Weekly Marketmail

Monday, April 16, 2012

Take advantage of growth outside the U.S. Learn more about our International Select Portfolio. Call 800.887.8671 to receive more information.

In This Issue

First-Quarter Earnings May Be Better Than Expected

“April in Paris” Brings another Euro-Zone Crisis

Stat of the Week: U.S. Trade & Budget Deficits Both Fall!

Better-Than-Expected Earnings Can’t Overcome New Euro-Fears
By Louis Navellier

Despite a better-than-expected start to first-quarter earnings season, the S&P 500 fell 2% last week, its worst week since mid-December, 2011. The biggest cause of the latest sell-off was renewed concern for rising debts in Europe, notably Spain, and an important election next week in France. Meanwhile, in the U.S., most economic statistics still point up, although a few offer conflicting conclusions.

First-Quarter Earnings May Be Better Than Expected

Last week, I reported that the S&P 500’s first-quarter earnings were expected to rise by only 2.2% – the slowest pace in three years – but perhaps analysts were being too pessimistic. So far, earnings have been much better than expected. For example, Alcoa kicked off earnings season last Tuesday with first-quarter operating earnings of 14 cents per share, 18-cents better than analysts’ consensus estimate of a 4-cent per share loss. Then, on Thursday, Google reported better-than-expected sales. As I’ve been saying in recent Marketmails, some of these first quarter earnings surprises are attributable to relentless stock buyback programs, which reduce the number of shares outstanding, thereby boosting net earnings per share.

Also, CNBC reported last Tuesday that, according to Credit Suisse, the average daily volume in stock trading in March hit the lowest level since December 2007. Aggressive stock buyback programs, fewer stock splits, a drop in high-frequency trading and less high-volume trading in options, futures and ETFs are all likely explanations for the dramatic drop in stock trading volume. But the fact that the stock market rose over 12% in the first quarter on extremely low trading volume is encouraging.

If the stock market can rise this fast on light volume, what can we expect to see when volume inevitably picks up? Perhaps those stocks that deliver the best earnings surprises will gain the most. But, then again, the market may repeat its summer swoons of 2010 and 2011, based on yet another euro crisis!

“April in Paris” Brings another Euro-Zone Crisis

Every spring, Europe seems to hatch a new debt crisis. Spain now seems to be the next euro-domino to fall. According to the Bank of Spain, Spanish banks borrowed 316.3 million euros ($417.5 million) in March, almost twice its borrowing level in February (or any other recent month). Bond yields in Italy and Spain have started rising again as sovereign debt fears have resurfaced. Now that some European nations have fallen back into a recession, these debtor nations cannot hope to grow their way back to solvency.

This time around, it looks like the drain in Spain falls mainly on the Seine. French banks hold oversized portions of the debts of the southern European PIGS (Portugal, Italy, Greece, and Spain), and with French Presidential elections coming next weekend (April 22), we’re likely to see a swing toward socialism.

Right now, it looks like the Socialist candidate, Francois Hollande – who is proposing 75% taxes on the wealthy – will beat the incumbent President Nicolas Sarkozy on April 22 and again in the May 6 runoff, but I believe that Hollande’s tax plans will fail. Unlike Americans, French residents can easily leave their country and avoid taxes, simply by fleeing to Monaco or any other nearby tax haven.
While Europe sputters again, China is still driving global growth. Last week, China announced that its first quarter GDP growth rose at an 8.1% annual rate. Even though that is the slowest pace in the past 11 quarters, the main reason is softer housing prices and less infrastructure spending, which helps bring some sanity to their bloated housing market. The good news is that China’s retail sales rose at a 15.2% annual pace, up from 14.7% in the previous two months. China’s imports continue to grow faster than its exports due to a growing middle class that is craving imported goods. Overall, the details of China’s GDP report paint a picture of a more balanced economy – one that should be able to promote more consistent growth.

**Stat of the Week: U.S. Trade & Budget Deficits Both Fall!**

While Europe’s debts rise, the U.S. budget deficit and trade deficit are slowly shrinking. Specifically, on Wednesday, the Treasury Department reported that for the first six months of fiscal 2012, the federal government’s budget deficit declined 6% to $779 billion, down from $829 billion in the same period a year ago. This means that the government will probably not run out of money until around Election Day!

As for trade, the U.S. continues to export refined oil products (e.g., diesel, jet fuel, gasoline, etc.), which is reducing the U.S. trade deficit. On Thursday, the Commerce Department announced that in February, the U.S. trade deficit fell 12.4% to $46 billion in February, down from $52.5 billion in January. This has caused analysts to revise their 2012 GDP forecasts from around 2.1% up to as high as 2.6% or 2.7%.

In other statistics, the Fed released its latest Beige Book survey in which all 12 Fed districts reported that economic growth was at least “modest” while Kansas City reported a “faster pace” of growth. The Beige Book credited unusually warm weather and an early Easter for rising retail sales and auto sales growth.

The latest monthly inflation indexes also came out last Thursday and Friday. Over the past 12 months, the government says wholesale inflation has risen 2.8%, the slowest pace since June 2010, while consumer prices rose 2.7%. As a result, the Fed says that inflation is “under control,” even though all of us can see evidence of inflation at the grocery stores and the gas pumps. For instance, we learned last Thursday that the Producer Price Index (PPI) was unchanged in March, due to a 2% drop in gasoline prices! But the next day, we learned that gasoline prices within the Consumer Price Index (CPI) rose by 5.7% in March.

Who’s right? When I consult the government’s official website for energy information (www.eia.gov), I find that the national average price for a gallon of gas rose from $3.78 on February 27 to $3.996 on April 2, a 5.7% gain, while the phony 2% gasoline price drop in the PPI was blamed on “seasonal adjustments.”

Here’s another baffling number: Last Thursday, new claims for unemployment rose by 13,000 in the latest week to 380,000, the highest level since January, pushing the four-week moving average of new jobless claims up 4,250 to 368,500. But there’s another seasonal glitch in these numbers as economists pointed out that school workers can now apply for new jobless claims on Spring break, even though their jobs will resume in a week or two.

The economic picture should become clearer Thursday with the release of the latest “Leading Indicators.” I’ll report on the resolution of these seemingly-conflicting economic signals in next week’s Marketmail.

---

**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.