NAVELLIER
Calculated Investing

# Weekly Marketmail

**Monday, October 22, 2012**

## In This Issue

**Tax Cuts in America and Germany Could Lift our "Animal Spirits"**
**A Coiled Spring of Investment Demand is about to be Unleashed**
**Stat of the Week: Retail Sales Rose Each Month Last Quarter**

## Despite Friday's Mini-Crash, Stocks are due for an Election Surge

By Louis Navellier

The Dow fell 205 points on the 25th anniversary of the October 19, 1987 crash, but the broader S&P 500 managed to rise 0.32% for the week and is now up 14% year-to-date, without much participation from the general public (yet). Most investors continue to abandon U.S. equity mutual funds in favor of bond funds. Imagine what stocks can do when we see some resolution of the "Fiscal Cliff" after the elections – now just 15 days away. Then, we'll have a clearer view of what to expect out of Washington, DC.

**Tax Cuts in America and Germany Could Lift our "Animal Spirits"**

In 1936, during FDR's first re-election campaign, the combination of a chronically weak economy and a relatively strong stock market led to FDR's landslide victory. Part of FDR's secret was a positive spirit. In a famous economics text published that year, British economist John Maynard Keynes labeled this positive sentiment "animal spirits," writing that "a large proportion of our positive activities depend on spontaneous optimism," which he defined as "the result of animal spirits – a spontaneous urge to action rather than inaction." That seems to be a fair description of what to expect as Election Day approaches.

Unlike 1936 (or 1987), we now have a pending fiscal cliff of automatic tax increases and budget cuts that could stop this anemic recovery in its tracks. That's why it's almost certain we'll see tax reforms after the election results are in. The nature of the tax reform will depend on who wins the election. Now that Mitt Romney is advancing in most polls, the excitement of having a successful businessman at the helm is growing, but either way the election comes out we'll have a lot more visibility about 2013 fairly soon.

In recent days, some leading industry pundits, such as Goldman Sachs' CEO Lloyd Blankfein, have warned that the fiscal cliff could derail our weak economic recovery. This prospect seems so scary that Goldman Sachs' chief equity strategist, David Kostin, recently told folks to take their money out of stocks due to the impending fiscal cliff. Frankly, all this "cliff" talk only serves to push a tremendous amount of cash out to the sidelines, but that cash can also be quickly unleashed if investors like the election results.

The battle over when, how (or whether) to cut taxes is also a key issue in next year's German election in which Germany's Chancellor Angela Merkel will run for a third term. Specifically, Chancellor Merkel said that growth can be stimulated by "an increase in domestic demand more than anything else."

**A Coiled Spring of Investment Demand is about to be Unleashed**

After last Friday's market correction, I feel more convinced than ever that this market is acting like a "coiled spring" awaiting the outcome of our rapidly-approaching elections. For evidence, let's look at the recent financial behavior of businesses and private investors. Businesses are sitting on record-high amounts of cash, but they don't seem to spend much money on creating new ventures or hiring many new employees. Instead, since our Federal Reserve has made borrowing money so cheap, these companies are borrowing billions of dollars at ultra-low rates to reduce their debt costs or to buy back their own shares.

According to economist Ed Yardeni, America's non-financial corporations have borrowed $519 billion in the 12 months ending August 31, mostly to lower their debt costs or to buy back more shares. A survey by Duke University and *CFO Magazine* found that 67% of chief financial officers favor Romney for President vs. only 15% who prefer Obama for a second term, the rest being undecided. If, after the election, these CFOs anticipate an expanding economy with less

onerous regulation and lower corporate tax rates, then all that money could be put to better use by expanding operations or hiring more people.

Now, let's turn to the average American investor. In the last 15 months, U.S. investors have taken $213 billion out of U.S. stock funds while putting $292 billion more into low-yielding bond funds even though U.S. Treasury bond yields are near historic lows. Investors can earn more income from the dividends of blue-chip stocks, but they opt for bonds out of fear of another market crash. Investors are accepting low income and mediocre capital gains while not gaining much in safety (bonds can fall, too, if rates rise).

After the election, I expect to see a massive rotation out of bond funds and towards stocks, especially if investors see the chance for a responsible conversation between the White House and Congress on debt reduction.

**Stat of the Week: Retail Sales Rose per Month Last Quarter**

On Monday, the Commerce Department announced that retail sales rose by 1.1% in September, led by a 4.5% surge in electronics sales, mostly due to the introduction of the iPhone 5. Excluding electronics stores and gas stations, September retail sales still rose a healthy 0.9%. Also, July and August retail sales were revised up to a 0.7% and 1.2% gain, respectively. That means the third quarter delivered average gains of 1% per month in retail sales. As a result, many economists are raising their GDP estimates.

Now, here's a capsule summary of the rest of last week's major economic indicators:

On Tuesday, the Fed reported that industrial output rose 0.4% in September after falling a revised 1.4% in August. Approximately 0.3% of the 1.4% decline was attributable to idle oil rigs in the Gulf of Mexico in anticipation of Hurricane Isaac. Overall, industrial output has risen 2.8% in the past year, but it has fallen 0.4% in the third quarter. The most positive part of the industrial output report was that the manufacturing sector (excluding mining and utilities) rose 0.2% in September after a disappointing 0.9% drop in August.

Also on Tuesday, the Labor Department reported that the September Consumer Price Index (CPI) surged by 0.6%, the second straight 0.6% increase. Energy prices rose 5.6% in August and 4.5% in September, but excluding the volatile food and energy sectors, the core CPI rose by just 0.1% in September.

On Wednesday, we heard the most upbeat news released last week when the Commerce Department said that new housing starts rose 15% in September to an annual rate of 872,000, while building permits rose 11.6% to an 894,000 annual rate. The current low interest rate environment is paying off in housing sales.

On Thursday, we saw a big warning flag raised when the Labor Department announced that new jobless claims surged by 46,000 in the latest week to a seasonally adjusted total of 388,000, but the four-week moving average rose by just 750 to 365,500, so we should not panic. The weekly figures are subject to wild swings. That's why I keep closer track of the four-week moving average, which is fairly level.

We also learned on Thursday that China announced its third-quarter GDP growth at a 7.4% annual pace, down only slightly from 7.6% in the second quarter. But within that GDP report, we learned that China's retail sales rose at a 14.2% annual rate in September, up from 13.2% in August. Obviously, China's domestic consumption remains strong. In addition, China's industrial production rose at a 9.2% annual rate in September, up from 8.9% in August. Better yet, despite these roaringly-high growth numbers, China's inflation slowed slightly to a 1.9% annual pace in September from a 2% annual pace in August. This news will give the People's Bank of China more leeway to continue to ease, if necessary.

The market rose for four days last week on this generally good news, but on Friday the market fell sharply when the National Association of Realtors reported that existing home sales fell 1.7% in September to a seasonally adjusted rate of 4.75 million, down from 4.83 million in August. Once again, these one-month totals can be misleading, since existing home sales are still up 11.3% in the past 12 months. Also, the inventory of existing homes for sale is down to only 5.9 months, which helps home prices to firm up. In fact, median prices have risen 11.3% in the past 12 months as housing inventories have tightened.

This week, the likely "stat of the week" will come on Friday, when we see our first "flash" estimate of third-quarter U.S. GDP growth. I'll be back with all the news for you next Monday. See you then.

---

**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.

© 2007-2012 Navellier & Associates, Inc. All Rights Reserved. Terms of Use | Privacy Policy | Proxy Voting Policy