio is the latest 12-month dividend divided by the latest 12-month earnings. n.r.- Adjusted to reflect GE restatement of earnings on 1/18/2007.

Year Ended	Quarter Ended	Clos. Avg.	Qtrly Chg.	% Chg.	Qtrly Earns	12-Mo. Earns	P/E Ratio	Qtrly Divs	12-Mo. Divs	Divs Yield	Payout Ratio
2012	June 29	12880.09	—331.95	—2.51	NA	NA	NA	86.57	334.51	2.5	NA
	Mar. 30	13212.04	+2295.66	+ 21.06	237.42	900.5	r14.5	82.74	326.57	2.47	0.3614
2011	Dec. 30	12217.55	+1304.18	+ 11.96	209.34	893.44	13.7	85.9	318.37	2.51	0.3563

QUARTERLY DOW JONES TRANSPORTATION AVERAGE

This table lists the earnings of the Dow Jones Transportation Average component stocks based upon generally accepted accounting principles. Earnings include discontinued and nonrecurring items but exclude extraordinary items and accounting changes as reported by the company and adjusted by the Dow Divisor in effect at quarter-end. The total dividends of the component stocks are based upon the record date and adjusted by the Dow Divisor in effect at quarter-end. The payout ratio is the latest 12-month dividends divided by the latest 12-month earnings. r- Revision.

Year Ended	Quarter Ended	Clos. Avg.	Qtrly Chg.	% Chg.	Qtrly Earns	12-Mo. Earns	P/E Ratio	Qtrly Divs	12-Mo. Divs	Divs Yield	Payout Ratio
2012	June 29	5209.15	— 43.95	— 0.84	NA	NA	NA	22.22	82.32	1.58	NA
	Mar. 30	5253.15	+ 233.47	+ 4.65	r52.34	r268.61	r19.6	19.33	83.42	1.59	r.3196
2011	Dec. 30	5019.69	+ 830.32	+ 19.82	65.51	r249.63	r20.1	20.6	84.02	1.67	r.3366
	Sept. 30	4189.37	—1236.45	— 22.76	r64.94	r222.79	r18.8	21.17	83.86	2	r.3764
	June 30	5423.82	+ 123.93	+ 2.34	65.82	203.25	25.7	22.32	81.37	1.5	0.4003
	Mar. 31	5299.89	+ 193.14	+ 3.78	33.35	197.35	26.9	19.93	78.59	1.48	0.3982
2010	Dec. 31	5106.75	+ 564.43	+ 12.92	38.57	r185.37	27.5	20.44	76.59	1.5	0.4137
	Sept. 30	4522.32	+ 514.48	+ 12.84	65.4	r163.29	r24.7	18.98	75.44	1.67	r.4116
	June 30	4007.84	—366.78	— 8.38	r59.93	r136.40	r29.4	19.54	75.17	1.88	r.5511
	Mar. 31	4374.62	+ 274.99	+ 6.71	r21.37	70.88	61.7	18.93	74.89	1.71	1.0566



Free Statistics at Barrons.com

Bonus Tables: M39 & M46

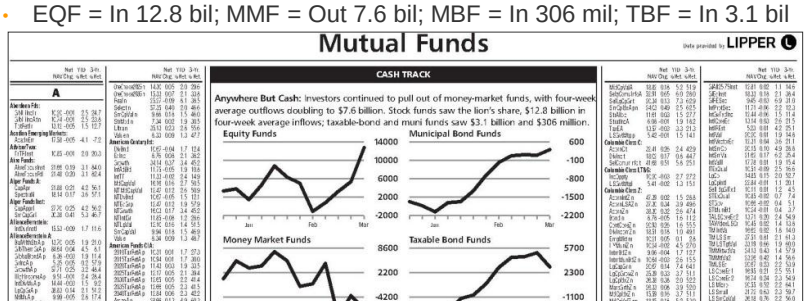
The Week's Statistics:

How to Read the Barron's Stock Tables

STOCK TICKER CODE SYMBOLS

MARKET TRANSACTION SYMBOLS

- Mutual Funds (Top 2500) **M36**
- Cash Track: 4 week moving avg of cash flows
  - EQF = In 12.8 bil; MMF = Out 7.6 bil; MBF = In 306 mil; TBF = In 3.1 bil



Mutual Funds

Data provided by LIPPER

CASH TRACK

Anywhere But Cash: Investors continued to pull out of money-market funds, with four-week average outflows doubling to $7.6 billion. Stock funds saw the lion's share, $12.8 billion in four-week average inflows; taxable-bond and muni funds saw $3.1 billion and $306 million.

Equity Funds

Municipal Bond Funds

Money Market Funds

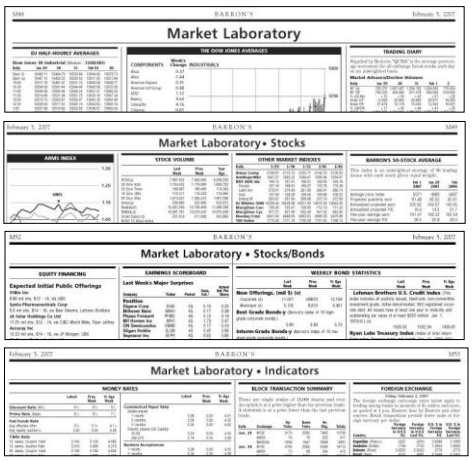
Taxable Bond Funds

The charts above show four-week moving averages of net cash flow in millions of dollars.

BARRON'S • Upper FMI

Barron's news moves the Markets, but the **Market Lab** shows the market direction! **PG M43**

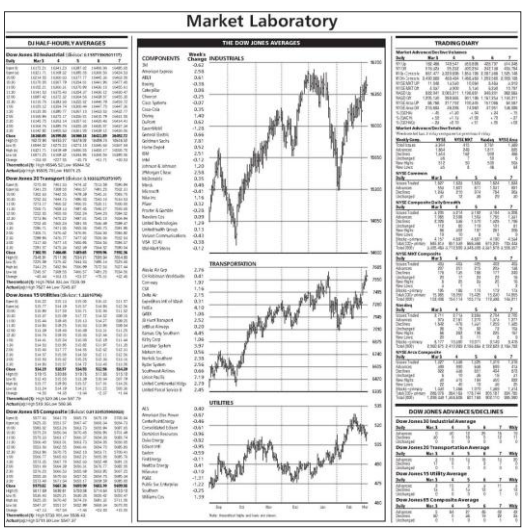
- Stocks
- Bonds
- Indicators



DOWJONES

Barron's Market Lab Stocks 1 **PG M43**

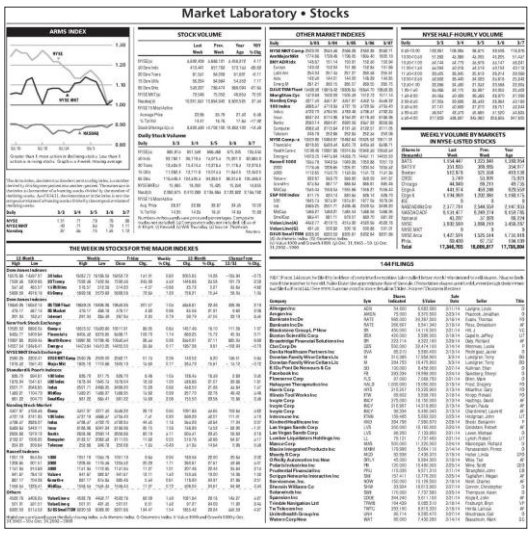
- DJ Half-Hourly
  - Strong open/High volume, possible correction later in day
  - Weak close, weak open next day
  - Hypothesis future trends based on historic performance.
  - **New index** subtracting open ½ hr. and closing ½ hr.
- Dow Jones Averages



DOWJONES

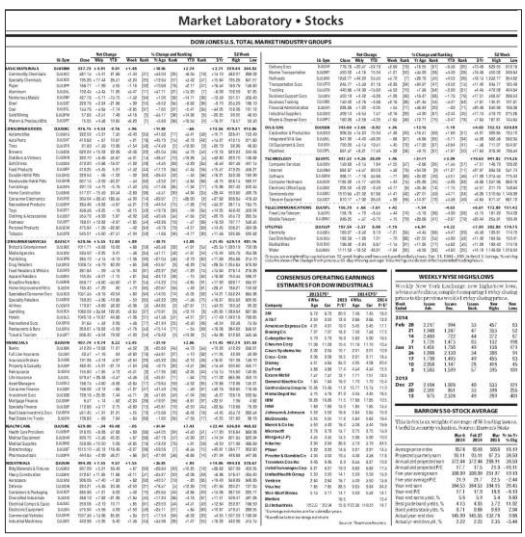
Barron's Market Lab Stocks 2 **PG M44**

- Intensity
  - Week in Stocks
  - Arms Index
    - 4 week moving avg
    - < 1 in advancing
    - > 1 in declining
  - Stock Volume
    - NYSE 15 most Active
      - Avg Price
      - % of total vol



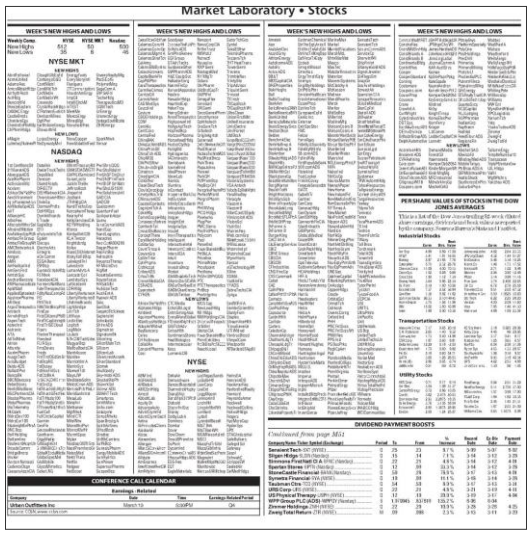
Barron's Market Lab Stocks 3 **PG M45**

- DJ US Total Mkt Industry Grps
  - Sector Analysis
- Consensus Operating Earnings on the DJIA (not same as P/E's Yield table)



Barron's Market Lab Stocks 4 **PG M46**

- Weeks New Highs & Lows
- Dividend Jump (when needed)



Market Laboratory • Stocks

WEEK'S NEW HIGHS AND LOWS

NYSE MKT

NASDAQ

NYSE

DIVIDEND PAYMENT BOOSTS

CONFERENCE CALL CALENDAR

PER SHARE VALUES OF STOCKS IN THE DOW JONES AVERAGES

DOWJONES

Barron's Market Lab Stocks 5 **PG M47**

- Indexes' P/Es & Yields
- Coming Earnings jump
- Treasury Auctions
  - Record debt sales
- Equity Financing
  - New IPOs

Market Laboratory • Stocks

EARNINGS SCOREBOARD

NYSE DATA BANK

EQUITY FINANCING

S&P/DOW JONES INDEXES

BLOCK TRANSACTION SUMMARY

Coming U.S. Auctions

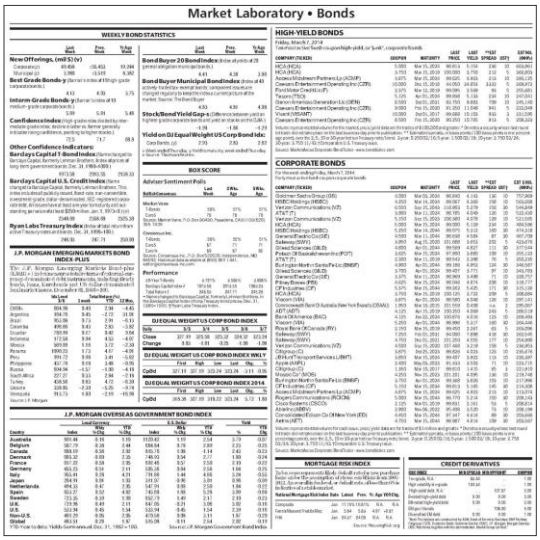
INDEXES P/ES & YIELDS

NYSE ODD-LOT TRADING

DOWJONES

Barron's Market Lab Bonds **PG M48**

- Weekly Bond Statistics
  - Barron's Confidence Index
  - Best Grade
  - Intermediate Grade



Market Laboratory • Bonds

WEEKLY BOND STATISTICS

HIGH-YIELD BONDS

CORPORATE BONDS

J.P. MORGAN EMERGING MARKETS BOND INDEX-PLUS

J.P. MORGAN OVERSEAS GOVERNMENT BOND INDEX

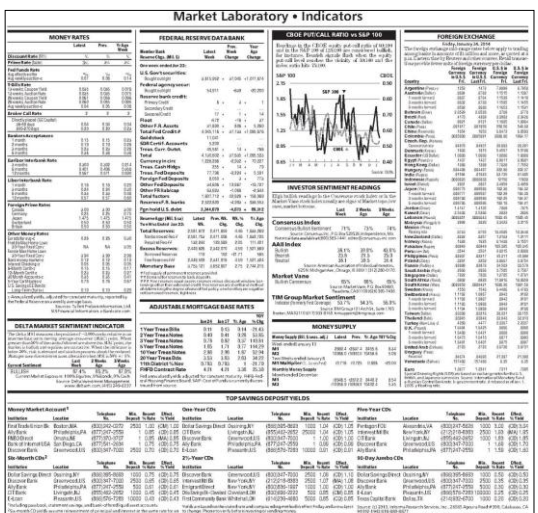
MORTGAGE RISK INDEX

CREDIT DERIVATIVES

DOWJONES

Barron's Market Lab Indicators **PG M49**

- Money Rates
- Federal Reserve Databank
  - **Scott Black**
- Investor Sentiment
- Market Sentiment
  - Delta Tactical
- Money Supply



Market Laboratory • Indicators

MONEY RATES

FEDERAL RESERVE DATABANK

CBOE PUT/CALL RATIO vs. S&P 100

FOREIGN EXCHANGE

INVESTOR SENTIMENT READINGS

DELTA MARKET SENTIMENT INDICATOR

ADJUSTABLE MORTGAGE BASE RATES

MONEY SUPPLY

TOP SAVINGS DEPOSIT YIELDS

DOWJONES

Barron's Market Lab Indicators 2 **PG M50**

- Barron's Gold Mining Index
- Pulses
  - Employ data
  - Eco Growth
  - Consumer Confidence
  - Electric production
  - **Howard Silverblatt**
  - **Scott Black**

Market Laboratory • Indicators

PULSE OF THE ECONOMY

Economic Growth and Investment

Consumption and Distribution

Inventories

Orders

Trade

Inflation

Employment

Construction

Other Indicators

AMERICAN DEBT AND DEFICITS

FEDERAL RESERVE DOLLAR IDX vs EURO & YEN

BARRON'S GOLD MINING INDEX

GOLD & SILVER PRICES

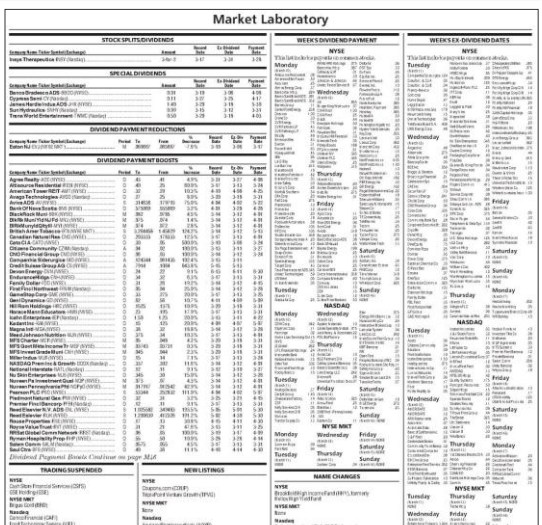
GOLD PERFORMANCE

Shortened Gain: Gold rose to $1338 from $1321 last week, but fell sharply on Friday's strong employment data.

DOWJONES

Barron's Market Lab **PG M51**

- Dividends
  - Payment Dates
  - Ex-Dates
  - Payment Boosts (jmp)
  - Stock Splits (jmp)
  - **Reductions** (Requested)


Market Laboratory

STOCK SPLITS/DIVIDENDS

SPECIAL DIVIDENDS

DIVIDEND PAYMENT REDUCTIONS

DIVIDEND PAYMENT BOOSTS

TRADING SUSPENDED

NEW LISTINGS

WEEK'S DIVIDEND PAYMENT

NASDAQ

NYSE MKT

NAME CHANGES

WEEK'S EX-DIVIDEND DATES

NYSE MKT

NASDAQ

DOWJONES

The Bernanke Tide… And Unconventional Monetary Policy

In Warren Buffett's famous formulation, only when the tide rolls out do you see who's been swimming naked…

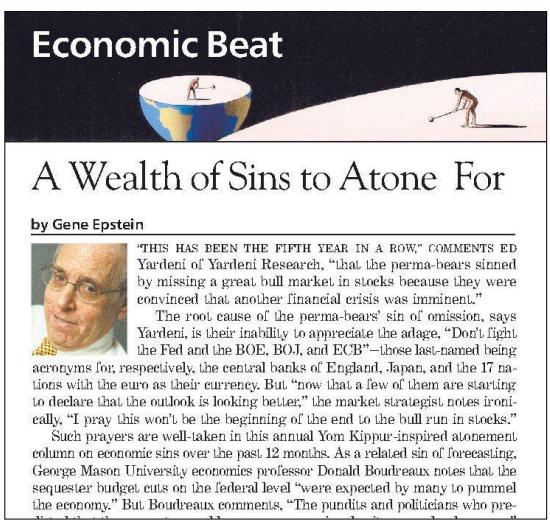
…And the sooner they get dressed the better!

- Happy Birthday Bull! 5 years ago…
- Our bull market has been midwifed by exceptional central-bank support and interest rate cuts. — *Kopin Tan*
- Extreme liquidity creates market distortions and the longer you have it in place the more the distortions become a problem. — *Mark Stern/Bessemer Trust*
- Don't fight the Fed! Monetary conditions exert an enormous influence on stock prices. Indeed, the monetary climate—primarily the trend in interest rates and Federal Reserve policy—is the **dominant** factor in determining the stock market's major direction. — *Martin Zweig*

DOWJONES

Unconventional Monetary Policy

- Ed Yardeni
  - Perma-Bears sin of omission
  - "Don't Fight the Fed"
  - Or BOE, BOJ and ECB



Economic Beat

A Wealth of Sins to Atone For

by Gene Epstein

"THIS HAS BEEN THE FIFTH YEAR IN A ROW," COMMENTS ED Yardeni of Yardeni Research, "that the perma-bears sinned by missing a great bull market in stocks because they were convinced that another financial crisis was imminent."

The root cause of the perma-bears' sin of omission, says Yardeni, is their inability to appreciate the adage, "Don't fight the Fed and the BOE, BOJ, and ECB"—those last-named being acronyms for, respectively, the central banks of England, Japan, and the 17 nations with the euro as their currency. But "now that a few of them are starting to declare that the outlook is looking better," the market strategist notes ironically, "I pray this won't be the beginning of the end to the bull run in stocks."

Such prayers are well-taken in this annual Yom Kippur-inspired atonement column on economic sins over the past 12 months. As a related sin of forecasting, George Mason University economics professor Donald Boudreaux notes that the sequester budget cuts on the federal level "were expected by many to pummel the economy." But Boudreaux comments, "The pundits and politicians who pre-

DOWJONES

Where is the Market going?
Dow Theory **M43**

Production vs. Distribution

- Q2 2013 to Q3 2013 **agreement**
  - DJIA **Up 1.5**%
  - DJTA **Up 6.1**%
- Q3 2013 to Q4 2013 **agreement**
  - DJIA **Up 9.6**%
  - DJTA **Up12.4**%
- Q4 2013 to date **disagreement**
  - DJIA **Down 1.4**%
  - DJTA **Up 2.5**%

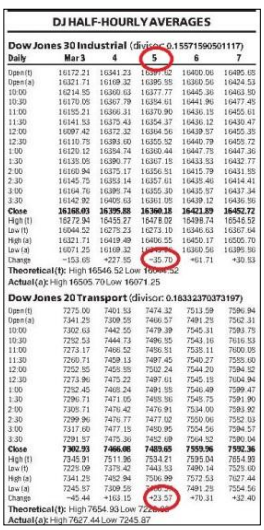
- Agreement in over Q3 and Q4 2013 up. Industrials started to stall 1/6. 7 tremors 6 up 1 down. Major DISAGREEMENT. Putting in a market top. However, Transports have been working to all-time highs. Can they continue to support Industrials

- How? Daily contradictions (tremors). In Half-Hourly on **M51**. An indication of market tops/bottoms and possible change of direction.

DOWJONES

Where's the Market going…
Dow Theory (continued) Tremors (Ripples)

- DJ Half-Hourly Averages
- 7/26 edition
  - Transports **down** 113.7 or **-1.7%**
  - Industrials **up** 15.1 or **0.1**%
- 1/27 edition
  - Transports **Up** 124 or **1.6%**
  - Industrial **Down** 262 or **1.6%**



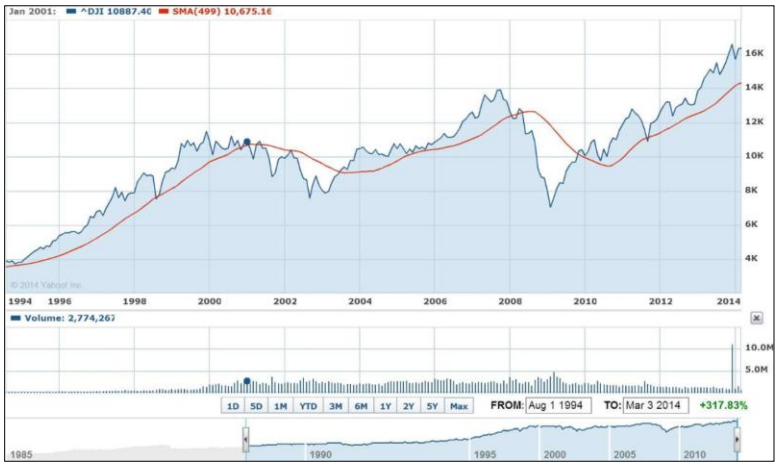
DOWJONES

Where is the market going…
200 day Simple Moving Average

- 200-day moving avg on the DJIA
  - Historical analysis for +10% over 200-day moving avg:
    - 8/1929: 18.3% above; 66% correction (The Great Depression)
    - 8/1932: 21.3% above; 15% correction (TGD part II)
    - 7/1933: 50% above; 25% correction
    - 6/1935: **Approx. 10% above for 2 years!** The longest stretch over 200-day moving avg; 45% correction in 1938! Passed thru 200 dma twice.
    - 4/1971: 16.7% above; 17% correction
    - 9/1987: 17% above; 35% correction
    - 8/1998: 11% above; 18% correction
    - 9/2006 to 10/1/2007: 10.7% above on May 29, 2007; 51% correction
    - 7/16/2009 to 3/12/2014: **Approx. 10% above for over 4 years!** With out a significant correction (15% summer 2011). Past correction's avg = 32%.

Where is the market going, continued…

Where is the market going, continued…(499 sma) Long in the Tooth!



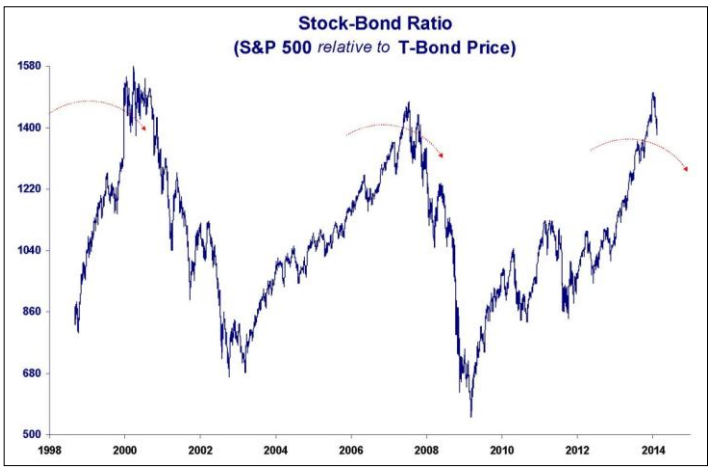
DOWJONES

Where is the market going, continued…

DOWJONES

BARRON'S

Where is the market going, continued… MacroMavens

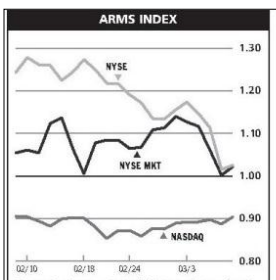


DOWJONES

BARRON'S

Market Intensity **PG M44**

- Arms Index
  - Relationship between number of stocks that increase or decrease in price and the volume associated with that increase or decrease.
  - <1 = Vol in Advancing
  - >1 = Vol in Declining
  - Why Declining? Big cap…
- Stock Volume
  - Daily 15 most Actives
  - Decrease implies bottom and return to lower price, speculative stocks
  - Bargain hunting at low volume!



'The Arms index, also known as the short-term trading index, is a number derived by dividing one quotient into another quotient. The numerator in the index is the number of advancing stocks divided by the number of declining stocks. As of 3/14/11, the denominator in the index is now the composite volume of advancing stocks divided by the composite volume of declining stocks.

Daily	3/3	3/4	3/5	3/6	3/7
NYSE	1.51	.71	.76	.76	.98
NYSE MKT	.40	.71	.53	.79	1.11
Nasdaq	.87	.53	.75	1.35	1.12

STOCK VOLUME

	Last Week	Prev. Week	Year Ago	YOY % Chg
NYSE(a)	3,602,409	3,688,121	3,456,272	4.17
30 Dow Inds	419,441	657,782	572,133	-26.69
20 Dow Trans	61,531	64,009	61,601	-0.11
15 Dow Utils	58,254	64,864	54,359	7.17
65 Dow Stks	539,227	786,474	686,094	-21.41
NYSE MKT(a)	79,548	75,052	46,653	70.50
Nasdaq(d)	10,951,581	10,864,940	8,600,525	27.34
NYSE 15 Most Active				
Average Price	22.66	23.78	21.30	6.38
% Tot Vol	14.47	18.76	17.64	-17.92
Stock Offerings S(z,v)	8,802,300	r4,702,100	10,262,100	-14.39

Daily Stock Volume

Daily	3/3	3/4	3/5	3/6	3/7
NYSE(a)	685,813	851,549	666,368	675,245	723,443
30 Inds	92,760.1	96,119.3	73,975.3	75,901.0	80,685.0
20 Trans	12,923.9	15,474.3	10,278.3	11,178.3	12,278.5
15 Utils	11,262.4	12,711.8	10,013.3	11,834.5	12,432.5
65 Stks	116,348.4	124,805.3	94,265.0	98,913.8	105,396.0
NYSE MKT(a)	15,985	18,050	15,425	15,240	14,855
Nasd(d)	2,050,875	2,410,289	2,198,863	2,122,822	2,153,782
NYSE 15 Most Active					
Avg. Price	26.97	22.66	28.87	24.45	19.50
% Tot Vol	14.95	14.23	16.31	14.83	15.89

Numbers in thousands save price and percentages. Composite trades not included. (a) Composite trades not included. (d) as of 4:10 pm. (r) Revised. (v) WAE Thursday. (z) Source: Thomson Reuters.

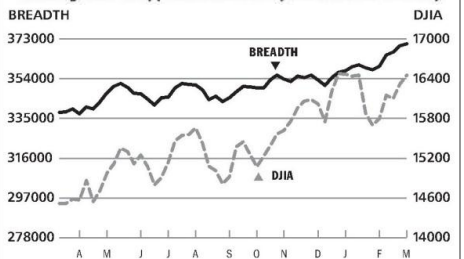
DOWJONES

Is it a broad movement?

- Breadth **M18**
  - Daily advances – declines totaled and added to the previous week.
  - Reflects the thirst for all financial assets. (Common stock, CEF, REITS, Preferred)
  - Reached an all-time high of **370,754** week of **March 7**. DJIA did not confirm with an all-time high. And declining issues topped advancing issues 3 to 2, a possible sign of a market top.

NYSE CUMULATIVE DAILY BREADTH vs DJIA

Good Breadth: As broad market prices ended the week at a record, NYSE Cumulative breadth joined in. But re-treating issues topped advancers by almost 3 to 2 Friday.



In generating this chart, we subtract each day's NYSE composite declines from that day's advances. The resultant total is added to the next day's total, and so on. When all five days' numbers are added together, this produces the weekly figure we plot. Dec. 31, 1985 =1000.

DOWJONES

Is it a broad movement? **M44**

- Week in Stocks
  - DJIA **Down 0.8**% ytd
  - SP 500 **Up 1.6**% ytd
  - DJ Idx US Market (Total Stock Market) **Up 2.1**% ytd
- Losers:
  - Nasdaq Insurance **Down 1.0%** ytd
  - DJIA **Down 0.8%** ytd
- Winners:
  - DJ Idx Internet **Up 8.4%**
  - NYSE Healthcare **Up 6.7%**
- Overall flat to slightly up market YTD.

THE WEEK IN STOCKS FOR THE MAJOR INDEXES

12-Month High	12-Month Low		Weekly High	Weekly Low	Friday Close	Friday Chg.	Weekly % Chg.	12-Month Chg.	12-Month % Chg.	Change From 12/31	Change From 12/31 % Chg.
Dow Jones Indexes											
16576.66	14097.07	30 Indus	16452.72	16168.03	16452.72	141.01	0.80	2055.65	14.28	−129.94	−0.75
7592.26	5909.86	20 Transp	7592.26	7402.99	7592.26	249.99	3.42	1448.88	23.58	191.79	2.59
537.32	455.57	10 Utilities	518.57	512.56	514.20	− 4.57	−0.88	25.72	5.27	29.84	4.62
5669.58	4918.16	65 Comp	5609.58	5579.82	5609.58	72.84	1.29	758.21	15.64	58.04	1.04
Dow Jones Indexes											
19639.26	16032.14	DJ TSM Float	19639.26	19496.96	19639.26	201.57	1.04	3648.61	22.46	429.06	2.19
476.17	387.14	DJ Market	475.17	468.18	475.17	4.60	0.98	85.58	21.91	9.60	2.06
291.04	182.31	Internet	291.04	269.49	287.59	2.24	0.79	92.79	47.55	22.19	8.36
NewYork Stock Exchange											
10525.52	8892.09	Comp-z	10525.52	10029.80	10511.91	86.05	0.83	1457.46	16.10	111.58	1.07
6423.77	5400.64	Financial-z	6403.42	6218.85	6398.71	109.70	1.74	869.25	15.72	45.04	0.71
10997.88	8599.43	Health Care-z	10997.86	10786.46	10940.44	29.32	0.29	2081.91	27.11	685.04	6.68
14557.54	12418.41	Energy-z	14473.84	14310.25	14455.50	29.89	0.17	1297.06	9.81	−102.04	−0.70
NYSE MKT Stock Exchange											
2580.25	2202.41	NYSE MKT Comp	2580.25	2509.00	2562.11	51.74	2.06	149.52	6.20	136.51	5.64
1818.62	1561.40	Major Mkt	1805.19	1774.86	1805.19	13.80	0.77	249.79	15.91	− 13.12	−0.72
Standard & Poor's Indexes											
826.70	694.61	100 Index	826.70	811.75	825.70	8.46	1.03	128.43	18.39	2.89	0.35
1878.04	1541.61	500 Index	1878.04	1845.73	1878.04	18.59	1.00	329.85	21.07	29.98	1.61
2501.71	2048.65	Indus	2501.71	2466.25	2499.20	15.29	0.62	436.50	21.28	33.84	1.37
1389.21	1104.79	MidCap	1389.21	1366.27	1388.95	19.62	0.99	257.70	22.78	46.42	3.46
881.22	704.70	SmallCap	881.22	859.41	881.22	19.89	2.08	155.50	29.58	15.86	2.26
Nasdaq Stock Market											
4357.97	3785.26	Comp	4357.97	4277.30	4338.22	28.10	0.65	1091.86	33.65	159.84	3.82
3727.19	2741.95	100 Index	3727.19	3668.37	3703.40	7.31	0.20	899.29	32.07	111.41	3.10
3788.37	2929.07	Indus	3788.37	3722.70	3782.23	44.45	1.18	504.29	30.64	77.04	2.07
8489.84	5449.11	Insur	8186.86	8047.24	8186.86	95.15	1.55	748.99	12.52	− 82.90	−1.01
2658.66	1979.12	Banks	2658.66	2560.14	2658.66	80.19	3.11	509.31	29.25	56.69	2.18
2122.57	1508.25	Computer	2122.57	2082.32	2111.05	11.62	0.55	519.78	32.66	64.87	3.17
254.20	209.64	Telecom	252.66	248.78	250.08	− 1.29	−0.49	31.89	14.64	0.96	0.39
Russell Indexes											
1051.19	854.89	1000	1051.19	1033.78	1051.19	9.86	0.94	189.56	22.00	20.84	2.02
1208.95	901.51	2000	1208.95	1176.36	1203.32	20.29	1.71	260.81	27.67	49.88	4.41
1141.36	914.69	3000	1141.36	1112.85	1141.36	11.27	1.01	207.48	22.44	29.84	2.13
941.87	784.12	Value-r	941.87	922.57	941.87	12.11	1.30	150.36	19.00	14.06	1.52
887.17	704.06	Growth-r	887.17	870.83	885.45	5.34	0.61	179.90	34.97	21.86	2.51
1558.53	1223.01	MidCap	1558.53	1535.43	1558.44	11.07	0.72	308.04	24.67	64.99	4.34
Others											
4522.78	3408.23	Value Line-a	4522.78	4432.77	4522.78	82.09	1.85	1021.84	29.18	143.27	3.27
501.01	401.51	Value Line-g	501.01	491.35	501.01	6.51	1.32	97.27	24.09	11.90	2.43
8220.59	611.52	DJ US Small TSM	8220.59	8028.90	8201.58	124.47	1.54	1655.42	29.24	326.59	4.27

High/Lows are based upon the daily closing index. a-Arithmetic Index. G-Geometric Index. V-Value 1000 and Growth 1000 y-Dec. 31, 1965 – 50 z-Dec. 31, 2002 – 5000

DOWJONES

Market Top or Bottom?

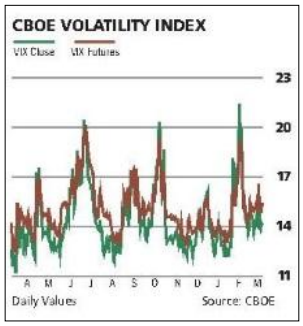
- 52 week Hi/Los **M46 top**
  - Peaking this week most certainly will be declining
    - 2/3/13 = 13.0:1; 3/3/14 = **3.6:1**; Currently = **7.6:1**
  - Fewer highs in market reaching new highs is a sign of market top. More highs confirmation.
  - Fewer lows in a market reaching lows is a sign of market bottom. More lows confirmation.

WEEK'S NEW HIGHS AND LOWS

Weekly Comp.	NYSE	NYSE MKT	Nasdaq
New Highs	512	50	500
New Lows	35	8	46

- NYSE Margin Debt **M47:**
  - All time high in January at 451,298. Surpassed July 2007 high in April 2013

- CBOE Volatility Index (Fear Gauge) **M11**
  - Calculated from prices of S&P 500 index options. Expectation of movement 30 days out.
  - VIX fell to mid 12's in Jan. A low VIX implies investor complacency. Over 21 in Feb. Currently = 16.22%
  - **VIX futures…**Mind the gap.
  - **Volatility** of the Volatility Index. 68% increase in 8 days! And then decreased 37% in the next 9 days.

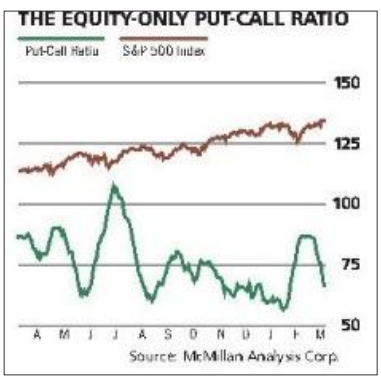


DOWJONES

Market Top or Bottom?

The Equity-Only Put-Call Ratio **M11**

- The equity-only put-call ratio—the daily sum of all puts traded on all stocks divided by the sum of the all calls traded on all stocks on the same day—is a reliable indicator. The ratio is printed each week in the Striking Price. When the ratio **peaks** and **begins to fall**, that is usually a good time to **buy stocks**. The chart on this page shows one peak, end-June 2013. When bearish put volume was extremely heavy, compared with bullish call volume. Both were excellent times to buy stocks. The ratio has fallen since July's peak. When the ratio puts in a **bottom** and begins to climb it is usually a good time to **sell stocks**.

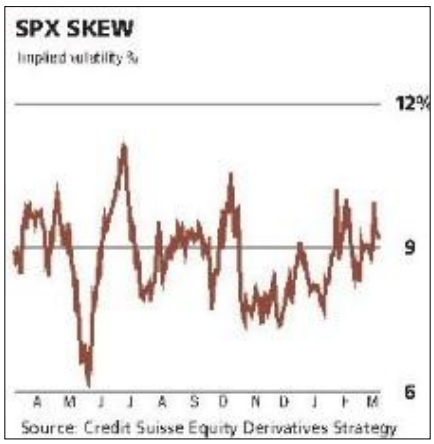


DOWJONES

BARRON'S

Market Top or Bottom?

- S&P 500 Skew **M11**
  - Measures the difference between the implied volatility of puts and calls that are 10% out of the money and expire in 3 months.
  - Skew indicates whether the options market expects a stock market decline or advance.
    - Higher readings Bearish
    - Lower Bullish
  - Excessive optimism is an indicator of market tops



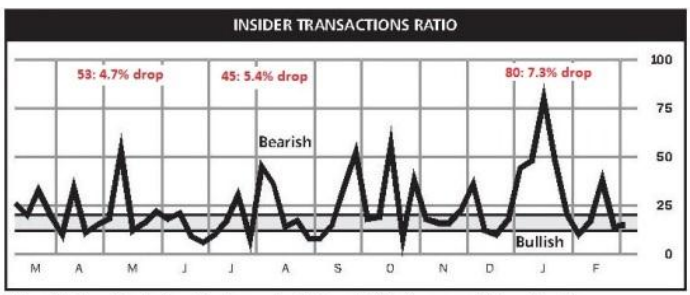
DOWJONES

BARRON'S

Investor Sentiment **M14**

• This week:
  • Buys = 34.4 mil (**up 52%** since 3/3)
  • Sells = 503.7 mil (**up 55%** since 3/3. High of 662 mil 2/24)

• While never a great timing tool, heavy corporate-insiders selling is a warning sign worth heeding (300 mil is moderate selling). Feb rally saw EXTREME selling! A ratio over 30 watch out. The current reading is 31, but the selling is extremely high and rising at a high rate. Previous spikes 80, 45 and 53.



DOWJONES

Ratio of Insiders Sales to Buys. Readings under 12:1 are Bullish. Those over 20:1 are Bearish.
The total top 20 sales and buys are 503,109,650 and 34,484,059 respectively; Source: Thomson Reuters

Investor Sentiment **M14**

•August 17 edition of Barron's: Streetwise by Kopin Tan, "Another yellow flag: Company Insiders sold $524 million of shares and bought less than $15 million."

Streetwise

Summer Break

by Kopin Tan

AUGUST IS PEAK SEASON FOR TAKING BREAKS AND VENturing abroad, but in the stock market, too? The high-flying Standard & Poor's 500 is down 1.8% this month, and finds itself trailing gains of 2.3% across Europe, 3.7% in Shanghai, 2.9% in Hong Kong, 1.4% in Germany, 3.3% in France, and even 0.7% for the struggling emerging markets.

Our recently monogamous infatuation with U.S. stocks was too hot not to cool down. An August survey of global money managers by Bank of America Merrill Lynch showed the third-biggest overweighting of U.S. stocks in a decade. A whopping 72% liked the dollar (and strong-dollar beneficiaries like banks and consumer discretionary stocks). Bond exposure shrank to a 28-month low, and just 3% expect long-term bond yields to decline (and bond prices to rise) over the next 12 months.

For now, stocks' 3.2% slippage from their Aug. 2 peak looks more like a blip than a breakup. Summer trading traffic was sparse, and profit warnings from **Wal-Mart Stores** (ticker: WMT), **Macy's** (M) and **Cisco Systems** (CSCO) seemed louder than it really was. Economically sensitive sectors like industrials, materials, and technology have outperformed in the pullback. Europe finally emerged from a six-quarter recession to grow 0.3% last quarter; U.S. factories are humming; and weekly jobless claims fell to pre-recession levels. But with stocks up nearly 20% this year even before profit growth has shown up, our economy—like the U.S. Postal Service—will merely be delivering the goods expected yesterday.

Another yellow flag: Company insiders in early August sold $524 billion worth of shares and bought less than $15 billion, according to Thomson Reuters data analyzed by *Barron's* statisticians. That sell-to-buy ratio of 36 is higher than the typical range between 12 and 20, or the single-digit levels in March 2009, when insiders were buying in earnest.

More important, the flight from bonds has lifted the 10-year Treasury yield to a two-year high of more than 2.8%, well above 1.63% in May. Big creditors like China and Japan in June unloaded $42 billion worth of U.S. securities, the most in years. As mortgage rates rise, the **iShares Dow Jones U.S. Home Construction** ETF (ITB) has slipped 20% to fall into a new bear market, even as builder confidence regained to the best level since 2005. "We may need home building to stabilize to end the current pause" in the stock market, says Ned Davis of Ned Davis Research.

Savita Subramanian, BofA Merrill Lynch's head of U.S. equity strategy, last week downgraded consumer discretionary stocks, which have more than tripled during this bull market and are up 24% this year. Leadership by early-cycle beneficiaries of easy money are getting "long in the tooth," she writes, and fund managers are heavily overweight consumer discretionary. "With tech, industrials, and energy trading at lower valuations, offering better global diversification, holding more cash and maintaining significantly lower weights in the average fund, we believe there are better ways to get cyclical exposure."

Already, earnings forecasts there are being cut, and 19% of companies recently missed both revenue and profit targets—the worst since 2011. The 12% pace of home price appreciation could start to slow, and the ratio of financial obligations to disposable income has started to tick up for the first time since 2008, she notes. As interest rates finally start to rise, Americans may start to spend less and save more—especially

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Investor Sentiment continued...

- AAII Index **PG 49**
  - Was extremely bullish 3 weeks ago and was historically high at 42.2%.
  - AAII is typically a contrarian indicator at extremes.
- Consensus Index
  - High readings are signs of Mkt tops.
- Conference Board Consumer Confidence (Pulses **PG 50**)
  - Fell to a historical low of 26.9 in March 2009
  - Fell to 78.1 in Mar from a revised 79.4 in Feb. Up yoy 14.9%. An index of 90 indicates a healthy economy.

INVESTOR SENTIMENT READINGS

High bullish readings in the Consensus stock index or in the Market Vane stock index usually are signs of Market tops; low ones, market bottoms.

	Last Week	2 Weeks Ago	3 Weeks Ago
Consensus Index			
Consensus Bullish Sentiment	66%	63%	64%
Source: Consensus Inc., P.O. Box 520526, Independence, Mo. Historical data available at (800) 383-1441. editor@consensus-inc.com			
AAII Index			
Bullish	40.5%	39.7%	42.2%
Bearish	28.8	21.1	22.8
Neutral	32.9	39.2	35.0
Source: American Association of Individual Investors, 625 N. Michigan Ave., Chicago, Il. 60611 (312) 280-0170.			
Market Vane			
Bullish Consensus	64%	65%	65%
Source: Market Vane, P.O. Box 90490, Pasadena, CA 91109 (626) 395-7436			
TIM Group Market Sentiment			
Indicator (Formerly First Coverage)	53.6%	54.2%	53.4%

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Market Sentiment…

- Delta Mkt Sent **PG 49**
  - Measures the position of 3,600 stocks relative to an intermediate-term (75 days) moving average crossover (MAC) point. When greater than 50% of the stocks followed are above this point, the market is bullish and equities are attractive. When the indicator is below 50%, risk is elevated and stock exposures should be reduced.
  - Reduces exposure to bad months. While keeping most of good months.
    - Sell mid-July 2008
    - Buy April 2009
    - Sell early-August 2011
    - Buy mid-October 2011

DELTA MARKET SENTIMENT INDICATOR

The Delta MSI measures the position of ~3,600 stocks relative to an intermediate-term moving average crossover (MAC) point. When greater than 50% of the stocks followed are above this MAC point, the market is bullish and equities are attractive. When the indicator is below 50%, risk is elevated and stock exposures should be reduced. Manager uses discretion on asset allocation when MSI is 50% +/- 5%.

Current Sentiment	Last Week	2 Weeks Ago	3 Weeks Ago
BULLISH	84.1%	58.8%	54.0%

Current Market Exposure: 100% Equities, 0% Bonds, 0% Cash

Source: Delta Investment Management
www.deltaim.com, (415) 249-6337

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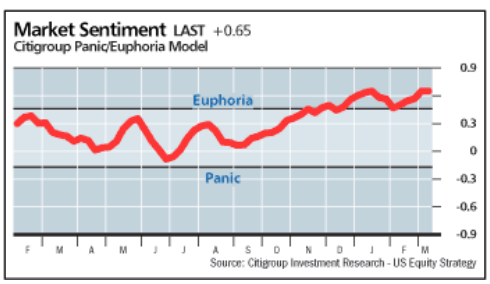
Market Sentiment, continued…

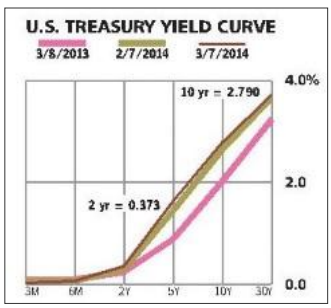
- Citigroup Panic/Euphoria Model (online only)
  - Up & Down Wall Street (11/4 edition)
  - "… Dubbed the other P/E" – clocked in at is most euphoric since 2008.



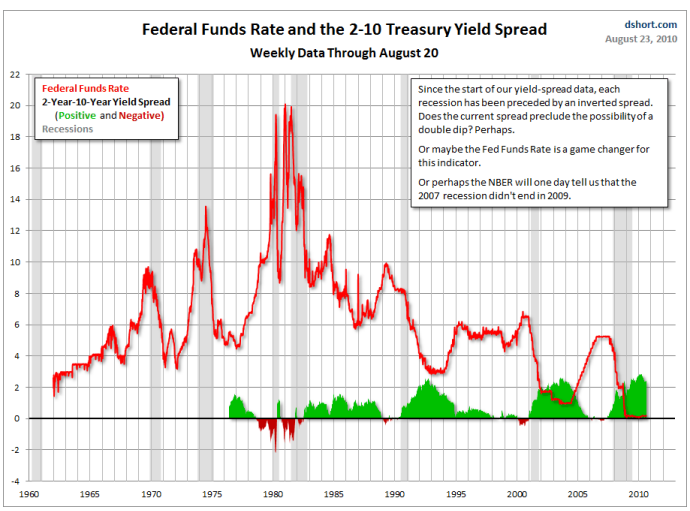
DOWJONES

US Treasury Yield Curve **M13**
Bills, Notes & Bonds **M35**

- What are the difference between bills, notes & bonds? 2011 issuance of $1.3 tril. 2012 another record of $1.65 tril. 2013 over $1.5 tril! 2014 on its way…See Auctions, **pg M47**.
- Inverted curve (Sept 2006 - May 2007): Banks were broken! Perfect indicator 8 for 8.
  - 2yr – 10yr spread and recessions (Currently 2.42)
- 7 year sweet spot of curve. Why? Medium credit risk (likely hood of payback) and medium duration risk (erosion by inflation). Steepest part of the curve.
- Foreign appetite for US debt shriveled when the Fed mentioned taper. And are net sellers.



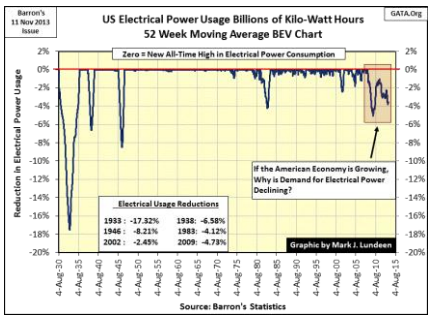
US Treasury Yield Curve **M13**

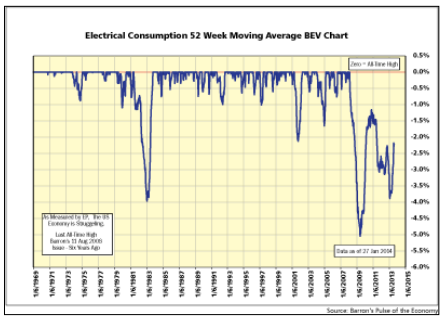


BARRON'S

Electric Power Consumption (Pulses PG **M50**)

- There are many measurements of economic activity. One of the best by far is Electrical Power Consumption. Barron's has been publishing this weekly data series since 1929.
- 1989 CIA predicted the collapse of the Soviet Union. Contrary to USSR's press releases.
- In 45 of the past 58 years, year-over-year growth exceeded 2%. Only 5 years since 1950 has electricity demand dropped. 2008 to 2009 was the sharpest falloff in 64 years! And the 1st period of consecutive annual declines in the same time frame. Some Utilities don't expect demand to recover to pre-recession levels until 2013.





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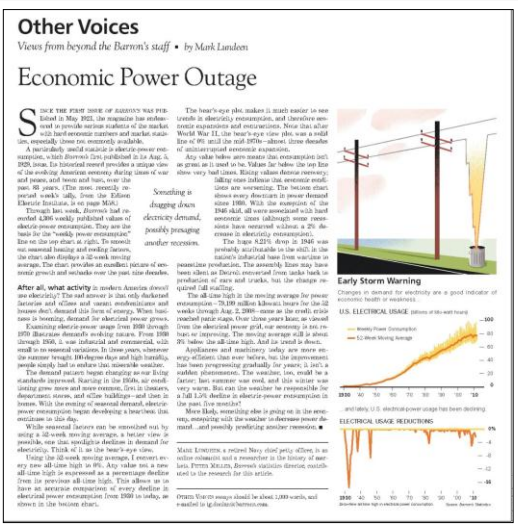
BARRON'S

Electric Power Consumption article in Barron's

- Doubts Rise as China Touts Upturn (9/13/13; WSJ)
  - China's industrial output, electrical production and exports have posted solid gains. But… Debt as % of GDP is 200%! And copper demand drops.
- The Global Economy is in dire straits (4/22/13; Barron's)
  - China's electricity production and rail freight volume is faltering
- Deeper Slowdown suspected in China (7/12/12; WSJ)
  - Compares Electric Consumption vs Industrial production
- Debating Lies, Damned Lies, and Chinese Economic Statistics (7/26/12; WSJ)
  - Compares Electric consumption vs GDP



Other Voices

Views from beyond the Barron's staff ▪ *by Mark Lundeen*

Economic Power Outage

SINCE THE FIRST ISSUE OF BARRON'S WAS PUBlished in May 1921, the magazine has endeavored to provide serious students of the market with hard economic numbers and market statistics, especially those not commonly available.

A particularly useful statistic is electric-power consumption, which Barron's first published in Le Aug. 4, 1928. Its historical record provides a unique view of the evolving American economy during times of war and peace, and boom and bust, over the years. (The most recently reported week's tally, from the Edison Electric Institute, is on page M50.)

Through last week, Barron's had recorded 4,886 weekly published values of electric-power consumption. They are the basis for the "weekly power consumption" line on the top chart, at right. To smooth out seasonal heating and cooling factors, the chart also displays a 52-week moving average. The chart provides an excellent picture of economic growth and setbacks over the past nine decades.

After all, what activity in modern America doesn't use electricity? The sad answer is that only darkened factories and offices and vacant condominiums and houses don't demand this form of energy. When business is booming, demand for industrial power grows.

Examining electric-power usage from 1930 through 1970 illustrates demand's evolving nature. From 1930 through 1950, U. was industrial and commercial, with small to no seasonal variation. In those years, whatever the summer brought, 100-degree days and high humidity, people simply had to endure that miserable weather.

The demand pattern began changing as war living standards improved. Starting in the 1950s, air conditioning grew more and more common. Gyms in theaters, department stores, and office buildings—and then in homes. With the coming of seasonal demand, electric-power consumption began developing a heartbeat that continues to this day.

While seasonal factors can be smoothed out by using a 52-week moving average, a better view is possible, one that spotlights declines in demand for electricity. Think of U. as the bear's-eye view.

Using the 52-week moving average, I convert every new all-time high to 0%. Any value less a new all-time high is expressed as a percentage decline from its previous all-time high. This allows us to have an accurate comparison of every decline in electrical power consumption from 1930 to today, as shown in the bottom chart.

The bear's-eye plot makes it much easier to see trends in electricity consumption, and therefore economic expansions and contractions. Near that silver World War II, the bear's-eye view plot, was a solid line of 0% until the mid-1970s—almost three decades of uninterrupted economic expansion.

Any value below zero means that consumption isn't as great as it used to be. Values far below the top line show very bad times. Rising values denote recovery.

Falling rates indicate that economic conditions are worsening. The bottom chart shows every downturn in power demand since 1930. With the exception of the 1948-doll, all were associated with hard economic times (although some recessions have occurred without a 2% decrease in electricity consumption).

The huge 8.21% drop in 1946 was probably attributable to the shift in the nation's industrial base from wartime to peacetime production. The assembly lines may have been silent as Detroit converted from tanks back to production of cars and trucks, but the change required full retooling.

The all-time high in the moving average for power consumption—70,100 million kilowatt hours for the 52 weeks through Aug. 2, 2008—came as the credit crisis roared into high gear. Over those years least, as credit from the electrical power grid, our economy is not robust or improving. The moving average still is about 3% below the all-time high. And its trend is down.

Appliances and machinery today are more energy-efficient than ever before, but the improvement has been progressing gradually for years. It isn't a sudden phenomenon. The weather, too, could be a factor: last summer was cool, and this winter was very warm. But can the weather be responsible for a full 1.5% decline in electric-power consumption in the past five months?

More likely, something else is going on in the economy, removing the weather to decrease power demand…and possibly predicting another recession. ■

Mark Lundeen, a retired Navy chief petty officer, is an online columnist and a researcher in the history of markets. Peter Kelley, Barron's statistics director, contributed to the research for this article.

Other Voices essays should be about 1,000 words, and e-mailed to sp.theletter@barrons.com.

BARRON'S

Stocks lead the News…
…Bonds Lead the Market **M48**

- Why?
  - Because the bond market sets the cost of money and is the most sensitive to market changes in inflation outlook and risk appetite, it typically knows more sooner than stocks.
  - Best (AAA-AA) and Intermediate (A-BBB) grade corporate bonds, particularly those with 15 or more years to maturity, predict market changes in the economy very well. Showing ups and downs in both hiring and production a year before they occurred.
- Bonds
  - Corporate
    - Selling at record pace! 2013 total was a record at.
  - High Yield
    - Off All-time low yields; Record amounts and still making money at 5%

DOWJONES

BARRON'S

Barron's Confidence Index **M48**

- What is Barron's CI?
  - It's an investor sentiment gauge of credit risk tolerance.
  - It is the ratio of the yields of 10 best-grade bonds (AAA – AA), to the yield of 10 intermediate grade corporate bonds (A - BBB). Only 5 AAA companies: ADP, XOM, JNJ, MSFT and Pfizer (on watch). Just lost Assured Guaranty last of AAA bond insurers.
- Why Does it work?
  - A falling ratio is a sign that bond buyers are willing to accept a much lower yield on better quality bonds, suggesting they are losing confidence in lesser quality issues, and by extension lesser quality stocks.
  - Conversely, a rising indicator is a sign that investors are willing to tolerate greater risk, and thus are more confident overall.
  - Currently 72.5 previously 71.7, has risen from record lows set in December 2008.

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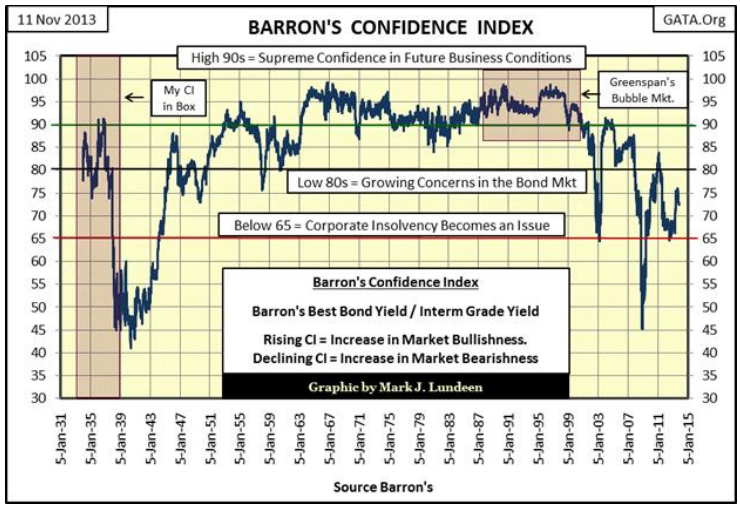
BARRON'S

Barron's Confidence Index **M48**



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BARRON'S

Crisis of Confidence and Uncertainty… Where's the trust?

- People don't trust politicians:
- People don't trust the media
- Banks don't trust banks:
  - TED Spread… JPM toxic assets!
- Banks don't trust people to pay back loans:
  - 1 in 32 qualify for mortgages. Even with record low rates. Mtg originations declining and New Home Sales too!
- People don't trust banks:
  - Confidence has fallen from 46% in 2000 to 20% in 2013.

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Are the dark days really behind us?

- Déjà vu:
  - Prices for risk-sharing Mortgage-Backed Securities (MBS) offered by Fannie Mae and Freddie Mac, the villain of the financial crises, are soaring!
  - Record Margin Debit
  - Stock Market Cap as % of GDP
  - Retail investor is back! Oh my…
- Housing and Unemployment tango
  - High unemployment among 24-35 yr. olds.
  - Residential construction employment fell by 50% in September. Even though prices are increasing and sales are back to normal levels. Construction is 40% below normal.
  - A lot of young people are still living in parents home. Not becoming first-time buyers. Not even renting! Therefore, less demand for new construction
- USA inequality
  - Top 10% of earners hold a record 48.2% of wealth.
  - Median household income has declined for the past 5 yrs., a record. But not for top 10%.

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BARRON'S

Who's fooling who?
Employment-Population Ratio (Pulses pg M50)

- Labor market is stuck in the mud. Why?
  - Employment-to-population ratio vs. Unemployment rate
    - The ratio is a better measure of proportion of workers that are working as opposed to not working
    - The headline Unemployment rate always stirs the debate of whether it changed because more people were actually working or dropped out of labor force.
    - Employment-to-population ratio eliminates this issue by going straight to the bottom line, measuring the proportion of potential workers that are actually working
    - Over the past 3 decades it has been an inverse relationship. Currently Unemployment has been falling for the past 3.5 years. While ETP is flat.
  - Sep. 9 Up & Down by Randy Forsyth, "an all inclusive measure whose denominator doesn't discriminate among those seeking work or not – fell to 58.6%) At 58 since Sept 2009. Currently 58.8 Feb.

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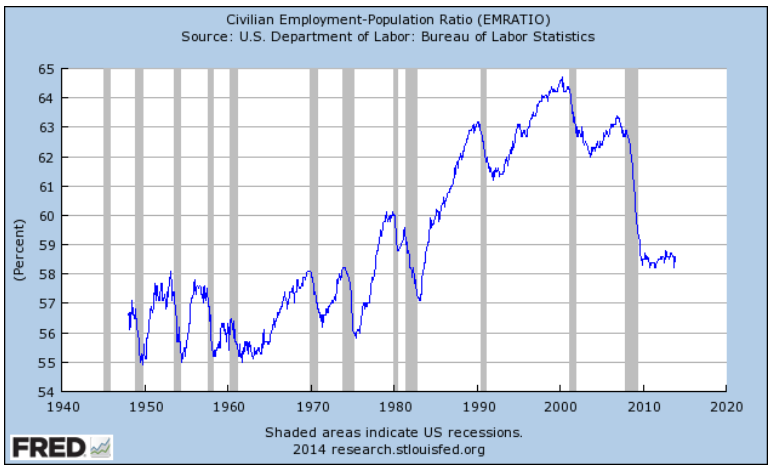
BARRON'S

Who's fooling who?
Employment-Population Ratio cont…(Pulses pg 50)



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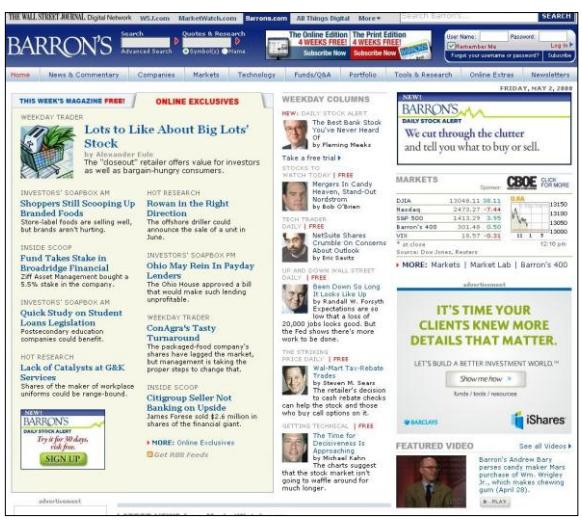
Barron's Statistics Online

- New Market Data Center
- Parity between BOL /print
- Free Market Tools
  - Stock & Funds
  - Futures
  - Options
  - Annuities
- Email address
  peter.miller@barrons.com



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