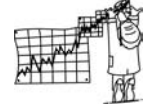


# The Rosenthal Report



## Financial Planning Services

## September 19, 2011

Dear Clients and Friends,

I hope you enjoy this week's Rosenthal Report!

--Larry Rosenthal

### This Week in History....

#### **Did You Know?**

On September 22, 1961, President John F. Kennedy signed legislation establishing the Peace Corps as a permanent government agency.

During the presidential campaign of 1960, Democratic candidate John F. Kennedy promised to reinvigorate U.S. foreign policy. Shortly after his inauguration in January 1961, Kennedy made good on his promise for a new and aggressive foreign policy. On March 1, 1961, he issued an executive order establishing the Peace Corps. As described by Kennedy, this new organization would be an "army" of civilian volunteers--teachers, engineers, agricultural scientists, etc.--who would be sent to underdeveloped nations in Latin America, Africa, Asia, and elsewhere to assist the people of those regions. Though the participants were volunteers, they would need basic subsistence and, more important, tools and money to help the people they were sent to assist. Some members of Congress saw it as an expensive public relations ploy, foreign aid (which had never been popular with Congress or the American people) wrapped in a new ribbon. The program, however, actually turned out to have popular appeal. Stories about idealistic young Americans braving privation in foreign lands to help people grow better crops, build schools, or construct wells was good public relations material for the United States. In September 1961, Congress passed legislation establishing the Peace Corps on a permanent basis. A budget of \$40 million for the next fiscal year was approved.

In the years after 1961, thousands of Peace Corps volunteers were sent around the world. Some faced indifference, some even faced danger. Most nations welcomed the idealistic volunteers, and their labor helped make better lives for hundreds of thousands of people.

The History Channel Online. "This Day in History." September 22, 1961: <http://www.history.com/this-day-in-history/president-kennedy-signs-peace-corps-legislation>.

### **HEADLINES**

- Despite data that pointed to further weakness in the U.S. economy and a credit downgrade of two large French banks the Dow Jones Industrial Average rose each day last week and ended the week up 516.96 points.
- Much of the gain in U.S. equity markets related to the announcement from the European Central Bank (ECB) on worldwide measures and agreement to provide additional liquidity to European businesses and financial institutions.
- President Obama lays out his deficit reduction plan of \$3 trillion Monday.

#### **INDICATORS (SEP 16, 2011 CLOSING)**

**DJIA:** 11,509.09

**S&P 500:** 1,216.01

**10-YR TREASURY (YIELD):** 2.08%

## MARKET WRAPUP

Equity markets in the U.S. took on a surprisingly optimistic tone last week despite the fact that many took to the sidelines in a wait-and-see pattern until more economic news shed a decipherable light on where the economy was headed. As such markets were largely dominated by European debt issues and the possible credit rating downgrade of several French banks; however, markets turned positive on news that Broadcom Corp agreed to purchase NetLogic Microsystems, Bank of America had plans to cut yet more jobs, and China had agreed to purchase some of Italy's outstanding debt. The Dow Jones Industrial Average (DJIA) gained 68.99 points. On Tuesday, despite the known consideration of a Greek default, investors appeared optimistic over a meeting in Europe that would potentially address some of the major concerns over debt issues there. The DJIA closed up 44.73 points. On Wednesday German Chancellor Angela Merkel denounced rumors that Greece was nearing default as she ended meetings with French President Nicolas Sarkozy and Greek Prime Minister George Papandreou. Nevertheless Moody's Investor Services downgraded the debt rating of French banks Societe Generale and Credit Agricole. Despite this and news of a weaker-than-expected report on retail sales, the DJIA gained 140.88 points. On Thursday the European Central Bank announced their engagement of coordinated efforts from central banks and financial institutions worldwide that would allow greater credit availability within the euro zone. Despite a rise in unemployment insurance claims, the DJIA rose 186.45 points. On Friday investor sentiment pushed the DJIA up 75.91 points. For the week the DJIA gained 516.96 points; yields on U.S. Treasuries with maturities 1-year or less fell while yields on all longer maturities rose.

## THE WEEK THAT WAS

Indicator, Last Week	Reported	Prior	Consensus Forecasts
Retail and Food Sales (Aug)	+0.0%	+0.3%	+0.2%
Weekly Initial UI Claims	428,000	417,000	410,000
Consumer Price Index (Aug)	+0.4%	+0.5%	+0.2%
Industrial Production (Aug)	+0.2%	+0.9%	+0.0%

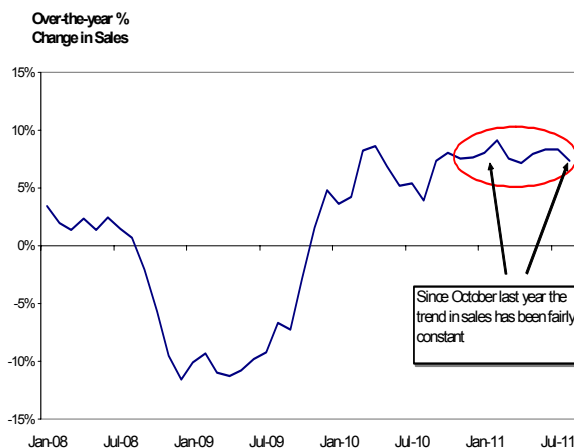
### RETAIL AND FOOD SALES (AUG)

According to the Census Bureau retail and food sales were essentially unchanged for August, a slight slowing from July's estimated growth of 0.3% and below the expected gain of 0.2%.

Although this was certainly not an abysmal report, it was by no means spectacular either. The bigger losers in the August report were miscellaneous retailers and clothing stores, which although some may see these as unimportant the reverse is in fact true. Retail clothing employment in particular has provided about 5% of the total job gains over the last year. Ex-automobiles total sales rose 0.1%, which reiterates the idea that many consumers have become uneasy over purchasing large-ticket items.

One positive aspect of the report was that there were only 4 major industry sectors that had sales declines, unlike months past where the declines had been more widespread. Another positive note was that over-the-year sales remained strongly positive at 7.3% through August. Nevertheless the gains were mostly weaker in August than they had been in July. Overall the report reflected rising sales for many industries but the pace was slower and showed further slowing in consumer confidence.

Advanced Retail and Food Sales



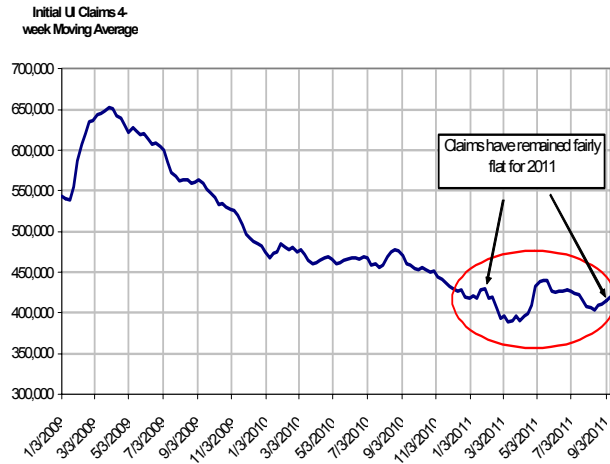
## WEEKLY INITIAL UI CLAIMS

In the week ending September 10 initial claims for unemployment insurance rose 11,000 to 428,000. The 4-week moving average rose 4,000 to 419,500.

This is getting rather painful in yet another week of “unexpected” rises in claims. Since our recent low of 399,000 the week of August 6 claims have averaged a weekly gain of 5,800. Although the 4-week moving average remains mostly flat since the beginning of this year, for the economy to move forward businesses are going to need to stop laying off employees and start hiring. Complications with this last piece are magnified by the fact that continuing claims remain above 3.7 million.

Overall this brutally slow and inconsistent pace doesn't see us hitting a consistent trend below 400K until the spring of next year; let's hope things turn soon.

## Initial Unemployment Insurance (UI) Claims

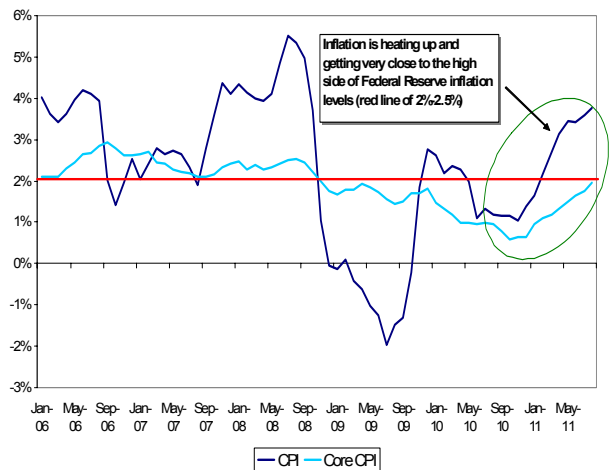


## CONSUMER PRICE INDEX (AUG)

According to the Bureau of Labor Statistics the Consumer Price Index (CPI) rose 0.4% in August, a slightly slower pace than the 0.5% rise in July but well ahead of the 0.2% gain markets had expected.

Inflation has started to become an issue once again and could have adverse impacts on growth in 2012. Over-the-year the CPI is up 3.8%; core CPI (the CPI excluding food and energy prices) is up about 2%. Prices for personal consumption expenditures (the index most paid attention to by the Federal Reserve) is also showing strong gains, with core PCE prices up about 1.6% over-the-year. Aside from problems for monetary policy (the Fed targets annual inflation at about 2% to 2.5%), it also creates problems for consumption; real wages fell in August, which will likely curb consumption short-term.

## Consumer Price Index



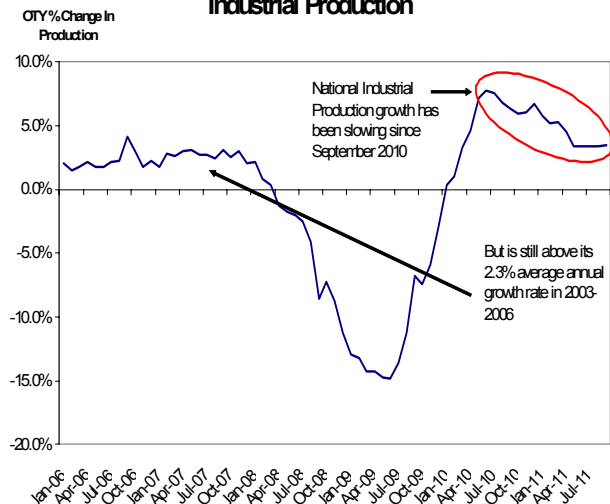
## INDUSTRIAL PRODUCTION (AUG)

According to the Federal Reserve industrial production grew by 0.2% in August, much slower than the 0.9% pace set in July but better than the market's expectation of no change. Capacity utilization increased slightly as well to 77.4% from 77.3%.

This was a very positive report, particularly in light of the quite dismal data coming from many regional reports on manufacturing and business activity. Despite a drop in construction spending, production geared towards both business and consumer durable goods rose in August.

Our chart shows that current production levels are over 3% from what they were last year, well above the average annual growth rate of 2.3% from 2003 to 2006. Nevertheless production is slowing, and the question is when will the slowing turn more positive.

## Industrial Production



## THE WEEK AHEAD

Indicator, This Week	Date of Release	Prior	Consensus Forecasts
Housing Starts (Aug)	Sep 20	604,000	590,000
Existing Home Sales (Aug)	Sep 21	4.67 Million	4.70 Million
FOMC Rate Decision	Sep 21	0% - 0.25%	0% - 0.25%
Weekly Crude Oil Inventories	Sep 21	-6.7 Million	N/A
Weekly Initial UI Claims	Sep 22	428,000	418,000

**Housing Starts (Aug)** - With a weak housing market new home starts are expected to remain subdued.

**Existing Home Sales (Aug)** - Most are expecting just a slight increase in the sales pace.

**FOMC Rate Decision** - The issue will be of any word on additional stimulus from the Fed (QE3?).

**Weekly Crude Inventories** - This will provide a glance at the supply-side issues of recent falls in gas prices.

**Weekly Initial UI Claims** - A big release after the “unexpected” rise last week, with most expecting a drop.

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