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Registered Investment Advisor

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"…investors who are patient should be rewarded nicely..."

Perspectives

The US economy continues to improve according to most indicators, but macro-economic factors around the globe could slow or reverse the recovery. Oil prices have spiked recently which is pushing gas prices higher. This will put a strain on companies' profit margins as their input costs increase. At the same time, consumers will have less disposable income as more money is directed to fuel cars rather than funding discretionary purchases. The combination does not bode well for corporate earnings. However, bulls believe the gap in spending could be filled by the improving employment picture as workers increasingly returning to full time jobs. Bears counter that the risks from the European Union (EU) and China outweigh the improvements seen in the US economy.

Greece is putting the final touches on the biggest debt restructuring in history. The deal includes a write-down on current private debt levels by more than 50% and a reduction in interest rates for the remaining debt. This restructuring allows Greece to receive its second bailout package of 130 billion euros. 83.5% of Greece's private-sector bondholders agreed to the deal, but this fell short of the 90% needed to prevent legal action to force the remaining bondholders to participate. As expected, Greece had to use Collective Action Clauses (CAC) on the hold outs. This triggered credit default swaps (CDS) which are used to insure against (or profit from) a default. While Greece's CDS exposure is not large enough to sink the EU, investors fear contagion. The triggering of CDS in Greece sets a precedent for Spain, Portugal and Italy when their governments cannot meet their debt obligations at some point in the future if conditions do not improve. A lack of triggering Greece's CDS would have sent bond prices lower and yields higher as investors demanded higher interest payments for the increased risk of holding uninsurable debt. Such an increase in interest costs would exacerbate the debt burden for the struggling countries and could shorten the timeline for when these countries require their next bailouts. Consumers could have also been hit by higher interest rates. This would have slowed lending and hampered the ailing housing market even more.

China expects their growth rate to slow to 7.5%, the lowest in nearly a decade. Bears fear this is the beginning of a larger turn that could take the global economy with it. Bulls believe this slowdown was already built into stocks' prices and is still an exceptional growth rate for a country of China's size. A slower expansion in China could help reduce the costs of commodities due to weakening demand and will be a benefit to companies as their input costs fall. The balancing act investors need to watch is how much a slowdown in China hurts US exports versus how much of a benefit US companies get from cheaper commodities and tamer inflation rates.

The stock market maintained a steady move higher for nearly three months and finally had a day with more than a 1% loss for the first time in 2012 on Tuesday. This looked like the start of an overdue healthy correction. Then talks in Greece advanced and employment data improved. Such hope for a less dramatic future is all traders needed to reverse the selling and bounce off of the lows from Tuesday. Trading volume during the days that followed the sell off was weak which indicates many investors are still wary about adding new money to a market rally that has lasted this long without a chance for much of a consolidation along the way.

As the S&P 500 recently topped the highs last seen in May 2011, investors were forced to question how much longer the current bull market could go before facing a larger correction. The current bull market turned three years old this past week, still young when compared to the greater than four year average for bull market cycles since 1940. If history is a guide, any dip in the market will be bought this year with the expectation the top has not been seen yet. Many investors expect the current bull market to rally longer than typical cycles since the preceding bear market was longer. The path to get there will not be as smooth as the first two months of 2012 and will include multiple small corrections, but investors who are patient should be rewarded nicely.

Summary of Indexes

Courtesy of Morningstar.com

Name	As of Date	YTD	1-Year	3-Year	5-Year
US Stock Indexes					
DJ Industrial Average TR	3/9/2012	6.37	8.70	28.97	3.86
NASDAQ Composite PR	3/9/2012	14.71	8.60	33.05	4.59
Russell 2000 TR	3/9/2012	10.49	0.87	35.32	2.20
S&P 500	3/9/2012	9.48	6.10	29.23	1.72
S&P MidCap 400	3/9/2012	12.30	3.57	36.52	4.96
Global Stock Indexes					
Developed World (Ex-US)	3/8/2012	10.24	-6.13	23.80	-1.61
Emerging Markets	3/8/2012	15.05	-5.08	31.80	6.96
Bond Indexes					
Core Bond	3/8/2012	0.68	8.89	6.76	6.53
Intermediate Core Bond	3/8/2012	0.89	7.86	6.30	6.66
Long-Term Core Bond	3/8/2012	0.37	19.77	12.00	9.05
Short-Term Core Bond	3/8/2012	0.52	2.63	3.51	4.25

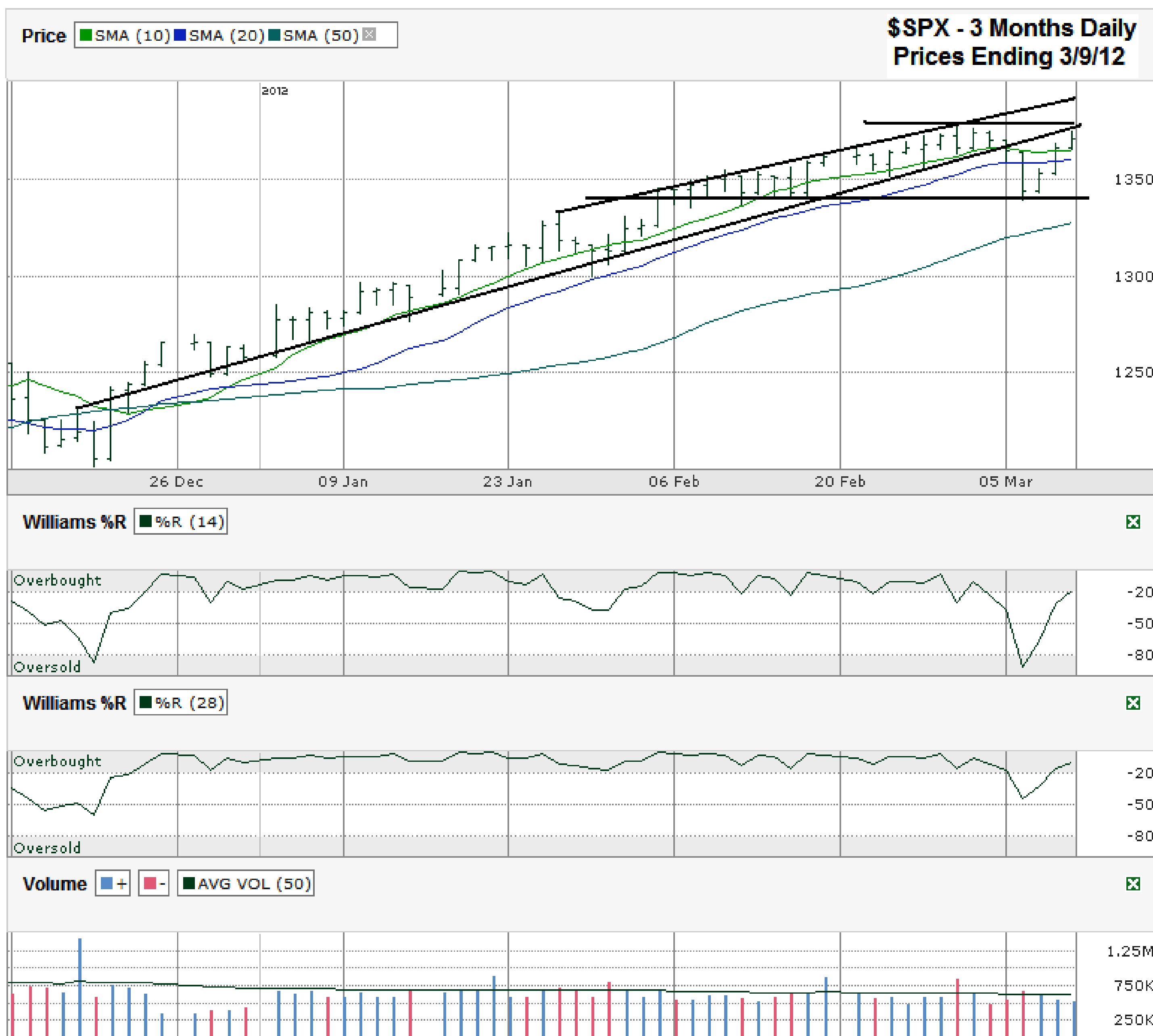
Market Movers

- Euro-zone ministers agreed to a $172 billion rescue package for Greece at the end of February. This allowed Greece to avoid a disorderly default and kept stock prices afloat for a few more days. Greece is required to implement tough austerity measures which few believe will actually be enacted. This lack of follow-though will lead to the eventual exit by Greece from the euro. Only when Greece can devalue its own currency will they have a chance to climb out of their recession. Greece will be forced to take another round of aid by 2015 or they will default again unless they make substantial changes.
- Oil prices rose as high as $111/barrel in February before easing off slightly. A continued rise in oil could be one of the few catalysts that could derail the economy's growth outlook.
- Fed Chairman Bernanke's semiannual FOMC report to the House Financial Services Committee caused investors reason for concern, not due to any surprise statements, but because the Fed made no commitment to continue an accommodative monetary policy. Fourth quarter GDP was revised higher to reduce the need for further easing in the Fed's view, but many investors fear without the Fed's influence the economy might not be healthy enough to thrive on its own.
- China announced it would target 7.5% growth in 2012 which is the lowest level since 2004. The idea that China's economy could be slowing caused many traders to take profits and pull back until another reason to buy equities emerges.

Fundamentals & Indicators

- Retail sales for January were up 0.4%, half of the 0.8% increase that was expected. Excluding autos, retail sales rose by 0.7% to beat the forecast for a 0.5% increase.
- The Empire Manufacturing reading increased to 19.5 in February from 13.5 in the January.
- The Housing Market Index for February improved to 29 from 25 in January, ahead of earlier calls for an improvement to only 26.
- The annualized pace of housing starts improved to 699,000 in January from an upwardly revised rate of 689,000 in December. This was much better than the anticipated rate of 671,000 housing starts.
- Building permits made a small improvement to an annualized rate of 676,000 from a downwardly revised rate of 671,000.
- Total producer prices rose by 0.1% in January. That is less than the earlier forecasts for an increase of 0.3%. Core producer prices climbed in January by 0.4%, which is double the increase economists were looking for.
- The Philadelphia Fed Survey improved to 10.2 for February from 7.3 in January.
- Consumer prices and core consumer prices both increased by 0.2% in January. Year-over-year, overall consumer prices climbed 2.9%, while core consumer prices were up 2.3%. This is in line with healthy inflation.
- Existing home sales hit an annualized rate of 4.57 million units in January, less than the rate of 4.63 million units that had been expected. Additionally, December figures were revised lower to reflect an annual sales pace of 4.38 million units after a pace of 4.61 million units had been reported initially.
- New home sales set an annual pace of 321,000 units in January. This is slightly lower than the upwardly revised rate of 324,000 units set in December and is better than the rate of 315,000 units that was anticipated.
- The eurozone Manufacturing Purchasing Manufacturer's Index (PMI) moved up 0.2 to 49.0. A number above 50.0 indicates growth. At 50.1, Germany's Manufacturing PMI was above this dividing line, but was lower than the 51.0 posted in the prior month. France's PMI showed growth with a reading of 50.2 from 48.5 in the prior month. China's Manufacturing PMI improved to 49.7 in February from 48.8 in January. This illustrates how the global economy is teetering between growth and contraction and why issues in countries as small as Greece are being scrutinized.
- Pending home sales for January increased by 2.0%, which is double the 1.0% gain that had been broadly expected.
- Durable goods orders fell in January by 4.0%, which is worse than the 1.4% decline the analysts anticipated and much worse than December's upwardly revised 3.2% increase. Excluding transportation, durable goods orders declined during January by 3.2%.
- The S&P/Case-Shiller 20-City Home Price Index fell 4.0% during December, worse than the decline of 3.6% experts were looking for.
- Fourth quarter GDP was revised upward to reflect growth of 3.0% rather than the 2.8% that had been reported in the advance reading. The surprise revision bolstered hopes that the economic recovery can last.
- Chicago Purchasing Managers Index (PMI) improved to 64.0 from 60.2 in January, beating earlier predictions for 61.5, which indicates a strong expansion.
- The ISM Manufacturing Index fell to 52.4 in February from 54.1 in the January, still showing growth, but at a slowing pace.
- The ISM Service Index rose to 57.3 in February from 56.8 in January.
- Factory orders decreased by 1.0% during January, which is better than the earlier calls for a 1.9% decrease.
- Construction spending slipped 0.1% in January, below the 1.0% increase that had been forecast.
- The February payroll gain of 227,000 (233,000 in the private sector) was slightly better than expected. In addition, the December and January increases were both revised higher. This is the third straight month of an increase of over 200,000 in payrolls and is coupled with a continued drop in weekly jobless claims.
- Hourly earnings increased 0.1% while the average workweek was unchanged. An increase in both would have shown an even stronger demand for employment.
- The unemployment rate remained at 8.3% for the second month in a row even though the labor force participation rate actually increased in February. This means more workers were encouraged to return to the job force and were able to find jobs when they did so.

Index Chart & Analysis



This S&P 500 ($SPX) chart shows the past three months of daily prices after the index finished the week at 1,370.87 on Friday, March 9, 2012. The S&P 500 maintained a narrow trading path for more than two months using the same trend line of higher lows as support for the entire run. That ended this past week as the index finally gave in to selling pressure and faltered. Traders jumped on this break in the technical indicator to push SPX below its 20 day moving average for the first time since December 20th. The bears appeared to have their chance at the wheel again for the first time in 2012 and the Williams %R indicator fell below the overbought area which added to the technical reasons to sell.

As quickly as the sell off began, it ended. Buyers came back into the picture at the point of previous support and the bears withdrew from their attempt to kill the three year old bull market. The ascending trend line that had been support for stocks since December switched to a line of resistance and could hamper any sudden advances past this potential line of higher highs. This coincided with the SPX coming within four points of its multi-year high seen

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only the prior week. The large cap index made it back above its 10 day moving average as another sign of strength and held off another bearish crossover of the 10 day and 20 day moving averages for a little longer.

The next test for the bulls will be to see if they can push the SPX to new highs, above the prior week's high of 1,378. Chart traders often watch for a retest of previous highs before adding to positions. If the index makes it above the previous high it signals a time to add to bullish positions and could be the launching pad for the next leg of this rally. If the previous high acts as resistance then a near term top is signaled and it is a time to take profits and wait for the next buy signal. The reluctance to take a large position on either side of the trade can be seen in the average volume for SPX. Volume has steadily decreased since stocks hit their lows in 2011. This lack of participation can allow for larger intraday swings in the market, but rarely indicates a long term market top. The indicators are showing multiple warning signs that the market is due for a correction, but the longer term bullish trend is still in place. While any dip in the coming weeks could scare off some skittish investors, any drop beyond 5% should be considered a buying opportunity for longer term investors.

AF Capital Management, LLC
6935 Hunters Knoll NE
Sandy Springs, GA 30328

404-395-2752
alex@afcapitalmanagement.com

Twitter: @AlexRFoster
Facebook: AF Capital Management

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