

US: Too Early to Say Strong Recovery!



The Dow Jones Industrial Average rose above 9,000 for the first time since January on better-than-expected results. Among S&P's 500 Index companies that have posted second-quarter results, 75% beat the average analyst forecast, according to data compiled by Bloomberg. That has been the highest rate for a full quarter since 1993. At the same time, Federal Reserve Chairman Ben S. Bernanke also told the House Financial Services Committee last week that the central bank intended to maintain a "highly accommodative" monetary policy for an extended period. This boosted the optimism that the market was full of liquidity. On the economic front, 7 of the 10 indicators rose in June, including building permits, stock prices, manufacturers' new orders for consumer goods and positive readings on jobs. In addition, more plans to build homes, higher stock prices and fewer people filing first-time claims for jobless aid sent a

private-sector forecast of the US economic activity higher than expected in June. Although the US economy probably contracted at a 1.5% annual rate in the second quarter, after shrinking 5.5% in the previous three months, according to the median forecast of 66 economists surveyed by Bloomberg News, it was indeed the third consecutive monthly increase for the Conference Board's index of leading economic indicators, and another sign pointing toward the recession ending later this year. The index rose 0.7% last month. All these paved the way for risk appetite. However, sales growth for companies in the S&P's 500 Index lagged behind profits as they beat analysts' estimates last week, a signal that economic recovery might be slow. For example, second-quarter revenue at Caterpillar Inc. tumbled more than 30% from a year earlier, though earnings

topped analysts' predictions. With regard to the property market, the National Association of Realtors said sales rose 3.6% last month. But the main reasons for the recent increase in existing home sales were tax credit incentives and seasonal effects. For example, June is traditionally one of the strongest months for house sales, as families prepare to move before the new school year starts. House prices were still down 15.4% on a year ago. The average sale price now stands at \$181,000. What we can say is that the bottoming process is under way in housing market. The economy is not going to come roaring back. For the coming week, revenue at 143 companies in the S&P 500 will be reported. Revenues for these bellwethers are expected to fall on average 10% from a year ago, according to Bloomberg data. **B**

Microscope

Hedging against the S&P's 500 Index declined for the first time since May as investors shorted fewer shares of financial institutions. Overall short interest on the Index fell to 9.98 billion shares as of July 15, a decrease of 0.2% from two weeks earlier. The Index increased 1.5% during the first two weeks of July, while financial companies gained 2.7%. Short interest in AIG, the insurer bailed out by the US government, fell the most of any S&P 500 company. Coincidentally, the company said on July 15 that it would receive almost \$1 billion by selling mortgage-backed certificates to Credit Suisse Group AG. On the other hand, after several days of nearly endless debate, California lawmakers on last Friday signed off on a budget deal that closes a \$26 billion gap and shores up state finances. The budget, an agreement made in near secrecy among party leaders and Gov. Arnold Schwarzenegger, contains more than \$15 billion in cuts to services, but spares local governments from serving as unwilling cash machines for the state's general fund, and discards a plan to drill for oil off the coast of Santa Barbara, according to Bloomberg. **B**

MARKET BRIEFING

YTD % (local curr)

US DJ	9,093 (3.6%)
Nasdaq	1,965 (24.7%)
Euro Stoxx 50	2,582 (5.4%)
HSI	19,982 (38.9%)
Japan NK225	9,944 (12.2%)
China Shanghai Composite	3,372 (85.2%)
Singapore	2,533 (43.8%)
India BSE30	15,378 (59.4%)
Brazil BOVESPA	54,457 (45.0%)
Aus All Ord	4,097 (12.0%)
US-10yr Bond	Yield 3.66%

As at 24/07/09

Insight:

"Accumulator vs. ELN"

Accumulators, or share forward accumulators, are financial derivative products sold by an issuer (seller) to investors (the buyer) that require the issuer to sell shares of some underlying security at a predetermined strike price, settled periodically, say, every month. This allows the investor to "accumulate" holdings in the underlying security over the term of the contract. The basic idea of an accumulator contract is that the buyer speculates a company will trade between a certain price range, that is, the range between the strike and the knock out price, within the contract period, and the issuer bets that stock will fall below the strike price.

The buyer of this contract holds an obligation to buy the shares at the strike price and not the option to buy. Likewise, the issuer holds an obligation to sell shares at the strike price. On the other hand, an equity-linked note (ELN) is similar to a debt instrument except that the return on investment is tied to the performance of the equity market. The underlying may be a stock index, a basket of stocks or a single stock. Depending on the terms of the agreement, the investor could benefit from gains in the market without purchasing the actual stocks. Should the underlying index or stock fall below the predetermined price during an observation time or upon maturity, the investor would lose either interest or principal or both or be required to take delivery of stock upon maturity at above market price. **B**

A-Z Financial Tools

Dead Cat Bounce is a figurative term used by traders in the investment sector to describe a pattern wherein a spectacular decline in the price of a stock is immediately followed by a moderate and temporary rise before resuming its downward movement, with the connotation that the rise was not an indication of improving circumstances in the fundamentals of stocks. **B**



IBC Group

Comprehensive Financial Planning
Wealth Management Advisory
International Business Advisory
Call 2268 6308
Email: insider@ibccapital.com

Next Insight

"Interest Rate Cycle Analysis"