

Dr. BOB FROEHLICH



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FIREWORKS

Sometimes all of the stars just simply align. I'm not sure if there could be a better title for a market commentary in the week of July 4th than "Fireworks." You know you're getting old when you remember going to the Fourth of July fireworks when you were growing up as a kid on the north side of Pittsburgh with your mom, dad, and sister, Mary Ann, and you also remember taking your wife and your own children to the fireworks. It seems like only yesterday when my wife, Cheryl, our two daughters, Marianne and Stephanie, and I were packing up for what seemed like a weekend trip, only to go see the fireworks in our suburban Chicago neighborhood complete with lawn chairs, Frisbees, football, blankets, baseball and gloves, bug spray, food, drinks, playing cards, flashlights—but no kitchen sink as this is the only thing we left at home for this two-hour event.

My favorite part of the fireworks display, both as a child and as an adult, was always the grand finale. The fireworks just kept coming one after another, after another. "Boom, boom, boom, even brighter than the moon, moon, moon." Well, I guess I'm not too old if I can at least remember a few of the lyrics from Katy Perry's hit single on her "Teenage Dream" album titled none other than "Firework."

Sit back and relax as I'm about to set off the grand finale of my Fourth of July investment fireworks. Just like Katy Perry's song, my commentary is going to go boom, boom, boom, with one issue after another, after another, with no time for you to catch your breath.

BOOM...NEW HOUSES FOR SALE

U.S. new houses for sale have just hit the lowest level ever recorded. Back in 1960 when this measurement was developed by the U.S. Census Bureau and the Commerce Department, monthly new houses for sale stood at just under 250,000. By the late 1960s that number dropped below 175,000. By the late 1970s, it surged to more than 400,000. In the 1980s and 1990s, it held constantly above the 350,000 level. Then, with the real estate boom at the turn of the millennium in the year 2000, this number really

soared, topping more than 550,000 new houses for sale each month in 2005 and 2006. We're a far cry from that level today. The most recent reading for May of 2011 is 166,000, which is the single lowest level of new houses for sale ever recorded. In case you ever wondered what the bottom looks like, it looks a lot like this. I'm thinking this is a firework about to happen.

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BOOM...HOUSING PERMITS

At times, we make things too complicated in our business. If you want to take a peek into the crystal ball of what could be in store for our housing market, I have one suggestion for you: Take a look at housing permits issued. Before you can build a house, you first need a permit—sounds like a pretty good leading indicator to me. According to the U.S. Commerce Department, in May of 2011, the three-month average of U.S. multi-family housing permits is up 50% off its low in the summer of 2009. Could these housing permits turn into a housing firework in the future? No one knows for sure, but I do know this: You can't build a house without a permit, and if you're not building a house, why get one? I'm smelling a housing firework.

BOOM...GLOBAL SHIPPING

Sometimes an individual company can give you a peek into what's about to happen. Certain companies become a great proxy for certain things. One such company, in my opinion, is FedEx. They're the industry leader in global shipping. As such, their earnings are a good proxy for the strength or weakness of the global economy. FedEx just reported a 33% increase in quarterly profit. Looks to me like a global economic firework is on the horizon.



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BOOM...EARNINGS ESTIMATE REVISIONS

“Upward” earnings estimate revisions as a percentage of total revisions stood at 66% for the Standard & Poor’s 500 Index.*

As second quarter 2011 earnings season gets set to begin, “upward” earnings estimate revisions as a percentage of total revisions stood at 66%, according to First Call Research, for the 500 companies that comprise the Standard & Poor’s 500 Index.* Previously, the high for the year was back in April when that number stood at 57%.

With earnings potentially heading higher, this too is a firework ready to explode.

BOOM...CREDIT CARD DELINQUENCY RATES

Take a look at the most recent release from the Federal Reserve Board regarding credit card delinquencies. For May of 2011, that number stood at 3.14%, a number last seen in the summer of 2007.

With the financial crisis of 2008 & 2009, that number peaked at close to 6%. Again, cutting credit card delinquencies in half in less than two years’ time could bode very well for some consumer spending fireworks in the second half of this year.

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BOOM...STRATEGIC OIL RESERVES RELEASE

The International Energy Agency (IEA) announced that the United States, along with 27 other countries, agreed to release 60 million barrels of oil from strategic reserves over the coming month. This two million barrels per day takes care of the shortfall from lost Libyan production, and has served as a catalyst for falling oil prices. This has to be a firework for consumers who now find themselves with more money in their pockets.

BOOM...OIL & GAS RIG COUNT

Another great proxy for the global economy is the oil and gas rig count, compiled on a weekly basis by International Strategy & Investment Group in New York. The most recent reading for the week of June 24, 2011, put the oil and gas rig count at 1,960. At the end of 2008 and the first part of 2009, after the collapse of Lehman Brothers when the global economy was on the brink of collapse, the rig count fell to 900. When the oil and gas rig count more than doubles in less than two years, that has to classify as a firework.

Doubling the oil and gas rig count in less than two years has to classify as a firework.

BOOM...CHINA LUXURY SHOPPERS

High-end purse and accessory retailer, Coach, announced that by 2015, they’ll be opening 30 new stores every year in greater China. Do the math—this just might be the biggest luxury shopping firework we’ve ever witnessed.

BOOM...BIG MERGER-AND-ACQUISITION DEALS

Blockbuster merger-and-acquisition deals valued at north of \$2.5 billion just keep on rolling in. PNC Financial Services is buying the U.S. retail operation of the Royal Bank of Canada for \$3.6 billion, while Williams, a global energy and communications company, announced its intent to acquire Southern Union for \$4.86 billion. There’s no greater confidence boost for our markets than an ongoing parade of blockbuster mergers and acquisitions. This is clearly a firework for business confidence, and maybe investor confidence too.

I’ll bring this commentary to a close with my customary pearls-of-wisdom quote. This one’s an anonymous quote about freedom: “Freedom is never given, it is won.” Alright, everybody, join in and sing along with Katy Perry and me: “Boom, boom, boom, even brighter than the moon, moon, moon...’Cause baby you’re a firework. Come on show ’em what you’re worth.”

P.S. I wanted to give a special thank you to all of our men and women in the Armed Services, both past and present, who put their lives on the line every single day so that we can enjoy and celebrate our freedom on the Fourth of July, and every other day as well. God bless America, and God bless our troops!

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Dr. Bob Froehlich’s sources of information include Bank of Canada, The Bank of England, Bank of Japan, Bloomberg News, Business Roundtable, China Investment Corporation, CIA, World Fact Book, CNBC, Congressional Budget Office, Deutsche Bank, The European Monetary Union, Federal Reserve Board, The Financial Times, Freddie Mac, FOX Business, Goldman Sachs, International Monetary Fund, International Strategy & Investment, Journal of Commerce, Merrill Lynch, PIERS Global Intelligence

Solutions, Strategas Research, Thomson Reuters, Union Bank of Switzerland, U.S. Census Bureau, U.S. Department of Commerce, U.S. Department of Labor, U.S. State Department, U.S. Treasury Department, The Wall Street Journal, and The World Bank.

PAST ECONOMIC PERFORMANCE DOES NOT ENSURE FUTURE RESULTS.

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* The S&P 500 Index is a composite of the 500 largest companies in the United States.

All information and representations herein are as of 6/11, unless otherwise noted.

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