November 27th, 2010

The Capital ReCap

ReCap

Economic Activity

- Real GDP revised up to 2.5%; Nominal GDP revised up to 4.8%. (+)
- Existing home sales fall for first time in three months, down 2.2%. (-)
- Personal income rises 0.5%; more than expectations. (+)
- PCE rose 0.4%, less than the consensus expectation. (-)
- Personal savings rate rose to 5.7%. (+)
- New single family home sales takes a dive; falling 8.1%. (-)
- Consumer sentiment rose to its highest level in five months. (+)

Equity Activity

- HP posted a 5% rise in profit, along with an 8% rise in revenues.
- XOM sold nine oil and natural gas stakes to Energy XXI for $1.01B.
- A jury ruled that SAP owes ORCL $1.3B in copyright infringement case.
- Del Monte Foods has agreed to be bought by private equity firm KKR for $4B.
- Ford looking to expand into 2nd tier cities in China; plans to add 66 new dealers in country.

Inside the Numbers

Hopefully, everyone had an enjoyable Thanksgiving holiday and ate plenty of Turkey. On this holiday-shortened week, the markets' focus wasn't so much on Turkey as it was on PIIGS. The word "contagion" returned to investors' vocabularies and caused some strain on the indices. The S&P 500 was down close to 1% on the week.

The shortened trading week did not equate to a light week on the economic front. We received a revision of 3Q GDP, which was revised upward. The positive GDP revision was on the heels of an upward revision to PCE, along with a smaller trade gap due to the weakened dollar.

On the housing front, we received both existing and new home sales data. Both data points fell as existing home sales are down 25.9% year-over-year and new home sales are down 28.5% year-over-year. The National Association of Realtors (NAR) made the comment of housing "being in an uneven recovery that is restrained by overly tight credit and a notable share of appraisals coming in below a price negotiated by buyer and seller." The NAR still feels the housing market has bottomed and expects existing home sales to rise above five million in 2011, as stated by Ned Davis Research.

Personal income continues to rise; it has risen in 12 of the past 13 months. Within the personal income report, we see that the rise in income is not being distorted by government aid; which, as NDR points out, presents a valid argument for this recovery becoming more self sustaining.

Lastly, to touch briefly on the labor markets, we saw initial claims drop by 34,000. It was the biggest drop in nine months and initial claims are now at their lowest levels since July 2008.

Capital Investment Advisors, Inc.

The Capital Course

With the return of the word "contagion" and the markets being re-introduced to problems with the PIIGS, we are taken back to some conversations we had a few moths ago within this ReCap.

Those conversations surrounded the fact that fear in Europe will lead to people flooding to the safety of the dollar, ultimately strengthening the dollar. The strengthening of the dollar would then have a negative impact on U.S. exports, thus eliminating an avenue of growth for our country.

Over the past few months, we have not seen a huge positive impact from a weaker dollar. Though the dollar hasn't been constantly weak, we only just got a small sign of GDP being positively impacted by the weak dollar. This positive impact came within the recent 3Q GDP revisions.

Since we didn't see much of an impact to exports and our overall GDP from the first battle with contagion and European fears, it doesn't seem that this time will be much different. Yes, this time does come with even greater fear that the debt concerns will spread to bigger countries, such as Spain; but it still doesn't seem that it will have the long -term negative consequences that seem to spook investors at the onset of these concerns.

We are beginning to see our country gain some strength, albeit slowly, that shows our growth can be self sustaining. Also, we can't forget that much of this rally has been driven by the emerging markets such as Brazil, China and India. The emerging countries are facing drastically different issues than the developed countries. Emerging markets are looking to have to battle inflation and the possible implementation of tightening policies.

As we continue to see more economic data, like growth in personal income and declining initial claims, which suggests our economic growth becoming more self sustaining, the less these developments overseas should impact us. And, as investors become more comfortable with the reality of our recovery and how it will be slower than past recoveries, expectations will be altered, which means there is less opportunity for investors to unexpectedly be disappointed.

These comments in no way are suggesting that a failure of the Euro or continued weakness should not and will not impact our markets and economy domestically. Rather, it is saying that our future growth and the sustainability of our economic growth does not hinge on Europe but will have to come from within our borders and will also likely continue to be impacted by the emerging/commodity driven countries.

So, as investors, we continue to stay the course in order to navigate through these somewhat irrational and tough market conditions. We continue to position ourselves in commodity driven investments with a heavy weighting on oil and natural gas. We also continue to focus on dividend paying equities that look to have the cash flows to continue their dividends despite some slower growth in some of their markets, such as Europe. This continues to be our guide to close out the year, but we are constantly weighing how much these outside influences will have on our current investment strategy.