



THE WEALTH STRATEGIES GROUP
Independent Unbiased Financial Advice



2. Indicator: Institutional Money Flow

Where to find it: www.wordenbrothers.com or www.barrons.com/convictionoftraders

What to look for: Decreasing prices on high volume of large block trades

(Volatile/Positive)

After the 1/23/08 638-point Dow swoon and recovery we are seeing increasing prices on a high volume of large block trades in the Institutional Money Flow. In our internet world of high-speed information flow we saw huge sell volume causing the markets to drop significantly between 12/31/2007 and 1/23/2008. DJIA -7.14%, S&P -8.33% and NASDAQ Comp -11.66%. The volume was very high and I suspect included the panic sellers, also known as “capitulation”. It is likely we will now see “short covering” causing the markets to go up. This will attract profit-seeking buyers back as well. Volatility will likely remain. I intend to keep using downside protection accounts that participate in potential gains.

3. Indicator: Leading Economic Indicators (LEI)

Where to find it: www.businesscycle.com or www.newyorkfed.org/research/global-economy/globalindicators.html

What to look for: Trends down for three to four months

(Almost Negative)

The leading indicators index dropped in December 2007. This is the third consecutive monthly decline. The leading index has been down in four of the last six months. However, the weekly economic indicators have turned up in the last week. In my opinion, this is not posted as a negative yet, but it is very close. I personally believe the recent reduction in the Fed Funds rate of ¾% by the Federal Reserve, and the expected ½% further reduction the week of 1/28/08 will cause significant demand for homes and therefore housing permits, etc. Remember, this indicator was held down in October and November by two components, housing permits and interest rates. I suspect we will see this turn up next month.

4. Indicator: Employment rate and after-tax personal income

Where to find it: www.bls.gov

What to look for: A flattening, then downturn trend in non-farm employment with a flattening to decreasing after-tax income

(Neutral)

Non-farm employment was up in December 2007, +18,000. I would suggest this is “flattening” versus growth. In addition, unemployment rates rose for several major work groups pushing the overall unemployment rate up to 5%. In November 2007 we stood at 4.7%. Source: Bureau of Labor Statistics of the U.S. Department of Labor. The Bureau also reports on increases in real earnings. This is confirmed via tax receipts. In 2007 U.S. Government tax receipts increased 6.7%. Conclusion, 5% unemployment is healthy, earnings by workers are up and people who have jobs continue to consume which is the number one force in the economy.



5. Indicator: Durable goods spending

Where to find it: www.census.gov/indicator/www/m3

What to look for: A decreasing trend, especially a downward trend of four to five months out of six

(Negative) Updated February 1, 2008

Those long shelf-life items like non-perishable, non-fashion items are usually the first to show signs of a poor economy when they stop selling, i.e. these are items we as consumers can make do without if need be.

December 2007 shows new orders by 5.2%. This was the second consecutive monthly increase. Shipments were also down .1% and are down four of the last five months (not good). Lastly, inventories increased 1.10%, up five of the last six months (not good). This confirms the slow down we saw in Sign #3 the Leading Economic Indicators (LEI).

6. Indicator: S&P 500 earnings per-share growth

Where to find it: www.standardandpoors.com

What to look for: Two down quarters of S&P 500 earnings per-share growth

(Neutral)

It is official, per Standard and Poors 3Q07 earnings for the S&P 500 dropped for the first time since 2005. I don't see how 4Q07 won't be confirmed down because of all the "write downs" we have seen. That said, S&P is still estimating \$17.00 / share average earnings for the S&P 500 or 12% increase over 3Q07. If we see two down quarters, this is a warning indicator.

7. Indicator: Inflation/deflation numbers

Where to find it: www.bls.gov/ppi/ or www.bls.gov/cpi/

What to look for: An interruption to the consistent but modest increase in the cost we all pay for goods and services

(Neutral)

Modest inflation is much more desired than deflation or high inflation! According to the Bureau of Labor Statistics of the U.S. Department of Labor, the Producer Price Index (PPI) declined -.4% in December and rose approximately 6.30% year over year (YOY). Consumer Price Index (CPI) rose .2% in December and 2.4% YOY. The 2.4% CPI is "Core" which means the stat leaves out energy and food. I'm not sure that is great, as energy was +17.4% YOY and food was +4.9% YOY. Yet, this "core" inflation rate suggests moderate increases, which is much better than the alternative. Most important point: Producer costs (PPI) were up 6.30% and the Consumer costs (CPI) were up 2.4% which most likely means the businesses are absorbing costs through higher productivity and/or less profit. Less profit can sometimes lead to cutting employment, less capital expenditures, etc. which can be a factor that causes the economy to start the downward spiral. If this trend continues it will be a negative indicator of economic growth.

Respectfully,

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CERTIFIED FINANCIAL PLANNER™ Professional