

# MONTHLY EconUpdate

FEBRUARY 6, 2012

Provided By:

Terry Garland  
Garland & Associates  
1200 Valley West Drive Ste. 302  
West Des Moines, IOWA 50266  
[www.garlandandassoc.com](http://www.garlandandassoc.com)  
515-226-0115  
IOWA Insurance License #yes



**GARLAND & ASSOCIATES**

WEALTH MANAGERS  
RETIREMENT SPECIALISTS

Securities offered through First Allied Securities, Inc., A Registered Broker/Dealer.  
Member: FINRA/SIPC.

All third party materials are the responsibility of their respective authors, creators, and/or owners. First Allied Securities, Inc. is not responsible for third party materials, and the information reflects the opinion of its authors, creators, and/or owners at the time of its issuance, which opinions and information are subject to change at any time without notice and without obligation of notification.

These materials were obtained from sources believed to be reliable and presented in good faith, nevertheless, First Allied Securities, Inc. has not independently verified the information contained therein, and does not guarantee its accuracy or completeness.

The information has no regard to the specific investment objectives, financial situation, or particular needs of any specific recipient, and is intended for informational purposes only and does not constitute a recommendation, or an offer, to buy or sell any securities or related financial instruments, nor is it intended to provide tax, legal or investment advice. We recommend that you procure financial and/or tax advice as to the implications (including tax) of investing in any of the companies mentioned.

At any time First Allied Securities, Inc. and its affiliates (or employees thereof) may have a long or short position, or deal as principal or agent, in relevant securities or provide investment banking services (such as acting as placement agent and/or underwriter), advisory services or other services to the issuer of relevant securities or to a company connected with an issuer, and thus we face an inevitable conflict of interest.

# MONTHLY ECONOMIC UPDATE

February 2012

## MONTHLY QUOTE

“When we recall the past, we usually find that it is the simplest things - not the great occasions - that in retrospect give off the greatest glow of happiness.”

– *Bob Hope*

## MONTHLY TIP

If you are thinking about a reverse mortgage, you might consider an interfamily loan as a friendlier, lower-cost alternative. Either way, it may be wise to speak with a financial professional before making this kind of decision.

## MONTHLY RIDDLE

Sometimes you pass me slowly, yet other times I just fly by. Sometimes I simply slip away. Regardless of how slow or fast I am, one thing's for sure: when I'm gone, I'm gone for good. So what am I?

### Last month's riddle:

What can you fill with empty hands?

### Last month's answer:

Gloves.

## THE MONTH IN BRIEF

In recent stock market history, there have been many peaks and valleys. January 2012 represented a peak; it was the best January for U.S. stocks since 1997, with the S&P 500 rising 4.36%. It was also the S&P's best month overall since October. Wall Street seemed to worry a little less about Europe during the month and a little more about subpar stateside indicators like consumer spending and home sales. Still, the mood was definitely bullish.<sup>1,2</sup>

## DOMESTIC ECONOMIC HEALTH

Consumers were earning more – and apparently saving more of what they earned. Personal incomes rose 0.5% in December, and so did the personal saving rate, yet personal spending was flat for the month. After consumer spending increases of only 0.1% in October and November, this seemed to hint at a slowing economy in the last quarter of 2011. However, the jobless rate was at 8.3% in January, the lowest level in three years, thanks to the addition of 243,000 jobs.<sup>3, 24</sup>

Was consumer confidence wavering? It depended on which barometer you checked. The Conference Board's January survey fell to 61.1 from December's 64.8 final revised mark, in the previous month, according to the Conference Board. Economists polled by Reuters had thought it would climb to 68.0. The University of Michigan's consumer sentiment survey made a major advance in January, going to 75.0 from the year-end mark of 69.9.<sup>2,4</sup>

The initial estimate of Q4 2011 GDP arrived in late January; a growth of 2.8%, the best in six quarters, was still below the expectations of some analysts. Speaking of growth, our manufacturing sector grew for a thirtieth straight month in January, according the PMI index of the Institute for Supply Management, rising a full percentage point to 54.1. ISM's service sector index had also posted a December advance to 52.6 from 52.0. Not surprisingly, durable goods orders improved 3.0% in December, the third consecutive monthly gain for the indicator; orders for hard goods increased 10.0% across 2011.<sup>4,5,6,7</sup>

As for consumer and wholesale inflation, the threat was mild to say the least. In fact, the Consumer Price Index didn't budge in December and the Producer Price Index retreated 0.1% (with import prices falling for the fourth month in five). So, 2011 goes in the books with 3.0% consumer inflation and 2.2% core inflation; the most since 2007, but hardly remarkable.<sup>8</sup>

## GLOBAL ECONOMIC HEALTH

Efforts to restructure Greece's debt fell apart at mid-month, but picked up some momentum. At the end of January, a deal looked imminent, but in the eyes of some analysts, investors would have to accept as much as a 70% haircut on Greek bonds to take Greece's debt-to-GDP ratio down to a sustainable 120% or so. Last month, Standard & Poor's downgraded credit ratings of nine EU nations: it cut ratings for France, Austria, Slovakia, Slovenia and Malta by a notch and Italy, Portugal, Spain and Cyprus by two notches, commenting that the European Union's debt reduction plan was not of “sufficient size or scope”.<sup>9,10</sup>

Manufacturing did pick up in some key economies in January. Our key PMI (the ISM survey) improved for the seventh straight month, and China's official PMI improved 0.2% to 50.5 with new orders at a three-month peak. The U.K.'s PMI climbed above 50 again to 52.1. Germany's manufacturing index advanced for the first time since September, and that helped the EU's Markit PMI rise to 48.8 last month, but the Markit PMI has been below 50 (read: contraction) since last July.

Overall, JPMorgan's global manufacturing index rose to 51.2 last month.<sup>11</sup>

## WORLD MARKETS

Broadly speaking, it was a very good month for equities. Three of the BRICs posted outstanding gains: Sensex, +11.2%; RTSI, +14.1%, Bovespa, +11.1%. (The Shanghai Composite went +4.2% last month.) Argentina's Merval pulled off a 13.2% gain and the Hang Seng rose 10.6%; the MSCI Emerging Markets Index climbed 11.2%. Other notable indices and their January performances: Dow Jones Asia Pacific Index, +8.1%; MSCI World Index, +4.9%; Nikkei 225, +4.1%; DAX, +9.5%; CAC 40, +4.4%; FTSE 100, +2.0%; KOSPI, +7.1%; All Ordinaries, +5.2%; TSX Composite, +4.2%. At the back of the pack among indices of consequence: Spain's IBEX (-0.7%) and Malaysia's Kuala Lumpur Composite (-0.6%).<sup>12,13</sup>

## COMMODITIES MARKETS

Metals set the pace in the sector last month. Gold fully rebounded from a poor December with a 10.91% monthly gain. Copper futures gained 10.30% and silver futures soared 19.15%. RBOB gasoline futures rose 8.79% on the NYMEX last month; retail pump prices went up 5.32%. Oil (-0.35%) and natural gas (-16.26%) retreated thanks to lessening demand and warmer weather. Key crop futures rose and fell, with coffee going -5.07% on the month, corn going -1.16%, cotton +3.09% and wheat +2.03%. The U.S. Dollar Index fell 1.37%.<sup>14</sup>

## REAL ESTATE

The bad news seemed to outweigh the good news in this sector. The National Association of Realtors said that existing home sales improved 5.0% in December; in mid-January, Freddie Mac reported another record-low average interest rate for the 30-year FRM (3.88%, and a new record low would be set in early February). On the other hand, NAR reported a 3.5% dip in pending home sales in December and the November Case-Shiller Home Price Index slipped for October, its third straight monthly descent. While the Commerce Department noted that single-family home starts hit their highest level since April 2010 in December, overall housing starts dropped 4.1% for the month and new home sales slipped 2.2% to an annual rate of just 307,000. The annual new home sales pace is around 750,000 in a decent year.<sup>8,14,15,16</sup>

Here was the change in average home loan interest rates between Freddie Mac's December 29 and February 2 Primary Mortgage Market Surveys: 30-year FRMs, 3.95% down to 3.87%, 15-year FRMs, 3.24% down to 3.14%; 5/1-year ARMs, 2.88% down to 2.80%; 1-year ARMs, 2.78% down to 2.76%.<sup>17,18</sup>

## LOOKING BACK...LOOKING FORWARD

January was the best month for all three headline U.S. stock indices since October. The DJIA ended January at 12,632.91, the S&P 500 at 1,312.41 and the NASDAQ at 2,813.84. The CBOE VIX (the so-called "fear index") was near 19 at month's end.<sup>1,2,19</sup>

| % CHANGE   | Y-T-D     | 1-MO CHG | 1-YR CHG  | 10-YR AVG  |
|------------|-----------|----------|-----------|------------|
| DJIA       | +3.40     | +3.40    | +6.23     | +2.73      |
| NASDAQ     | +8.01     | +8.01    | +4.21     | +4.55      |
| S&P 500    | +4.36     | +4.36    | +2.04     | +1.61      |
| REAL YIELD | 1/31 RATE | 1 YR AGO | 5 YRS AGO | 10 YRS AGO |
| 10 YR TIPS | -0.28%    | 1.08%    | 2.40%     | 3.48%      |

Sources: [online.wsj.com](http://online.wsj.com), [bigcharts.com](http://bigcharts.com), [treasury.gov](http://treasury.gov) - 1/31/12<sup>1,20,21,22,23</sup>  
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.  
These returns do not include dividends.

We had a very nice January, and while you can't gauge tomorrow's market behavior off history, it is encouraging to note that the S&P 500 advanced an average of 23%

during the last five years in which it gained 4% or more for January. Another nice tidbit: when the Dow has had a positive January, it has finished that year in the black 82% of the time.<sup>1,2</sup>

Manufacturing seems to have picked up around the globe, and our manufacturing sector might be among the world's healthiest. We still seem to be in a slow recovery, and the chance of a recession in the European Union (along with its sovereign debt morass) may exert a drag on our markets in February and beyond. Still, it looks like Greece is in line for a second IMF bailout and an actual "solution" toward its debt problem, so institutional investors might be less troubled by the EU debt crisis. If our economy goes to stall speed, the Fed could even opt for a QE3 in the coming months (a possibility in the opinion of some Wall Street analysts). February holds a lot of promise; for the first month in many, world markets may turn on headlines from America instead of Europe.

**UPCOMING ECONOMIC RELEASES:** Here is the schedule for the rest of the month: the initial University of Michigan consumer sentiment survey for February (2/10), January retail sales and December business inventories (2/14), January industrial output and the January 25 FOMC minutes (2/15), the January PPI and January housing starts and building permits (2/16), the January CPI and the Conference Board's Leading Economic Indicators index for February (2/17), January existing home sales (2/22), January new home sales and the final University of Michigan consumer sentiment survey for the month (2/24), January pending home sales (2/27), January durable goods orders, the December Case-Shiller home price index and the Conference Board's February consumer confidence poll (2/28), and the second estimate of Q4 GDP plus a new Beige Book from the Fed (2/29). The January consumer spending numbers come out on March 1.

***Please feel free to forward this article to family, friends or colleagues.  
If you would like us to add them to our distribution list, please reply with their address.  
We will contact them first and request their permission to add them to our list.***

This material was prepared by MarketingLibrary.Net Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. Marketing Library.Net Inc. is not affiliated with any broker or brokerage firm that may be providing this information to you. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is not a solicitation or recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is not possible to invest directly in an index. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. (NYMEX) is the world's largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions – the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. BSE Sensex or Bombay Stock Exchange Sensitivity Index is a value-weighted index composed of 30 stocks that started January 1, 1986. The RTS Index (RTSI) is an index of 50 Russian stocks that trade on the RTS Stock Exchange in Moscow. The Bovespa Index is an index of about 50 stocks that are traded on the São Paulo Stock, Mercantile & Futures Exchange. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The Merval Index (MERcado de VALores) is the most important index of the Buenos Aires Stock Exchange. The Hang Seng Index is a freefloat-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The Dow Jones Sustainability Asian Pacific Index (DJSI Asia Pacific) captures the leading 20% of the top 600 companies in developed Asia Pacific Markets in terms of sustainability. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The FTSE 100 Index is a share index of the 100 most highly capitalized companies listed on the London Stock Exchange. The KOSPI Index is a capitalization-weighted index of all common shares on the Korean Stock Exchanges. The S&P/ASX All Ordinaries Index represents the 500 largest companies in the Australian equities market. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The IBEX 35 is the benchmark stock market index of the Bolsa de Madrid, Spain's principal stock exchange. The Kuala Lumpur Composite (FTSE Bursa Malaysia KLCI) comprises the largest 30 companies listed on the Malaysian Main Market by full market capitalization that meet the eligibility requirements of the FTSE Bursa Malaysia Index Ground Rules. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The US Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. All economic and performance data is historical and not indicative of future results. Market indices discussed are unmanaged. Investors cannot invest in unmanaged indices. The

publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

## Citations.

- 1 - [blogs.wsj.com/marketbeat/2012/01/31/data-points-u-s-markets-77/](http://blogs.wsj.com/marketbeat/2012/01/31/data-points-u-s-markets-77/) [1/31/12]
  - 2 - [www.cnbc.com/id/46203174/](http://www.cnbc.com/id/46203174/) [1/31/12]
  - 3 - [www.nytimes.com/2012/01/31/business/economy/incomes-rise-but-spending-is-flat.html](http://www.nytimes.com/2012/01/31/business/economy/incomes-rise-but-spending-is-flat.html) [1/30/12]
  - 4 - [www.cnbc.com/id/46162429](http://www.cnbc.com/id/46162429) [1/27/12]
  - 5 - [www.ism.ws/ISMReport/MfgROB.cfm](http://www.ism.ws/ISMReport/MfgROB.cfm) [2/1/12]
  - 6 - [www.ism.ws/ISMReport/NonMfgROB.cfm](http://www.ism.ws/ISMReport/NonMfgROB.cfm) [1/5/12]
  - 7 - [www.marketwatch.com/story/durable-goods-orders-up-strong-30-in-december-2012-01-26-92200](http://www.marketwatch.com/story/durable-goods-orders-up-strong-30-in-december-2012-01-26-92200) [1/26/12]
  - 8 - [www.businessweek.com/news/2012-01-20/consumer-prices-in-u-s-little-changed-as-fuel-costs-fall.html](http://www.businessweek.com/news/2012-01-20/consumer-prices-in-u-s-little-changed-as-fuel-costs-fall.html) [1/20/12]
  - 9 - [blogs.wsj.com/marketbeat/2012/02/01/how-to-read-a-greek-debt-deal/](http://blogs.wsj.com/marketbeat/2012/02/01/how-to-read-a-greek-debt-deal/) [2/1/12]
  - 10 - [money.msn.com/market-news/post.aspx?post=a677foec-38f9-432c-bbc1-fb98c5362013](http://money.msn.com/market-news/post.aspx?post=a677foec-38f9-432c-bbc1-fb98c5362013) [1/13/12]
  - 11 - [www.reuters.com/article/2012/02/01/us-global-economy-idUSTRE8101C520120201](http://www.reuters.com/article/2012/02/01/us-global-economy-idUSTRE8101C520120201) [2/1/12]
  - 12 - [online.wsj.com/mdc/public/page/2\\_3022-intlstkidx.html](http://online.wsj.com/mdc/public/page/2_3022-intlstkidx.html) [1/31/12]
  - 13 - [mscibarra.com/products/indices/international\\_equity\\_indices/gimi/stdindex/performance.html](http://mscibarra.com/products/indices/international_equity_indices/gimi/stdindex/performance.html) [1/31/12]
  - 14 - [money.msn.com/market-news/post.aspx?post=cb1f3e7e-3c74-45b7-9f9a-4cccd825c584](http://money.msn.com/market-news/post.aspx?post=cb1f3e7e-3c74-45b7-9f9a-4cccd825c584) [1/31/12]
  - 15 - [www.businessweek.com/news/2012-01-26/contracts-to-buy-u-s-homes-near-19-month-high-economy.html](http://www.businessweek.com/news/2012-01-26/contracts-to-buy-u-s-homes-near-19-month-high-economy.html) [1/26/12]
  - 16 - [www.foxbusiness.com/news/2012/01/26/us-new-homes-sales-drop-22-prices-fall/](http://www.foxbusiness.com/news/2012/01/26/us-new-homes-sales-drop-22-prices-fall/) [1/26/12]
  - 17 - [www.freddiemac.com/pmms/](http://www.freddiemac.com/pmms/) [2/2/12]
  - 18 - [www.freddiemac.com/pmms/index.html?year=2011](http://www.freddiemac.com/pmms/index.html?year=2011) [2/2/12]
  - 19 - [montoyaregistry.com/Financial-Market.aspx?financial-market=an-introduction-to-the-stock-market&category=29](http://montoyaregistry.com/Financial-Market.aspx?financial-market=an-introduction-to-the-stock-market&category=29) [11/2/12]
  - 20 - [bigcharts.marketwatch.com/historical/default.asp?symb=DJIA&closeDate=1%2F31%2F11&x=0&y=0](http://bigcharts.marketwatch.com/historical/default.asp?symb=DJIA&closeDate=1%2F31%2F11&x=0&y=0) [1/31/12]
  - 20 - [bigcharts.marketwatch.com/historical/default.asp?symb=COMP&closeDate=1%2F31%2F11&x=0&y=0](http://bigcharts.marketwatch.com/historical/default.asp?symb=COMP&closeDate=1%2F31%2F11&x=0&y=0) [1/31/12]
  - 20 - [bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=1%2F31%2F11&x=0&y=0](http://bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=1%2F31%2F11&x=0&y=0) [1/31/12]
  - 20 - [bigcharts.marketwatch.com/historical/default.asp?symb=DJIA&closeDate=1%2F31%2F02&x=0&y=0](http://bigcharts.marketwatch.com/historical/default.asp?symb=DJIA&closeDate=1%2F31%2F02&x=0&y=0) [1/31/12]
  - 20 - [bigcharts.marketwatch.com/historical/default.asp?symb=COMP&closeDate=1%2F31%2F02&x=0&y=0](http://bigcharts.marketwatch.com/historical/default.asp?symb=COMP&closeDate=1%2F31%2F02&x=0&y=0) [1/31/12]
  - 20 - [bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=1%2F31%2F02&x=0&y=0](http://bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=1%2F31%2F02&x=0&y=0) [1/31/12]
  - 21 - [treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyield](http://treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyield) [1/31/12]
  - 22 - [treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyieldAll](http://treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyieldAll) [1/31/12]
  - 23 - [treasurydirect.gov/instit/annceresult/press/preanre/2002/ofm10902.pdf](http://treasurydirect.gov/instit/annceresult/press/preanre/2002/ofm10902.pdf) [1/9/02]
  - 24 - [washingtonpost.com/business/economy/us-adds-243k-jobs-in-january-unemployment-rate-drops-to-83percent/2012/02/03/gIQAhV3mmQ\\_story.html](http://washingtonpost.com/business/economy/us-adds-243k-jobs-in-january-unemployment-rate-drops-to-83percent/2012/02/03/gIQAhV3mmQ_story.html) [2/3/12]
-