

# 361 Capital Weekly Research Briefing

February 6, 2012

*Timely perspectives from the 361 Capital research & portfolio management team*

By Blaine Rollins, CFA

## **The U.S. Economy continues to show improvement**

Sure everyone would like to see the economy improve at a faster rate, but any increase is better than what many countries in the world are facing right now. The U.S. unemployment picture continues to (slowly) improve, lifting consumer confidence which has led to improved retail and auto spending thus pushing industrial and service activity data points higher. Meanwhile the global interest rate and liquidity backdrop remains very accommodating toward risk taking. And for the first time in nine months, the U.S. equity market finally rose after a monthly Employment report. Q4 earnings reports remain a bit on the lumpy side, Greece and Iran remain issues, and equities are still overbought on a near-term basis, but with the large number of investors sitting on the sidelines and having missed the rally since Thanksgiving, any pullback is likely to be bought and thus temporary.

## **It was a 'Risk On' week for the Financial Markets.**

- U.S. Small Caps (IWM/IJR) +5.0%.
- U.S. Financials (XLF) +4.8%.
- Sotheby's (BID) +10.9% for the week and hits a new four-month high.
- Germany (EWG) +5.1% = helped by some good economic data this week.
- 2 BRICs putting in big moves: India +6.3%, Russia +5.3%.
- Mexico (EWW) +4.8% = a derivative U.S. economic play?
- 20+Yr Treasuries (TLT) -3.5% and Gold -1.0%.
- Italian 10-year yields continued their fall, ending the week at 5.66% (peaked at 7.47% on 11/9).

## **What does an YTD 2012 top performing U.S. Equity portfolio consist of right now?**

- The worst performing 2011 stocks
- Smallest Market Caps
- Lowest P/E
- Lowest/No Dividend Yield
- Highest short interest ratio
- Highest concentration of revenues overseas

So basically the best performing portfolio year-to-date is the one that would have gotten you the least amount of sleep. But isn't that the nature of the markets?

## **New CBO Outlook suggests U.S. will recover more slowly than the current trends suggest...**

- ...because of the dampening effect of the higher tax rates and curbs on spending scheduled to occur this year and next, CBO expects that the economy will continue to recover slowly, with real GDP growing by 2.0% this year and 1.1% next year (as measured by the change from the fourth quarter of the previous calendar year). CBO expects economic activity to quicken after 2013 but to remain below the economy's potential until 2018.

- ...the unemployment rate remains above 8% both this year and next, a consequence of continued weakness in demand for goods and services. As economic growth picks up after 2013, the unemployment rate will gradually decline to around 7% by the end of 2015, before dropping to near 5.5% by the end of 2017.
- ...the price index for personal consumption expenditures increases by just 1.2% in 2012 and 1.3% in 2013, and rates on 10-year Treasury notes average 2.3% in 2012 and 2.5% in 2013.
- The full [CBO Outlook](#)

### **For those not watching the Super Bowl, there is the Greekbowl...**

- The majority of Germans feel the euro currency bloc would be better off if debt-crippled Greece left it, a poll published in mass-selling newspaper *Bild am Sonntag* showed on Sunday. The Emnid poll said 53 percent of Germans surveyed thought Greece should return to its former currency, the drachma, while only 34 percent felt it should keep the euro.  
[\(Reuters\)](#)
- Jean-Claude Juncker, the head of the Eurogroup, warned Greece through an interview to a German magazine that it will either comply with its creditors' requirements or default, as it should not expect any additional support from its peers. Speaking to *Der Spiegel* magazine, Juncker issued an ultimatum to Athens for full compliance to the terms that the European Central Bank, the European Commission and the International Monetary Fund are setting for a 130-billion-euro bailout package that will steer the country clear of default. "If we are to determine that everything is going wrong in Greece, then there would not be a new program, and that would mean that in March a declaration of bankruptcy would occur," he told in an interview pre-released on Saturday. [\(Ekathimerini\)](#)
- Greece's remaining official creditors will not give in on their demand for changes and wage cuts to the labor status in the private sector, Skai radio said on Saturday afternoon citing an unnamed government official, as talks about the new loan contract continue in Athens. (Unlike the rest of the world where wage contracts are based on 12 months of the year, Greek workers have a 13th and 14th salary typically given at Christmas and Easter.)  
[\(PensionPulse\)](#)

### **How to become a Financial Sister City of Athens, Greece...**

A decree signed in 1991 by Providence, R.I. Mayor Buddy Cianci pushed the city's pension liability "into the stratosphere" by giving annual cost-of-living increases of 5% and 6% to more than 600 retirees. The new Mayor, Angel Taveras's office released a list showing that the city's highest-paid pensioner, former Fire Chief Gilbert McLaughlin, now receives an annual pension of \$196,813 a year. He retired with an annual salary of \$63,510. At the current rate of growth, McLaughlin's pension will total roughly \$796,871 if he lives to the age of 100.

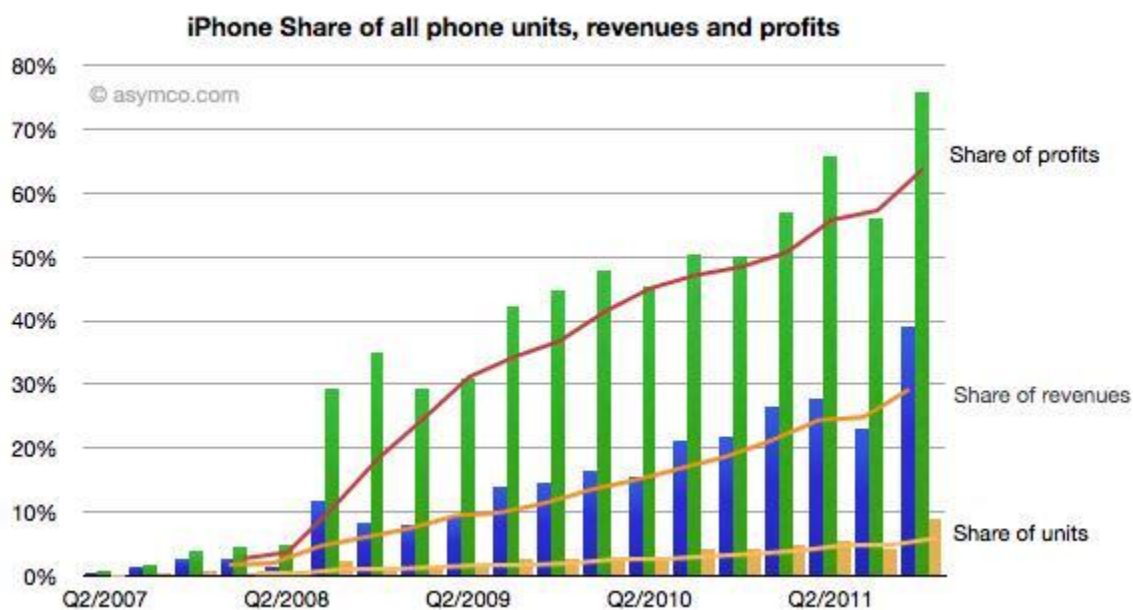
[\(WPRI\)](#)

### **Other quotes/items/thoughts:**

- "Nonfarm payrolls rose by 243,000 last month, the Labor Department said Friday, marking the biggest gain since April. The jobless rate fell by two-tenths of a point to 8.3%, the lowest it has been since February 2009." [\(WSJ\)](#)
- "January releases suggest that there is a broader underlying shift in growth momentum than we are forecasting. At this stage, we are not sure what it is, and are making only modest upward growth revisions. But something is happening here and the risks to our 1H global growth forecast have shifted significantly to the upside" (Bruce Kasman, JPMorgan)
- "U.S. bond dealers and institutional investors have told the Treasury that they should allow debt sales at negative rates of interest. The U.S. Treasury plans to make a decision about allowing debt to be sold at negative rates by May, when the next quarterly debt refunding

meeting is held with the Treasury Borrowing Advisory Committee. The Treasury also plans to announce whether it will sell floating rate notes, or FRNs, at this time.” [\(FT\)](#)

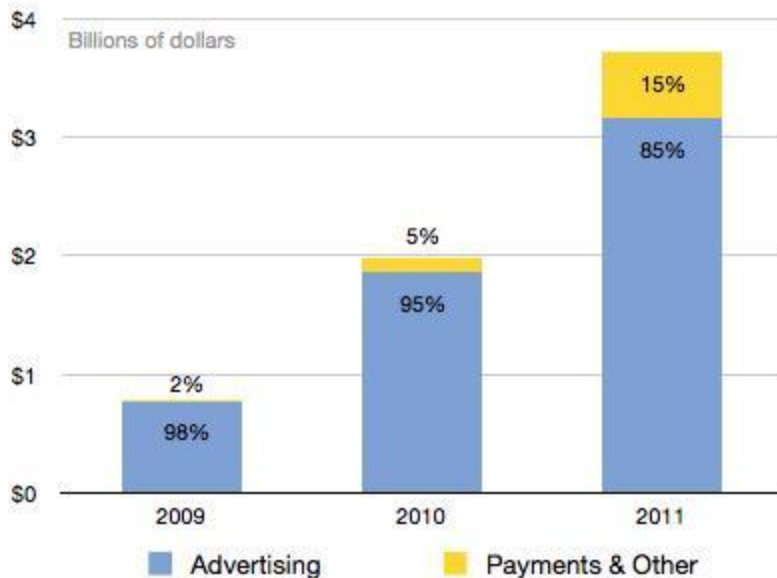
- “If Britain had joined euro it would be in even deeper doodoo than already. Cheap pound compared to year ago only thing keeping state going.” @rupertmurdoch (So true Mr. Murdoch... Also like to see billionaires call it like it is and use the term ‘doodoo’ in their tweeting.)
- November S&P/Case-Shiller data showed that Atlanta, Las Vegas, Seattle and Tampa continue to set new lows in home prices. Detroit and Washington D.C. are the only 2 large cities showing year over year gains.
- According to 71% of the 1,000 people surveyed by Fannie Mae in December, now is a good time to buy a house. But only 11% think it’s a good time to sell. [\(WSJ\)](#)
- Intrade Odds for “USA and/or Israel to execute an overt Air Strike against Iran before midnight ET 30 Sep 2012” = 33%. [\(Intrade\)](#)
- This could be big...Fungus that eats plastic. [\(FastCoexist.com\)](#)
- This could have been disastrous...A two-and-a-half ton German satellite came within minutes of crashing into Beijing the European Space Agency has disclosed. New calculations by the agency show that if the Rosat satellite had remained aloft for just seven more minutes after re-entering the earth’s atmosphere in October it would have plunged into the Chinese capital of 20 million people. [\(Telegraph\)](#)



A great chart of Apple’s ability to add incredible value to a commodity business.

[\(AppleInsider\)](#)

## Facebook's Revenue Breakdown SplatF



In case you were wondering...Facebook gets 85% of its current revenues from advertising. For comparison, Google gets 95%+ from advertising. ([Splatf](#))

### **Our favorite Facebook story of the week**

A graffiti artist who painted the walls of Facebook's first headquarters seven years ago is set for a bumper payday of \$200 million after he agreed to take Facebook stock instead of cash for his work. David Choe, 35, was asked to paint the offices in Palo Alto, California, in 2005, and was offered the choice by then-president Sean Parker of being paid a few thousand cash or the equivalent in shares. ([DailyMail](#))

### **Americans spent \$59 billion on lottery tickets in 2010**

What if the average spending of \$251 per adult was instead invested? Starting at the age of 18 and invested for 47 years until the age of 65, the monies spent on lottery tickets would have compounded to:

7.5% = \$104,354 (7.5% = the assumed rate that most State pension plans are using)

10.0% = \$241,003

12.5% = \$570,900

30.0% = \$246,508,503

### **Wonder what her favorite NFL football team is?**

Rooney Mara, Oscar nominee for Best Actress in "The Girl with the Dragon Tattoo" is the great granddaughter of Tim Mara, founder of the New York Giants as well as the great granddaughter of Art Rooney, founder of the Pittsburgh Steelers.

Hmmm...



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