

MOOSECALLS

Moose Club Update -- January 2, 2010

The Moose Club began accepting dues payments on New Year's eve at 6PM. When you make your payment you'll receive a username and password with your invoice, which you should print out and keep in a safe place. The site will remain open and free to the public this holiday weekend. Next weekend, when you come to the Moose Club page, or any of the other secured pages at decisionmoose.com, a pop-up box will appear asking for your username and password. Your username and password will work for all secure pages, and you should only have to enter it once to access them all.

International subscribers I'm afraid, must use PayPal to join the Moose Club. The credit card processing arrangement the Club is using accepts U.S. payments only.

Also the sign-in and registration at the "Join the Club" store front can be confusing. It is merely a canned feature in the shopping cart that lets shoppers enter their billing and shipping info once, so that when they return to shop at the store, they can automatically pull up their data. In our case, it is rather pointless, since there's only one product and one visit per calendar year. Basically, you can ignore it. As mentioned above, sign-in for the Moose Club will be on the Moose Club page in a drop down box.

The Author's Take on the Current Signal

LATEST SIGNAL: Hold Latin American equities (ILF) through 01/10/2010.

(In this section of the Moose Calls newsletter, the author discusses his thinking on the validity and duration of the current signal. This may be a good thing or a bad thing, as the signal is more aggressive and has often proven itself a better predictor of the future than its somewhat skittish author with his more moderate risk profile.)

Moose favorite, Latin equities (ILF), ended 2009 with a fractional gain (+0.8%) in a light-volume, holiday week. I've learned never to argue with success. I may have doubts, but if it doesn't look broke, I prefer not to try to fix it. Better to wait for the first five days of January, which will be upon us on Monday, than to try an fathom the markets' end-of-year cross-currents from profit-taking and window-dressing.

Several readers have noticed the strength in the Dollar and in US small cap equities of late. Both have been more lively than offshore equities in the latter half of December. Dollar strength, as noted before, has been due to a reversal in the Dollar carry-trade. Sovereign debt fears among European banks hit the Euro and helped the Dollar. That pushed investors out of foreign risk assets and into Dollar-denominated risk assets like small cap stocks.

The question, as always, is one of permanence. Small caps (IWM) had a nice three weeks leading up to this one, as did the Dollar. Both took a breather this week. Small-caps lost 1.5%, and the Dollar was flat at +0.1%.

The model is very patient with its trends. It is designed for investors, not traders. It will process a three-week rally in an asset that has under-performed for several months and put it in context before changing its mind. In that respect, it tends to be loyal to its old friends and not to make new friends too easily. At the moment, old-friend ILF has a weaker technical outlook than US small caps, but it is still relatively more attractive based on the model's longer time frame.

Next week begins 2010. January is replete with investment guru voodoo. We have, the "First Five Days", the "January Effect", "as goes January, so goes the year"-- and back before the NFL threw an extra playoff game into the mix for some additional cash, "The Super Bowl Indicator".

The January Effect interests me most this year. That is when investment managers, having stocked up on blue-chip, dividend-paying stocks at the end of the year to look good in the annual report, sell them in January and invest in small caps, which have higher growth prospects. For that to happen, of course, the Dollar would have to

stabilize or continue to strengthen. Needless to say, a strong January Effect would probably mark the end of the Moose's current infatuation with Latinas.

It is too early to know whether December's small cap strength was simply an oversold condition correcting, or the advanced guard of a coming January Effect. Good news is, we won't have to wait very long at all to find out.

Weekly Market Overview-- December 31, 2009

Index Moose provides deeper insights into the current state of global financial markets than simply the best place to put your money.

RANK	CI	ASSET	Overall Technical Trend (change)	TS
1	49	Latin America Equity Index (ILF)	bullish (+)	+66
2	40	Pacific ex-Japan Equity Index (EPP)	bullish (-)	+51
3	40	US Small-cap Equity Index (IWM)	very bullish (+)	+99
4	31	Gold Bullion (GLD)	bullish (nc)	+53
5	32	US Large-cap Equity Index (SPY)	very bullish (+)	+95
6	23	Japan Equity Index (EWJ)	slightly bullish (+)	+26
7	--	Cash (3 month T-Bill or money market fund)		--
8	17	Europe 350 Equity Index (IEV)	bullish (+)	+64
9	0	Long Zero-Coupon Treasury Bonds (BTTRX)	very bearish(-)	-100
Other Considerations				
		Fed Check (what the Fed ought to do)	HIKE	hike
		Impact of US Dollar on Foreign Equities and Gold	neutral (+)	+19
		Commodity Inflation Trend	very bullish (nc)	+100

*CI is the "confidence index" measuring the model's overall confidence in the asset. It combines the relative strength (rank), the technical strength (TS), and the Fed Check. For more information, see the Club FAQs.

Weekly Close, 12/31/2009

Another light volume week closes 2009. Performance was mixed. US equities were down, led by small caps (-1.5%), which have had a nice December. US large-caps (-0.9%) also saw profit taking. Elsewhere on the equity front, Europe (-0.7%) and Japan (-1.9%) also declined.

US stocks have gotten more investor interest than their offshore cousins recently. In a basic sense, there has been profit-taking in the strong asset classes (offshore equities and gold) and those profits were put into undervalued asset classes (US equities) in December. Some of that money backed out this week to end 2009, as the Dollar flattened (+0.1%).

Commodities (+0.9%) including oil (+2.8%) had another bullish week despite the flat dollar. That helped Latin America (+0.8%) and Pacific ex-Japan (+1.3%) both of which were laggards in December. Gold, which is up almost 25% in 2009, continued to back off this week (-1.0%).

US long Treasury bonds (+0.4%) finally stabilized a bit this week. Long bonds remain in the cellar and their technical outlook is as bad as it gets. Now that the Fed's quantitative easing is over, maybe the market will be able to seek equilibrium.

As January begins, and the end-of-year profit-taking and window-dressing subside, we should have a better idea of the markets' direction. It may well be that the trend-less behavior we've seen since early November continues into January. Or a small cap January rally could ensue, ending the weak Dollar bubble in commodities, gold, and offshore assets. Or the major trend-- a declining Dollar and rising offshore equity prices could resume.

See the week's detail below.

Current Perceptions-- Global Economy

The global economy is less certain about inevitable recovery after recent debt problems in Dubai, Greece and Spain. A Dollar carry trade reversal hit equities this month as the Euro sank. The outlook in 2010 is for more debt downgrades-- the one-year downstream effects of the most complete global credit freeze in 70 years. How bad it will be is anyone's guess.

Current Perceptions-- US Economy

The good: Dec consumer confidence (52.6) up and above 50%, but less than expected. Chicago PMI (60) up better than expected.

The bad: Oct Case Schiller home prices (-7.28%) continue to drop, but less than expected.

The ugly: Initial jobless claims (432K) fell. Continuing claims now below 5 million (4.98M), down this week as well. Unemployment at 10%-- new headline number next Friday.

Current Perceptions-- The Fed

The Fed Check (0.88) is in tightening mode yet another week. The Fed Check has suggested that the Fed begin to dial back on the liquidity injections since the end of July 2009, and next weeks jobs data could bring that likelihood closer. 3-month LIBOR (0.25%) is flat, and T-Bill yields inched up (0.5%), bringing the 3-month LIBOR/T-Bill spread down to 20 basis points.

Current Perceptions-- Inflation

No new Inflation data this week.

Nov PCE prices (+1.8%) way hotter than expected.
Nov core PCE prices (+0.0%) up modestly, hotter than last month.

Nov consumer prices (+0.4%) hotter than expected.
Nov core consumer prices (+0.0%) cooler than expected.

Nov producer prices (+1.8%) way hotter than expected.
Nov core producer prices (+0.5%) also hotter than expected.

Current Perceptions-- The Dollar

The Dollar (+0.1%) slowed its ascent for a second week, and still remains an anti-equity trade, rising when stocks fall and vice versa. The overall technical trend in the Dollar remains in neutral this week. Its price is flat over the last 13 weeks (+1%) and the price is down over 52 weeks (-5%).

Current Perceptions-- Commodity Prices

Commodity prices (+0.9%) rose for a third week, led by oil (+2.8%). The overall technical trend in commodities remained very bullish this week. The price is up over 13 weeks (+12%) and up over 52 weeks (+21%). As for oil, the short-term trend in USO is up, as is its price over the last 13 weeks (+10%). Medium term, the trend is positive, and the price is up slightly over 52 weeks (+10%).

Current Perceptions-- Gold

Gold (-1.0%) fell again again for a third week. Still, several central banks remain interested in gold as an anti-dollar trade. (Net central bank buying means banks want to diversify their reserves, a polite way of saying they want to dump Dollars.) The overall, technical trend in gold is bullish, unchanged this week. Its price is up over the last 13 weeks (+9%) and up over 52 weeks (+24%).

Current Perceptions-- US Long Treasury Bonds

U.S. 25yr+ Long Bond prices (-0.4%) fell again this week, pushing bonds deeper into the model's cellar. The overall technical trend in Long Treasury prices is very bearish, with its price down over the last 13 weeks (-9%) and down over 52-weeks (-18%). The 10-year yield rose to 3.84% this week. Cash yields were up at 0.05%. That steepened the 3M-10Y-yield curve to 379 basis points. The longer-term steepening trend has resumed—a sign that growth and/or inflation prospects are increasing.

Current Perceptions-- US Large Cap Stocks

U.S. large caps (-0.9%) sank on end of year profit-taking, even as a bearish Fed Check waits in the wings. A flat Dollar had little impact. The overall technical trend in large cap stocks (SPY) remains very bullish this week. Its price is up over the last 13 weeks (+9%) and up over 52 weeks (+20%).

Current Perceptions-- US Small Cap Stocks

U.S. small caps (-1.5%) saw end-of-year profit-taking after a good run in December. A stronger Dollar, as we've seen of late, benefits small firms more than larger multinational ones. Whether that continues in 2010 remains to be seen. The overall technical trend in small caps (IWM) remains very bullish. Its price is flat over the last 13 weeks (+8%) and up over 52 weeks (+24%).

Current Perceptions-- European Large Cap Stocks

European stocks (-0.7%) drifted lower amid sovereign debt fears end of year profit-taking. The overall technical trend in European stocks (IEV) remains bullish, however. Its price is up over the last 13 weeks (+5%), and up over 52 weeks (+24%).

Current Perceptions-- Japanese Stocks

Japanese stocks (-1.9%), dropped, but the free-fall that began in September is still orderly. A stronger Yen has been unwinding that carry trade, has hurt the Japanese economy, and sent stocks in export-driven Japan into the model's pits. The overall technical trend in Japanese equities (EWJ) is only slightly bullish this week. Its price is flat over the last 13 weeks (+2%) and over 52 weeks (+1%) as well.

Current Perceptions-- Latin American Stocks

Latin American equities (+0.8%) rallied for a second week thanks to stronger oil and commodities prices. A flat Dollar was not significant. The Fed Check stays on the back burner another week. The overall technical trend in Latin equities (ILF) is up this week and remains bullish. Its price is up over the last 13 weeks (+13%) and up over 52 weeks (+78%).

Current Perceptions-- Pacific ex-Japan Stocks

Pacific ex-Japan equities (+1.3%), rallied this week. Fear for financials with debt exposure remains, but materials prices in Asia continue to benefit from Chinese demand. The overall technical trend in Pacific ex-Japan equities (EPP) is bullish this week, but has deteriorated considerably this month. Its price is up over the last 13 weeks (+7%) and up over 52 weeks (+56%).

Weekly Commentary-- December 31, 2009

(The Commentary has been split out from the weekly Market Review. This is so the author's words do not sneak up on those who, despite a secret interest in growing their own investments, are annoyed by the author's pro-investor, pro-capital, anti-bureaucrat ranting on behalf of the broader investor class. Forewarned is forearmed.)

Better to be Lucky

The Bush administration spent billions of dollars on homeland security, obviously aware that a repeat of anything close to 9/11 would be politically fatal. Unfortunately, the deficit spending on security reorganization and two wars in the Middle East to bolster that security turned out to be just as politically fatal.

The Obama administration has announced a more humane and "less arrogant" United States, while generally adopting most of the Bush security apparatus and policies, including the war in Afghanistan. The only change to date has been the decision to move the Guantanamo prisoners to a secure facility in Illinois. (Moving them off a Caribbean island to just south of Chicago in dead of winter smacks of torture to me.)

This Christmas we were reminded that, regarding security, as in all things, it is much better to be lucky than to know what you're doing. A Nigerian engineer, trained in Yemen, who should have known what he was doing, failed in an attempt to blow up his own underwear. Say what you will about motive, sanity, or what-have-you, being unable to ignite your own underpants is about as unlucky it gets. I mean, how hard is that? I knew a guy in college, no engineer mind you, who did it by accident, trying to light a fart. (Makes one wonder if the boxers-briefs-jalaba thing played a role...)

Homeland security and the FAA had been advised of the Nigerian's terrorist links by his own father. He was also on a terror watch list in Britain. Even so, they allowed him to board a US plane Christmas Day. They too should have known what they were doing, but evidently remained clueless. Thankfully, the plan was thwarted by observant passengers. That's about as lucky as incompetent bureaucrats get.

Al Qaeda, of course, immediately claimed credit for the failed underpants bomber, knowing full well that the attempt alone would eventually induce the FAA to require all airline passengers to remove their undergarments before passing through gate security. One more reason to take Amtrak.

Let's just hope the FAA never makes airline flights all-nude affairs. Face it: many of the passengers on airplanes today aren't that great looking with their clothes on. We would be downright scary naked. That could shut down air travel faster than a brigade of terrorists who can't find their underwear with a cigarette lighter.

Humor aside, we can be thankful for luck (or Providence) this past Christmas Day. It is very infrequent that, despite abject failure by nearly everyone involved, we manage to avert disaster. Who knows, it may be a portent of better days ahead in 2010.

Here's wishing you a happy, healthy, prosperous new year.