

Weekly Marketmail

Monday, February 27, 2012

In This Issue

High-Priced Oil & Gasoline Could Fuel a Correction

As Europe and Asia Recover, Oil Demand will Grow

Stat of the Week: Is Dow 13000 a Psychological Barrier?

Stocks are Up Over 20% since October: Are We Due for a Correction?

By Louis Navellier

The stock market continues to benefit from a tidal wave of buying pressure, as new money keeps flowing into stocks. The S&P 500 and Dow rest at their highest levels since before the 2008 financial crisis, while NASDAQ is trading at an 11-year high. This surge was thought to be impossible last October, when fears of a double-dip recession were dominant. Back then, we called for a strong market recovery. Now, I may be going against the grain again – calling for a short-term correction due to rising oil prices.

High-Priced Oil & Gasoline Could Fuel a Correction

The stock market continues to climb a “wall of worry,” with oil and Iran being today’s biggest concerns. Crude oil rose 6% last week to \$109 per barrel on West Texas Intermediate crude and \$125 per barrel on Brent sweet crude. According to the Energy Information Administration, the average gallon of gas now costs over \$3.59, up from \$3.18 the week before Christmas and \$1.83 just three years ago.

The current oil crisis is exacerbated by a United Nations report which claims that Iran has significantly increased its production of high-grade uranium. Last week, Iran cut its sales of crude oil to Britain and France after those nations stopped importing Iranian oil. Now, more significantly, Greece, Italy, and Spain – which are big importers of Iranian crude oil – are scheduled to stop importing oil from Iran as of July 1st.

Even if Israel refrains from attacking Iran, these boycotts could push gasoline to \$4, \$5, or even \$6 per gallon. What effect would that have on the U.S. and global economy, especially in an election year? Demand for crude oil typically rises during the summer months, when the political year is in full swing.

Ironically, while the Fed says that inflation is under control, it is obvious that inflation is brewing every time you visit a gas station or a grocery store. Furthermore, even though North America is awash in crude oil and refined products, much of this excess is being sent abroad, so our prices at the pump remain high.

Besides Iran, two other factors are pushing crude oil prices higher: (1) Improving economic production around the world and (2) a weak U.S. dollar, which helps emerging nations afford more oil, even while the price rises in dollar terms. While the dollar offers 0% interest, currencies in resource-rich Australia, Brazil, Canada, Chile, and other nations naturally appreciate against the U.S. dollar. The problem is that since crude oil is priced in U.S. dollars, a decaying U.S. dollar naturally propels U.S. oil prices higher.

As Europe and Asia Recover, Oil Demand will Grow

The euro has rallied to the dollar, reaching a 10-week high last week. Since mid-January, the euro is up 6.3%, from \$1.265 to \$1.345. Europe is obviously in a better mood after the euro-zone finance ministers agreed to fund a long-delayed second 130 billion euro (\$175 billion) bailout for Greece on Tuesday. In the process, some private bondholders are now estimated to have suffered a 70% “haircut” in principal.

The British pound has also risen from \$1.53 to \$1.59 in the last six weeks. Last week, Britain’s Office for National Statistics announced that Britain’s January retail sales rose 0.9%, substantially better than economists’ consensus

estimate of a 0.1% decline. An economist at HIS Global Insight called January's retail sales "a major surprise," and a "massive boost to hopes that the economy has returned to growth."

Germany was also in a good mood after its central bank declared that the outlook for Germany's economy has "perceptibly" improved. This verdict was reinforced on Thursday when Germany's Ifo business climate index rose to 109.6 in February, up from 108.3 in January, reaching its highest level since July.

Asia's economies are also recovering. Last Wednesday, the initial February flash estimate for HSBC's Purchasing Managers Index (PMI) for China rose to 49.7, up from 48.8 in January. With Asia and the rest of the world growing, the global demand for oil will also grow. This raises the delicate question of where Iran will be sending its 500,000 barrels per day of unsold oil. Who will be the first to break the boycott?

Stat of the Week: Is Dow 13000 a Psychological Barrier?

Not much economic news was released last week, so let me take this occasion to brag a bit by citing Dow 13000 as my "stat of the week." The Dow Jones industrial average traded over the 13000 mark every day last week, but it has not yet closed above that barrier. Last October 3, when the Dow closed at 10655, I led off MarketMail by saying: "Wall Street ignored great second-quarter earnings, but they can't ignore positive sales and earnings surprises forever. Therefore, we should see a far more positive final quarter."

As long-time readers know, I have been touting the strength of this post-2008 bull market for years, even during the inevitable dips. Last October 10, for instance, I began my MarketMail by saying: "As earnings season approaches, it's hard to be bearish when the S&P 500 is trading at just 10.2 times 2012 forecasted earnings. That's 25% below the average of the last nine recessions – and we're not even in a recession!"

At times, the market tried our patience. I had to endure some email complaints about how I was "wrong" about this recovery, but as of last Friday, the market is up 20% or more by any index you care to choose:

Index Oct. 3, 2011 Feb. 24, 2012 Gain

Dow Jones 10655.30 12982.95 21.84%

S&P 500 1099.23 1365.74 24.25%

NASDAQ 2335.83 2963.75 26.88%

Source: Yahoo! Finance

Overseas markets have also done well. Since the October 3 low, according to Ned Davis Research, more than a third of the 45 indexes that make up the MSCI All Country World index have risen 20% or more.

This market surge was fueled by "positive surprises" in global economies as well as in corporate earnings. This trend continued last week. On Friday, we learned that the Thomson Reuters/University of Michigan consumer sentiment index rose to 75.3 (vs. economists' expectations of 73), its highest level in a year.

In addition, the Labor Department announced on Thursday that weekly jobless claims were unchanged at 351,000, while the four-week average fell by 7,000 to 359,000, reflecting an ever-improving job market. Next Friday, we should see a continuation of that positive trend with the February payroll jobs report.

Marketmail gets updated on Fridays and whenever the DOW closes up or down 300 points or more.

None of the stock information, data and company information presented herein constitutes a recommendation by Navellier or a solicitation of any offer to buy or sell any securities.

Information presented is general information that does not take into account your individual circumstances, financial situation, or needs, nor does it present a personalized recommendation to you. Individual stocks presented may not be suitable for you.

Although information has been obtained from and is based upon sources Navellier believes to be reliable, we do not guarantee its accuracy and the information may be incomplete or condensed. All opinions and estimates constitute Navellier's judgment as of the date of the report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security.

Past performance is no indication of future results.

FEDERAL TAX ADVICE DISCLAIMER: As required by U.S. Treasury Regulations, you are informed that, to the extent this presentation includes any federal tax advice, the presentation is not intended or written by Navellier to be used, and cannot be used, for the purpose of avoiding federal tax

penalties.

Navellier does not advise on any income tax requirements or issues. Use of any information presented by Navellier is for general information only and does not represent tax advice either express or implied. You are encouraged to seek professional tax advice for income tax questions and assistance.

IMPORTANT NEWSLETTER DISCLOSURE: The performance results for investment newsletters that are authored or edited by Louis Navellier, including *Louis Navellier's Quantum Growth*, *Louis Navellier's Emerging Growth*, *Louis Navellier's Global Growth*, and *Louis Navellier's Blue Chip Growth*, are not based on any actual securities trading, portfolio, or accounts, and the newsletters reported performances should be considered mere "paper" or *proforma* performance results. Navellier & Associates, Inc., does not have any relation to or affiliation with the owner of these newsletters. The owner of the newsletters is InvestorPlace Media, LLC and any questions concerning the newsletters, including any newsletter advertising or performance claims, should be referred to InvestorPlace Media, LLC at (800) 718-8289. Investors evaluating any of Navellier & Associates, Inc.'s, (or its affiliates') Investment Products **must not** use any newsletter information, including newsletter performance figures, in their evaluation of any Navellier Investment Products. Navellier Investment Products include the firm's mutual funds, managed accounts, and hedge funds. InvestorPlace Media, LLC newsletters **do not** represent actual funded trades and **are not** actual funded portfolios. There are material differences between Navellier Investment Products' portfolios and the InvestorPlace Media, LLC, newsletter portfolios. Newsletter portfolios (1) may contain stocks that are illiquid and difficult to trade; (2) may contain stock holdings materially different from actual funded Navellier Investment Product portfolios; (3) do not include trading costs, commissions, or management fees; and, (4) may not reflect prices obtained in an actual funded Navellier Investment Product portfolio. For these and other reasons, the performances claimed by InvestorPlace Media, LLC newsletter portfolios **do not** reflect the performance results of Navellier's actually funded and traded Investment Products. In most cases, Navellier's Investment Products have materially lower performance results than what InvestorPlace Media, LLC newsletter portfolios claim to have. **The InvestorPlace Media, LLC newsletters and advertising materials typically contain performance claims that significantly overstate the performance results an investor may expect from any Navellier Investment Product.**

Navellier claims compliance with Global Investment Performance Standards (GIPS). To receive a complete list and descriptions of Navellier's composites and/or a presentation that adheres to the GIPS standards, please contact Tim Hope at (800) 365-8471 or timh@navellier.com.