

High Desert Investment Advisors

Albuquerque New Mexico
Voice - 505-797-2644 or 505-469-3467
Fax - 505-797-1901

Serving Your Personal Investment Needs Since 2003

Tuesday, June 07, 2011

The economy is not so bad...as you might think.
(At the end of this note is a SHORT TERM MARKET ACTION forecast for you.)

There certainly is an unusual level of volatility in the employment numbers for May, down over 100,000 in new hires for the month. Analysts have tended to feel that this is a serious problem for the US economy, looking toward the future.

In fact, the May employment number could suggest a change in hiring trends. It could forecast a slower, and even negative, growth for the balance of the year. So why the change in hiring numbers for May? After several months of stronger hiring trends?

Consider the restructuring that has occurred on corporate balance sheets since 2008. Companies have trimmed overhead costs; cut employment to minimal levels, increased profitability and productivity, and recently shown higher levels of borrowing, using commercial paper and commercial and industrial loans. This recent borrowing indicates a greater need for short term operating funds, including inventory building, and also it shows a willingness to invest for the future - in the way of longer term productivity enhancements.

Yes, it also suggests greater productivity - meaning fewer employees are needed!!

It also leads to the conclusion that America's companies are profitable, and are prepared to grow internally, versus being stressed for cash flow and debt repayment. Almost every company balance sheet and cash flow statement I review today shows similar characteristics: a) net small positive cash flows and b) large commitments to debt repayment and restructuring to take advantage of lower interest rates and longer maturities. American companies have prepared will for the coming years.

What this also means is that if you have a "day job", don't give it up, because future corporate hiring will be minimized in order to continue the flows of cash to the company's bottom line. There will not be a lot of new jobs in the marketplace!

Companies are strong, financially, and able to grow, even without bank lending. This says that the underlying US economy is getting stronger. From this prediction, you can presume that, as our economy grows, so will your investments in that economy.

Don't expect a runaway growth curve. Expect to see volatility in the weekly and monthly "growth" numbers as they are released, because today's corporations are tightly controlled and very quickly reactive so that the focus is on bottom line cash flow. This is the reason why the economic numbers are volatile and seem constrained. The US economy is growing stronger, financially, every month. That is good; and bodes well for future economic growth!

SHORT TERM MARKET ACTION:

For the short term, I think that we can expect additional downside prices for the stock market. For the S&P Index, there is support at the March, 2011, low of 1249. Today, the S&P Index is at about 1286. It seems pretty likely that the current lows will be extended down to the 1230 level, with a range of between 1230 to 1250, for an expected bottom in this essentially sideways market. Today, the market is pretty oversold, but it seems pretty clear that the near term bottom has not been reached.

Sincerely,

Dick Brackett
High Desert Investment Advisors

****This analysis is provided to you for informational purposes only. Actual investment results may be materially different from the projected performance results portrayed. This report uses information that is considered reliable, but it does not represent that the information is accurate or complete, and the report may not be relied upon as such. The report is not intended to be either an expressed or implied guaranty of performance. It is not intended to supply tax or legal advice. There is no solicitation to buy or sell securities.