

361 Capital Weekly Research Briefing

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Timely perspectives from the 361 Capital research & portfolio management team

By Blaine Rollins, CFA

U.S. Equity Markets finally see their first two down days in a row for 2012.

From Thanksgiving to the heart of earnings season, the S&P500 has risen +15%. Given the solid move higher into an overbought condition on lower than average volumes, the market really needed some blowout earnings to keep pushing it higher. While there have been a few big upward surprises among the larger corporations during the last week, on average the reported earnings results have been in-line with expectations combined with plenty to worry about for the future global macro environment, direction of margins and the potential strong U.S. dollar impact. The two week, +3% move in the Euro has no doubt helped to alleviate some of the currency pain, but what the market really needs is some better earnings reports this week.

Will January's gains signal a strong 2012?

The S&P is positive 5% for January. Since 1950, any 4%+ move in January has led to an average gain of 15.5% for the rest of the year (positive 16 times, negative only once). One speed bump in the way of a 4%+ January move might be the reallocation efforts of pension plans. With the Long Treasury Bond (TLT) ETF -1% in January, there will be some reallocation pressure among the plans to shift from outperforming equities into less performing fixed income. Also affecting the next two days demand for equities could be the fact that February is typically a down month for equities (no positive returns for the average of the last 20, 50 or 100 years).

What the market reacted to last week:

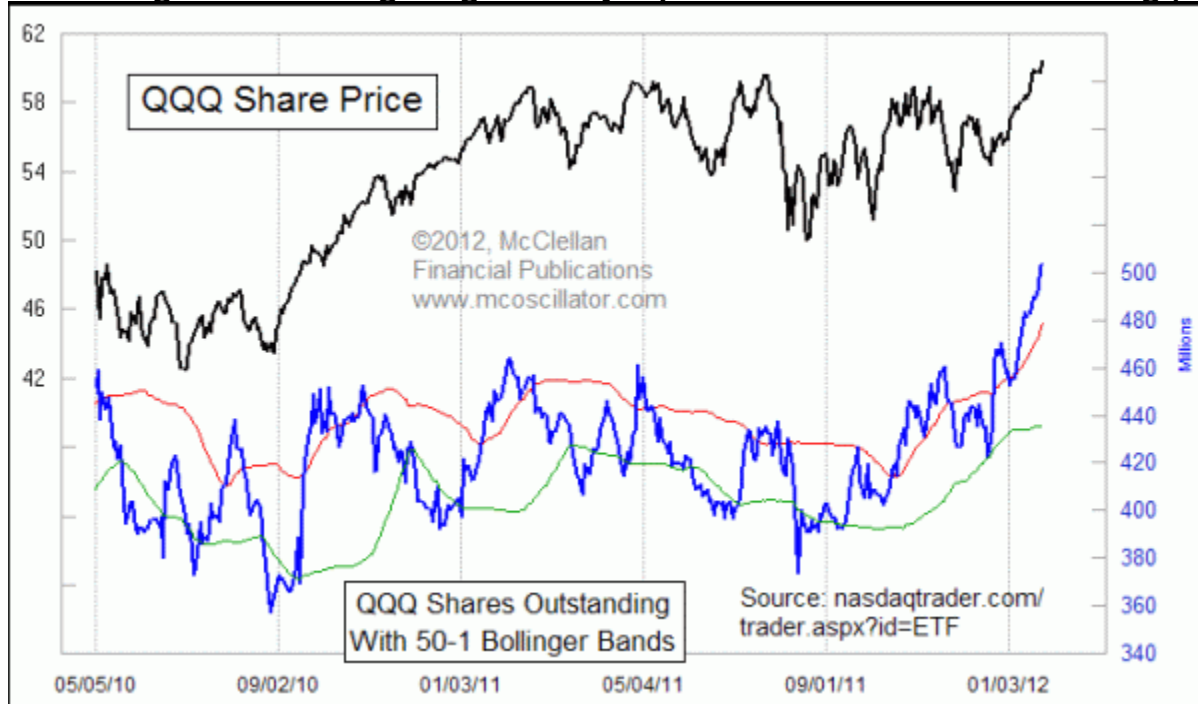
POSITIVE

- Apple earnings came in well ahead of analyst estimates. (Thanks for the heads up MFLX.)
- Italian bond yields dove below 6%. George Soros said in an interview that he cannot own enough Italy debt as he viewed the yield as being attractive and stated his belief that there is no way the EU will let Italy go bankrupt. Spanish bond yields also fell below 5%.
- The FOMC announcement that the fed funds rate would remain exceptionally low thru at least 2014.
- Durable goods orders rose solidly again in December, and orders ex-transportation rose 2.1%.

NEGATIVE

- A disappointing increase in Q4 U.S. nominal GDP of 3.2%. Real GDP came in at 2.8%. Both weaker than expected.
- Spain reported its unemployment rate was just shy of 23%.
- Portuguese bond yields jumped to >15%.
- Gasoline prices continue to move higher and \$4+ pump prices are starting to appear.

Interesting chart showing a significant jump in the QQQ shares outstanding (blue line)



And just when it looks a bit better for Greece, the German government throws up a big yellow flag...

“Greece must surrender control of its budget policy to outside institutions if it cannot implement reforms attached to euro zone rescue measures,” the German economy minister was quoted as saying on Sunday. Philipp Roesler became the first German cabinet member to openly endorse a proposal for Greece to surrender budget control after Reuters quoted a European source on Friday as saying, “Berlin wants Athens to give up budget control.”

How rising U.S. Natural Gas production and falling prices is helping the economy...

Bloomberg reports that Methanex Corp, the world’s biggest methanol producer, plans to move an idled Chilean factory and reassemble it in Louisiana to take advantage of the natural gas prices. The plant should be operational in the second half of 2014. Chevron Phillips Chemical plans to build a \$5 billion ethane cracker in Texas while Dow Chemicals and Sasol will build a \$4.5 billion cracker in Louisiana.

But a 54 year low in the size of the U.S. cattle herd can’t be a positive.

The cattle herd in the U.S. may be the smallest since 1958, when McDonald’s Corp. had just 79 hamburger restaurants, signaling tighter beef supplies and higher costs for companies including Tyson Foods Inc. Ranchers held 91.24 million head of cattle as of Jan. 1, down 1.5 percent from a year earlier, according to the average estimate of 10 analysts surveyed by Bloomberg News. That would be the smallest since Dwight Eisenhower was president. A record drought in Texas last year and rising feed costs prompted ranchers to cull herds, even as beef exports surged from the U.S., the world’s largest producer. Cattle futures are up 15 percent since the end of June, reaching a record seven times this month, and the Livestock Marketing Information Center says retail-beef prices that reached an all-time high on an annual basis in 2011 will keep rising through next year.

[Bloomberg](#)

Other items:

- Spanish youth (16-24) unemployment is 51.4%; in Greece it is 46.6%; in Portugal 30.7%. (*ZeroHedge*)
- “A Greek default is NOT a disaster scenario. The real issue is Spain & Italy.” Jamie Dimon, JPMorgan

- Average cost of attending Davos = \$40,000 per person. [CNN](#)
- The earnings growth rate for the S&P500 for Q4 2011 is 7.9%. Excluding \$AAPL, the overall growth rate declines to 4.7%.
- Babies born each day = 371,000. Apple iPhones sold each day = 377,900.
- Apple's cash balance is now a quarter of its \$415 billion market capitalization and roughly equals California's 2012-2013 state budget.

[Reuters](#)

- 78% of NFL players are bankrupt or under financial stress 2yrs after retirement. 60% of NBA players are bankrupt 5yrs after retirement. (*Sports Illustrated*)
- "Pick a job that when you sit down at your desk at 7am and get up when you are hungry, you find out it is 7pm," George Lucas.

Will the Giants or Patriots logo dominate Nicaragua's playgrounds this summer?



(*Sports Illustrated*)

361 Capital LLC

email: 361info@361capital.com

phone: 303.224.3900

web: www.361capital.com

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