



Market update

Innovation

- Researchers at McGill University have derived how memories of pain are stored in the brain and how they can be erased. The central nervous system is known to 'remember' painful experiences and leave a trace of that pain so that the brain can make a light touch feel excruciating. **Psychology is enormously important to investing and the more insight that we gain into ourselves, the better that we understand the ways human behavior affects the marketplace. I'm curious to know if the pain of 2008's drop amplified investor reactions to this summer's sharp drop in the markets.**
- MicroCHIPS, Inc. and MIT have developed a wirelessly controlled, programmable semiconductor used to deliver medication. The device is currently being used to administer daily doses of an osteoporosis drug that is normally injected. It's possible that these programmable chips could dramatically change the treatment of many other diseases such as MS and cancer. **It looks like 4 private capital firms and Medtronic are investing in this technology.**
- Harvard University has created a nanorobot made from a DNA origami based system is made of separate components and bound by a hinge. When the nanobot comes in contact with the target cell, it exposes its contents which contain instructions for the cell to self destruct. This is a major breakthrough in nanobiotechnology which could help to fight cancer in the future.
- According to Google's employees, Google is producing augmented reality glasses that will be available by the end of the year. The Android-based glasses will have 3G or 4G data connection, motion sensors, and GPS. **My best guess is that this device will not sell well initially; however, augmented reality will eventually become the mainstream. On the other hand, if Apple was producing these glasses, this would be an instant hit because they would be fashionable.**

Geopolitics

- The conflict in Syria is starting to spread through the region. Gunbattles are breaking out along sectarian lines and embroiling neighboring countries. Syria's minority Alawites (Muslim sect) are fighting with the Sunnis (another Muslim sect) and this is causing tension in the neighboring countries of Lebanon and Iraq. **It's always worth keeping an eye on the Middle East. This recent breakout of sectarian violence is crossing borders and may engulf the region which includes many oil producing nations.**
- A growing insurgency calling itself Boko Haram is causing violence in Nigeria, a strategically important oil producer. The group is demanding jobs and sharia law. On Wednesday, armed gunmen stormed the Nigerian capital of Abuja and freed over 100 inmates. Boko Haram has grown to 10,000 members fueled by economic and political conditions. It's reported that Al Qaeda is providing expertise in the building of car bombs and IEDs. Boko Haram literally means "Western learning is Sin" and may pose an increasing threat to the West. **Nigeria is also a large oil producer and this groups' increasing violence may have an impact on oil prices.**
- A suicide bomber in Pakistan drove a motorcycle packed with explosives into a crowded market in Peshawar (Borders Afghanistan) killing 23 Shi'ite Muslims and wounding 50. **Our 'ally' has some serious issues which include the sectarian violence between Muslim groups noted in the Syrian conflict.**
- The US, Afghan president Hamid Karzai, and the Taliban are trying to broker a peace deal. Karzai has travelled Pakistan seeking Islamabad's approval. **Hamid Karzai, president of Afghanistan, was not previously included in peace talks involving his own country. Karzai has chosen to speak with the Pakistanis for legitimacy and asked to have direct talks with the Taliban. The Taliban continue project power into Afghanistan from Pakistan. Pakistan continues to be a safe haven for our enemies.**



Market update

- German president Christian Wulff resigned on Friday due to rising criticism about corruption. Recently there have been a series of disclosures of what could be interpreted as bribes and prosecutors are seeking the ability to open up a criminal investigation. **Politicians acting poorly...**
- Dominique Strauss Khan is back in police custody. The former IMF Chief (and French presidential hopeful) is implicated in a prostitution ring involving Paris and Washington D.C. **Where there's smoke there's often fire.**
- The Eurozone agreed to a €130 Billion bailout for Greece. Creditors agreed on larger write downs and Greece will avoid default... for the time being. **This story will just not end. Greece has defaulted already. Get over it. Asking creditors to write down 50% of their debt is the definition of a default (failure to pay back original loan) whether they are 'voluntary' or not.**

National

- The National Security Agency has warned that Anonymous will shut down the power grid through a cyber attack. **Anonymous is a group of hackers that have organized cyber attacks for political reasons. Considering the recent SOPA and PIPA legislation and its failure, this may simply be a bureaucratic power grab where a legislative power grab has failed.**
- The Fed has rewritten the rules governing the US financial system. Although the Fed has said that its aim is increased transparency, the new rules have been written in secrecy. Since July, 2010, the Fed has held 47 votes on new regulations affecting the financial industry behind closed doors. **Stories like these aren't likely to boost the public image of the Fed. No wonder the Fed recently hired lobbyists and marketers to improve its public image.**
- Presidential hopeful Rick Santorum has charged to the front of the GOP pack. Santorum's platform includes a 0% tax on manufacturing and a focus on social issues. **With the stock market and economy**

starting to pick up steam the GOP is now changing the debate to focus on social issues rather than economic issues. This partially explains the rise of Rick Santorum as the 'socially conservative' candidate. The key here is the economy may become less of a factor in the presidential bid. Furthermore, the market may continue to rally because of potential political gridlock.

Macroeconomic Environment

- Economic data were stronger for the 20th consecutive week and governments continue to enact stimulative measures. There have been almost 100 instances of government stimulus in the past six months. **No one knows how much of an affect that these stimulus measures will have, but it appears to be substantial.**
- The lagging economies of the Eurozone and Japan remain a threat to corporate earnings and the earnings driven rally. Oil prices have also started to creep up and unrest in the Middle East & Africa is always a concern. **A sharp rise in oil prices remains a risk as well as a deeper than expected recession in Japan or the Eurozone. It seems that the Eurozone crisis has been contained to the periphery for the time being.**
- A slowdown in Global GDP due to the Eurozone crisis and Japanese earthquakes is causing S&P earnings to decelerate to 8.3% YoY. **Any further deterioration in the global economy may impact forward earnings and warrant attention.**
- On a positive note, last week's domestic retail sales, Empire manufacturing index, industrial production, unemployment claims, and Philly Fed survey all point to a economy that is gaining strength. **It's possible that any weakness in Global GDP will be overcome by a strengthening US economy. Perhaps things will just get better.**
- Yesterday the Dow briefly flirted with the 13,000 mark, an area of resistance and an important psychological barrier for the markets. **Ideally, we'd like to see the market break through the 13,000 level in**

Market update

strong volume and this would indicate further upside. Most likely, we'll see the markets flirt with this level over the next few sessions before acting decisively. A pullback from this level is not out of the question.

Microeconomic Environment

- Apple (AAPL) is now the largest company in the world as measured by its \$475 Billion market cap. The company now makes up for 3.9% of the S&P 500. Some analysts are calling for a \$650 price target, which would equate to AAPL making up 5% of the S&P 500. **AAPL has been a great investment. Although the fundamentals can justify a higher share price, and we maintain a large investment in the company, we are watching this company closely for any chinks in its armor. Only a few years ago, Research in motion's (RIMM) Blackberry was the Wall Street darling. Now people are talking about RIMM in bankruptcy. Technology is fiercely competitive and a winner-take-all market. Although some tech companies are able to innovate to stay ahead of the curve (think Intel), this is a landscape that is constantly changing.**
- Restaurant stocks continue to be hot. I've been a fan of Chipotle (CMG) for quite some time and the company has had an incredible run. Buffalo Wild Wings is also showing considerable growth. Buffalo Wild Wings (BWLD) recent 4Q EPS rose 33%, beating estimates while sales also accelerated. The stock increased by more than 15% in one session. We are monitoring the stock for new entry points. Panera (PNRA) is also a market leading stock that increased earnings by 17% and revenue by 16% during its last earnings release. Panera's momentum has stalled somewhat, but this seems to be in line with its trading history and the company's fundamentals remain strong.
- Priceline (PCLN) continues to post strong earnings and revenue growth despite Eurozone troubles. Although the company has significant exposure to Europe, the company has been able to post a 54% increase to annual EPS growth. **PCLN reports on February 27th and we are monitoring the company for any changes to its strong fundamentals particularly due to its large exposure to the Eurozone. The stock is trading at its highest level in over a decade.**
- Herbalife (HLF), a network marketing company that sells weight management and nutritional supplements, just reported a quarterly revenue increase of 20% and earnings growth of 22% yesterday. The company guided higher and its stock broke out to new highs. **Herbalife has had a long run and continues to grow. Yesterday's earnings release suggests that its growth continues to accelerate.**