



Market update

Innovation

- A new paint developed by the University of Michigan can be applied to airplanes or drones to make them invisible in the night sky. The paint, made of carbon nanotubes absorbs just about anything including visible light and radar.
- A new planet, Kepler 22b, was discovered about 600 light years away from earth. This planet is located in the 'Goldilocks' zone, a region where the distance from its host star creates an environment where water can exist in its liquid state. The planet is about six times the size of earth and has an orbit of 290 days, making it similar to our own planet. Its host star is also the same type of star as our sun, although it is slightly smaller and much cooler.

Geopolitical

- A US drone was shot down by Iranian armed forces while flying deep in their territory. Iran claims that the US stealth-version of RQ-170 (the Sentinel) drone was shot down over the Iranian town of Kashmar, 140 miles from the Afghani border. Iranian press reported on the story on Sunday, but did not indicate when the drone was shot down. US officials claim that a drone crashed over the weekend, but denied that it was shot down. Other US officials, speaking anonymously due to the classified mission, have said that the US has been spying on Iran for years from an airbase in Afghanistan. According to these anonymous officials, the airbase in Shindad, Afghanistan has been used for surveillance missions to monitor Iranian presence and to launch Spec-Ops if necessary. Previously, the Sentinel drone had been disclosed as instrumental in keeping watch on Osama Bin Ladens compound in Pakistan as the raid took place. **It's becoming more and more evident that we are already at war with Iran. Currently this is a 'stealth' war, but certainly has the possibility to escalate.**
- Following Joe Biden's announcement that the US is going to assert its power in the Pacific amid rising regional tension and regional disputes, Hu Jintao, president of China, told the Chinese navy to accelerate

its preparations for military combat and safeguard national security. Hu told the powerful Central Military Commission (China) to emphasize national defense and military building. The US and its Asian allies have expressed concern about China's rising military ambitions in the South China Seas. China claims that it 'owns' all the energy assets in the South China seas, while its neighbors believe otherwise. 33% of the world's seaborne trade passes through the South China Seas. **Given that China is the single largest holder of our national debt, the chest pounding deserves attention, particularly when the US has mutual defense treaties with Japan, South Korea, Taiwan, Pakistan, Thailand, Bangladesh, and Vietnam. So far US officials have downplayed the rhetoric.**

National

- While gearing up for the national presidential elections for 2012, President Obama has ramped up the rhetoric. In the presidential cycle, this is the point where incumbents start to determine the platform for the national debate in the the elections. In this week's speech in Kansas, Obama identified his belief that there should be a strong governmental role in regulation and taxation to level the economic playing field. Obama said that income inequality was undermining the middle class. At this point, Obama is trying to position himself as the defender of the middle class while Republicans are defenders of a small elite class. Anticipating the Republican argument that he is engaged in class warfare, Obama stated that he was fighting for our nation's welfare. During the speech, Obama identified corporate greed as the cause of the turmoil and adopted the 1% rhetoric of the Occupy protestors. No president has been reelected with an unemployment rate as high as it is today since the Great Depression.
- This is the last month of campaigning before the Iowa caucuses. According to the Iowa Poll, the top three most popular candidates for Iowa caucus goers are Newt Gingrich, Ron Paul, and Mitt Romney. Newt Gingrich

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is scrambling for resources and didn't have a campaign office in Iowa until last week. Newt's poll numbers have surged due to his debate performances and the campaign implosions of Hermain Cain, Michelle Bachman, and Rick Perry. Newt has some obstacles to overcome. His recent comments regarding inner city kids working as school janitors, co-sponsoring 418 bills with Nancy Pelosi, voting for TARP, millions in 'consulting' fees from Freddie Mac prior to the crisis, supporting an individual mandate for health care, close ties to pharmaceutical companies, and tumultuous personal affairs have not yet affected his poll numbers. Mitt Romney slumped from first place in the Iowa poll to third place right behind Ron Paul. Mitt Romney has been focusing his efforts in New Hampshire, where he has a better chance of winning. Ron Paul, with the most loyal and organized supporters of any candidate, has surged in Iowa, where he placed a close second to Michelle Bachman in this summer's Ames/Iowa Poll.

- The House Financial Services Committee will hold a vote next week on legislation to ban insider trading by members of Congress. Under the current law, Congress can trade on inside information gained through non-public sources. Being able to trade stocks based on pending legislation with non public information seems like a huge conflict of interest. **It's amazing that this form of corruption is legal.**
- Former Illinois Gov. Rod Blagojevich was sentenced to 14 years in prison for corruption
- John S. Corzine, former US senator (D), Chairman and CEO of the now bankrupt MF Global, and governor of New Jersey will provide testimony to several house committees after being served multiple subpoenas. His current position is that he made bad trades and has no idea where to find the \$900 million of his client's money. **Anyone else spotting a trend in these news stories showing that our government is full of corruption?**

Macroeconomic Environment

- The ECB is continuing its easing cycle, cutting their benchmark rate by 25bps to 1%. Recently, Mario Draghi, former Goldman Sachs executive, took control of the ECB from Jean Claude Trichet. Jean Claude Trichet was an inflation hawk. Mario Draghi, on the other hand, is much more dovish and this is the second consecutive rate cut since taking over. Where Trichet saw inflation, Mario Draghi sees deflation as a greater risk. Furthermore, the ECB will make two offers of unlimited credit to euro-zone banks and will cut its reserve requirement for commercial banks from 2% to 1% as well as widening the pool of assets accepted as collateral. The ECB has lowered the credit quality of acceptable assets from AA to A-. **For those who have been watching the Eurozone crisis, Jean Claude Trichet has seemed like a madman. Having Mario Draghi at the helm of the ECB has helped to stabilize markets. This also marks a key policy shift which is taking place worldwide. Initially, Bernanke was the only monetary policy maker cutting rates and increasing liquidity to support banks. As repugnant as the behavior of banks has been over the past decade, allowing them to fail would be catastrophic to the world wide economy. Last week the Fed basically pre-empted the ECB's quantitative easing with a massive injection of funds into the ECB to fund the ECB to bail out banks due to the slow progress in the Eurozone. It appears that we were on the edge of a Lehman moment last week.**
- The Institute for Supply Management's non-manufacturing index fell to 52 last month from 52.9 in October. **A reading below 50 is the level which indicates contraction. Home prices continue to fall and wage growth remains restrained, although the employment situation is starting to improve. Europe's debt crisis and gridlock in Washington remain obstacles to expansion.**
- According to the Mortgage Bankers Association, new mortgage and refinancing

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applications jumped during the first week of December. **Considering how low housing has gone and the low levels of interest rates, it appears that there is finally some activity in housing.**

- US consumer credit rose in October by 7.65 Billion, to 2.46 trillion, its highest level in two years. **At this point, this may be a good sign that consumers are willing to take on additional credit to make purchases; on the other hand, it may show that consumers are facing additional stress. Given the recent improvement in the jobs situation, it's probably due to the former.**
- This week's release of initial jobless claims clocked in at 358k well below estimates of 370k. The previous labor report saw a drop in the unemployment rate from 9.0% to 8.6%. **We are finally seeing some real job growth. Some of the decrease is due to marginally attached workers leaving the labor force, but the trend in jobless claims is certainly a good sign.**

Microeconomic Environment

- Ford Motor Co. (F) has decided to pay shareholders a dividend for the first time since 2006. **Out of the Big Three, Ford is the only automaker that did not require some form of bailout funding. Recently, Ford's bond rating was also upgraded. This bodes well for this automaker.**
- The currency wars between China and the US continue. China currently pegs the Yuan against the dollar and is viewed as a currency manipulator. Decreasing demand for Chinese exports will put pressure on China to stop its currency from rising. The US has been pushing China to let its currency appreciate. **When a country's currency weakens relative to its trading partners exports increase. China's GDP growth is in large part due to the fact that it always keeps its currency weaker than the dollar so that they can increase exports. This is also a main reason why the trade deficit between the US and China is so large. Many believe that if China allowed it's currency to appreciate,**

that they would buy more of our goods, and that we would buy less of theirs.

- Deckers (DECK) continues to show strong growth. The maker of Ugg sheepskin luxury boots has produced double digit growth in sales for the past eight years and currently shows no signs of slowing. They have also produced a new line of handcrafted Italian footwear retailing for \$500-1500 to go along with their high end handbags (\$650-1950). **This company has excellent management and entering the high end market should have a halo effect on their lower cost goods. Decker's revenue growth nearly 50%. Decker's stock price has increased by more than 25% for 2011 so far.**
- **Individual stocks have been held hostage to the European debt crisis since the middle of July. Although 3Q S&P earnings were some of the best in history, the markets remain at the mercy of European policy makers. Just a few short weeks from the end of the year, many banks are maintaining 1300+ estimates for their yearend price targets for the S&P 500. If it wasn't for the ongoing European debt debacle, the markets would already likely be far higher. If the European contagion is not fixed sooner rather than later, the markets will be in for a bumpy ride.**