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Economic Food for Thought - from Bill Chippas Jan 3

From the Host of the Bill Chippas Show Heard on WSPL 1590 AM Thursday's at 6:00 PM and on Tuesday's on WSTU1450AM

Stagflation In case many of you had forgotten was the culprit during 1974 to 1976.
A nasty mix of rising prices (inflation) and a recession or stagnant economy. A phenomenon where BOTH Prices and Unemployment rose and or remains high.

Now we are in what some are calling a 'jobless recovery' some are even calling what's going on is a 'homeless and jobless recovery'. Others say we are in a price spiral down so more money printing by 'Helicopter Ben' is needed to offset price declines. I say it is what it is...

Hopefully rising demand caused by growth and consumption, induced by easy money from Central Banks, while productivity gains are still present will create jobs, We Hope.
The downside is, speculative money flows into areas where it really does more harm than good.

For example the speculative bubble in Crude Oil in 2007 and 2008. A spike that actually helped cause the credit crises and ensuing housing bust. But you will not hear this from anyone on Wallstreet...But when history is written it will be written that the oil spike started it.

What happened was easy money eventually did not work out too well, it went on too long and money went to 'Energy' on a bubble ride...Then consumers figured out they could not afford to get to work anymore. Then Commercial interests began to 'covering their own you know what ' so to speak by cutting production (layoffs) to increase prices and attain profits for their shareholders that way.

(For example the airline consolidation) Eventually the results produced 'Cost Push Inflation' where raw final demand does not rise, but prices do as a result from knee-jerk lowered production rather than the great evil of Demand Pull Inflation that Greenspan fought during the late 1990's.

Once final demand stops rising, then problems show up everywhere. A plethora production cuts; Oil Production Cuts, Copper production cuts and so on, at the same time 'normal people' stopped paying some bills cause of high prices that NO-ONE in the Govt would admit was occurring and Viola a mess occurs. In addition meat production issues fell, primarily due to high levels of grain prices caused by Governments running amok enacting energy policy by way of demanding that populations put their food in their gas tanks rather than explore for oil.
Toss in weather problems and food prices soared.

In case you forgot already, Riots in the streets in a variety of nations' occurred. Hoarding rice and any food-stuff was common. It was a mess. Now some Countries are having Energy riots after governments nearly doubled gasoline costs. Bolivia is an example. I guess even well liked Dictators have problems. Here at home In the US, housing prices are pressing down overall numerical data.

While food and energy are once again pushing data the other way and pushing the Consumer Cost of Living thru the roof, which is really important to everyone but Wall Street and the Central Banks around the world, they could care less. Further energy price increases into 2011 may result in a reaction from the public (unforeseen by the same twits who missed the last problem) to buy less of it and just about everything else, thus a repeat of what started the slowdown in 2007 which resulted in the credit mess in 2008

What I hope occurs in 2011 is a lessening of 'Bubble Type' Investment in areas like crude oil and food commodities and a move back into more small business and the general stock market.
Thus reversing some of what occurred over the last decade, this would set the stage for a stock mkt rally past 2013 into 2030

I have been friendly to the Stock Market and continue to remain friendly. The Long term analysis indicates a higher market is in front of us.and we no reason to abandon the long side or cut and run on a sharp declines. However stocks may be a tad overvalued at the present levels. Shiller P/E ratio says stocks are now trading at a 22 times earnings. In normal economic periods, the Shiller P/E is between 14 and 16 times earnings. Coming out of the bursting of a credit bubble it's near 12.

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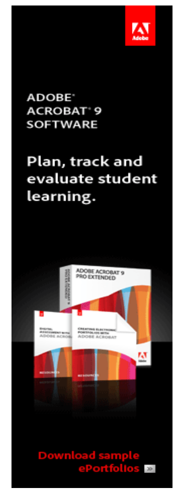

Simply put, Investors not trading on margin should remain 100 % invested.

But look to buy protection. Some cheap ETF's are available and offer investors ways to protect themselves. One can Buy Put Options on QQQQ or the more aggressive investors can take a look at SDS, QID for Crude Oil related markets the SCO wouldprotect agains ta decline
To protect against rising interest rates the TBT comes to mind. Currently valued around $38 a share it appears to be on its way to 45. If you're the small caps and like your nice 100 % gain over the last year. TZA offers protection for small caps... While FAS is a bull ETF, there are plenty of vehicals to consider. Aggressive investors should be prepared to play both sides with a lean to be long-side rather than short-side. 'Seasonally Speaking' the Stock market tends to rise from mid to late January into mid March and we no reason for that to change...

I just wish gas was not three bucks a gallon.

Speaking of Bucks, The Dollar Index while under duress most of the year closed 2010 higher that the close of 2009. Perhaps it's just a function of the lousy Eurocurrency... Whatever the reason, the Dollar had a year over year increase. The 'Sell the Dollar' theme in one variation or another has been a story now for some time and will likely remain a good story. It sounds so good to everyone. However economic and population growth as well as military strength do matter. When these reasons are considered, a few currencies move to the top of the heap and the U.S.A remains way in-front. There is little doubt that wide range Nasty Forex action will continue to provide investors and traders ample chances for profit on both sides of the market. Listen to the Bill Chippas Show for ideas on ETF's and How to make sense of it all. The UDX is a neat little way to play the US Dollar up and UDN is a US Dollar down ETF, a plethora of Forex ETF's are available also.

The dollar generally tends to rise sharply into Mid February with a spring high sometime in Mid May to June. We prefer to Sell Rallies in Euro over the near term. The commodity currencies like Canadian Dollar and Australian Dollar and major commodity price indices have rallied for two years now. So have their respective widely followed commodity currencies, I mentioned a few above.

We could see commodities rising early in the New Year. However commodities are closely tracking long term cycles. The kind measured in decades, which are long in the tooth now. Commodities may exhibit a softer tone early in the year. Perhaps for quite a while, once the spring rally culminates. I would not want to get too cozy with the CRB, CCI, GSCI or investments and Forex markets highly correlated to those indices. For instance the Baltic Dry index is back to the 1,780 level. The Baltic Dry ended the year under the lows for November, October, September and August. It hasn't been there since the end of July, and along with the 9% decline in the Shanghai index from the recent high, may well be an indicator of dramatic slowing in Asian demand ahead with obvious implications for the commodity complex... Speaking of Commodities, Crude Oil remained in a wide trading range for most of 2010. After a huge 1250% rise in nine years and half years before its meltdown , Crude Oil was the sixth greatest and third in length of 20 commodity bulls going back to the Civil War that advanced a at least 500%. At the end of 2010 Crude hit a new two-year high above the $90 mark in late December on encouraging economic data and dwindling inventories. However the glut of supplies and less than spectacular Global growth remains and has kept crude oil from getting anywhere close to its $147 level of July 2008. Looking at 2011, Crude is typically sloppy to weak after the turn of the 'New Year ' and makes a low in mid February. Energy Bulls should refrain from buying until we move into February. In the meantime buying the Oil Bear ETF's SCO is one way to stay ahead of the crowd into mid February. Gold appears to be heading to the higher prices once again, with the public now well placed in the Precious metals sector we would look at Metals as a trading affair, its likely almost run its course. Keep an eye on GLD for gold.

Farm products like Soybeans typically make a low into mid February and winter wheat prices normally achieve high prices around now and tend to dip into harvest in the late spring early summer. Seasonally Corn can sustain an advance in prices into springtime. However the whole world is long corn as an investment right now and that worries me. But I guess as long as congress mandates that Americans put food in their gas tanks no matter how energy inefficient it is, corn is likely to remain well bid. WHAT WAS CONGRESS THINKING?

During 2010 the 'Soft Stars' like Coffee, Sugar, Cocoa and Cotton commanded the stage.
Coffee typically has a firm January and February and usually does not peak until we see the 'Ides of March' I guess Consumers are going to be paying through the nose for a can of coffee come spring... Once that shock takes place it's likely that the Coffee will end it run. Coffee prices reached fresh Decade highs last month. The futures have now gained almost 90 % since May and climbed almost 140 % in the last two years and from a December 2008 low and are near Six times higher than lows seen in the middle of the last decade. The current advance is near the historical normal for a bullish phase of nearly 160 %. Coffee's uptrend could also be nearing an end... Cocoa tends to slip a bit as January progresses. The main crop is normally harvested in mid-September to early February .and should be nearly done in early January. The Political climate in the Ivory Coast is on traders minds. However the uncertainty appears to be abating. Typically Sugar can have good dip during January, but a 4.00 point fall a few days before year end is not normal, nearly a 10 % decline in one day. India, a leading producer and the biggest consumer just resumed futures trading after a 19-month ban. Sugar, like coffee has been driven on supply concerns to its latest new 30 year high last week before its intraday plunge of more than 10 %. The decline is not a lot compared to the 24% plunge in Mid-November. I would suspect that sugar is near the end of its current run. Price swings of that sort are not healthy for any investment. Dittos for cotton which on any given day either goes up the daily price limit allowed or down the maximum allowable price decline.

The time to invest in sugar and cotton was long ago. This type of volatility has been exhibited before in many markets. Usually it's before a long period of sideways to down. ... Bottom line is sometimes everything seems just fine and then 'Whack' things get out of balance. Then wheels come off the cart so to speak and this cart has been pushing food to extraordinary price increases.

When this ride ends, its not going to be very pretty and may impact more than anyone thinks. Well I Guess I can go get my Donut for a buck and a half and be happy it's not two bucks yet.

--A Ship in Harbor is Safe...But that is not what ships are built for--

Happy Trading!
Bill Chippas, FuturesCom Investment Publications, http://www.futurescom.com
Host of the 'Bill Chippas Show' http://www.billchippasshow.com

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