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## FEBRUARY MARKET COMMENTARY

By Tom Crow

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Index	Month End	Gain (Loss) by Period			
		Month	Most Recent Quarter	Year-to-Date	Trailing Twelve Months
Dow Industrials	12,226	2.8%	11.1%	5.6%	18.4%
S&P 500	1,327	3.2%	12.4%	5.5%	20.2%
Nasdaq	2,782	3.0%	11.4%	4.9%	24.3%

February was a bit stronger than January for the markets despite volatility creeping higher and volume pulling back during the second half of the month. Right now, the S&P 500 is hanging right around the support line represented by the 30-day moving average.

The indices have been on a nice, long run and it looks like they're running out of steam...mostly due to high oil and gas prices resulting from the uncertainty of what the future looks like for most oil-producing countries in the Middle East and North Africa.

However, volume and volatility have jumped in early March, indicating another push higher could be in the cards, but at this point, I'm more cautious than optimistic.

Jobs bounced back this month. A reported 192,000 new jobs were created, and 58,000 jobs were added to the December and January estimates. December's revision was from 121,000 to 152,000 and January's was increased from 36,000 to 63,000. The unemployment rate fell to 8.9%. Analysts missed on both, expecting 220,000 new jobs and a higher unemployment rate.

On the surface, these numbers still don't look terribly exciting to me, and the fact that the media was so excited about them always makes me suspicious. Digging a little deeper into the underlying numbers I find a little bit of encouragement. The number of workers that fell off the roles declined and was roughly even with the number of jobs created. The number of discouraged or underemployed workers also dropped a bit. If these trends continue, it may finally represent the real bottom in the employment cycle.

I complained about the reported inflation last month. This month I found some data and analysis to support, and refute my gripe. In a recent CNBC interview, billionaire Sam Zell accused the government of supplying misleading data, and fooling investors into believing there is no inflation. I guess it's nice to know a billionaire and I share a common thought or two.

Zell's primary argument is that the CPI (consumer price index) as reported by the government puts an almost 42% weighting on housing prices, and housing prices have tanked the past few years, and are still falling in some areas. According to a Consumer Expenditure survey, the average American spends 34.4% of their paycheck on housing, so the CPI's supporters argue it should be the heaviest-weighted factor. The CPI factors and paycheck survey results are summarized below.

Category	Weight used by CPI	Amount of Paycheck the average consumers spends
Housing	41.5%	34.4%
Transportation	17.3%	15.6%
Food/Beverage	14.8%	13.9%
Medical Care	6.6%	6.4%
Recreation	6.3%	5.5%
Education	6.4%	2.4%
Apparel	3.6%	3.5%
Other	3.5%	18.3%

What it all comes down to is that the CPI is messy and imperfect, but it's not meant to be much more than that. It's a rough measure of consumer prices and as such, a lot of big investment decisions probably shouldn't be based on its fluctuations.

The differences between commodity and retail prices have a lot to do with that. Commodity prices have risen, but except for gasoline, it's difficult for producers and manufacturers to pass along those increases to consumers in a weak economy. The other big disparity would be the "Other" category. For the CPI to assign it only 3.5%, when in actuality it is the third-largest category when it comes to actual percentage of paycheck spending is another reality check.

When real inflation finally causes the Fed to raise rates things will get interesting. Higher interest rates on our national debt will chew up a bigger portion of the federal budget and we'll be looking at more government cutbacks or higher taxes all over again.

Speaking of taxes...we'll probably have something more to say about them next month as we look forward to April 15<sup>th</sup>.

Talk to you then.