



Clients First Transparent Accessible

Mid-Month Market Cycle Monitor

Volume V, Issue I January 2012



Recent Good News

The path of the business cycle follows a regular pattern. However, the timing, extent, and duration of each cycle can vary widely.

Over the past month economic data has come in better than expected. Political events have progressed more positively than in the recent past, and corporate earnings announcements for the 4th quarter of 2011 are beginning to come in.

On January 17th, it was reported that the **Chinese economy grew 8.9%** in the 4th quarter of 2011. This rate of growth was stronger than the consensus estimate for 8.7%, and greater than the 8% level that signals a “soft landing” for the Chinese economy. Market participants feared that growth in China would slow to significantly below 8% (due to weakness in the Euro-zone), which could result in a weaker overall global economy.

Also on January 17th, the Federal Reserve Bank of New York’s general economic index rose to 13.5 (up from 8.2 in December), the highest level since April of last year. The Index **reflects improving orders, sales and employment** in the tri-state region of New York, northern New Jersey, and southern Connecticut.

On January 18th, the Federal Reserve reported that total production in the U.S. climbed 0.4% in December. **Output climbed 0.9%** last month, which is the **largest gain since December 2010**.

The Labor Department reported that the producer-price index decreased by 0.1%. This index reflects inflation pressures at the producer level. A decrease in producer prices signals that **inflation is not currently building up** in the economy.

Also, on January 18th, the euro strengthened on news that the International Monetary Fund proposed boosting its lending resources by as much as \$500 billion to help **support economic growth in Europe**.

On January 19th, unemployment claims dropped by 50,000 to 352,000 which is the lowest level since April 2008. Lower unemployment claims indicates **improvement in the labor market**, which is positive for continued economic expansion.

Also, on January 19th, France and Spain both issued bonds at lower interest rates than expected, which indicates that the European sovereign debt crisis is currently not getting worse.

Copper prices climbed 1.8% to \$3.80 a pound, the highest price since September. Oil supplies fell 3.44 million barrels. (Oil supplies fall when demand for oil increases). Typically rising copper prices and increased demand for oil are signs of accelerating economic growth.

An expanding economy, supported by **low interest rates**, with **low inflation** and **improving corporate profits** all provide a **favorable environment for stocks**.

While still early **in the earnings reporting season**, of the 35 (7% of companies) S&P 500 companies who have reported, **49% beat analysts’ estimates**, 22% reported in line with expectations, and 29% were below estimates.

We continue to monitor the economic data as well as the earnings reports as they are announced. Decidedly **more positive news along with a rising market should help to improve investor confidence**. As of January 19th, the S&P 500 Index is up over 4% this year.

ASSET MIX: We are **underweighting bonds**. We are **maintaining the allocation to equities**. We are **utilizing cash as a strategic asset class**, raising cash when conditions warrant in order to reinvest into stocks when opportunities arise.

Grace Y. Lau, CFA

Elliot C. Kauffman, CFA

Professional Staff



Grace Y. Lau, CFA
Chief Executive Officer



Carter A. Pearl, CFA
Senior Portfolio Manager



Elliot C. Kauffman, CFA
Senior Portfolio Manager



Daniel S. Flack, CFP, CFA
Portfolio Manager



Brian Metke
Operations Specialist

PacWest Financial Management
1643 E. Bethany Home Road
Phoenix, AZ 85016

Tel: (602) 997-8882

Toll Free: (888) 997-8882

Fax (602) 997-8887