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Performance since Presentation

Name	Price	% Change
Polaris Minerals	2.25	-29.69%
Darling Intl.	9.63	-21.07%

Economic Indicators: What to Look For By John Wood

What makes an economic indicator useful? With so much economic data being released all over the place, how can some be more important than others? Here're the factors that impact the relative importance of the indicators:

1) Timeliness of an Indicator: Investors need news that is current-what happened two months ago is old news. For example, the Employment Situation report is released the first week after the month that it surveys ends. June's report came out July 3rd, timeliness which has earned it the most market-moving indicator.

2) Predictive Ability: Investors want data that can help predict the future of the economy. Because of this, they turn to indicators such as Advance Orders for Durable Goods and Housing Sales- both of which tend to be the canary in the coalmine for economic booms and disasters.

3) Accuracy: For many of the surveys, the law of large numbers is king- the more people that are surveyed, the more likely the sample's result is close to the true value. Revisions are typical of economic data- surveys get lost in the mail, come in late, or are finished late. However, some bureaus are more timely and effective at others at getting the data quickly and not having to issue revisions that are vastly different than previous reported numbers, and that data is more regarded.

4) Conditional Factors: Depending on your job function or the state of the economy, certain indicators are looked at with varying levels of scrutiny. People are likely to be unconcerned with inflation during recessions, and you're more likely to care about consumer sentiment if you run a retail store (although granted, if you are running a retail store, shame on you for working for Bear Stearns).Ω

Economic Indicator Seasonality by John Wood

Sometimes, declines or increases in an indicator do not imply fundamental changes in the economy. For example, there is a large corpus of people who get jobs in May and subsequently vacate them during September- mostly high school and college kids. Economists try to take these and other seasonal effects out of time series so that the statistics are more meaningful. This explains why a great deal of economic indicators have both regular and seasonally adjusted data, and why there is typically a lag to make the seasonal adjustment. Ω

Profiles of Business Genius II By John Wood

Michael Milken started off as a bond researcher in Drexel, Harriman, and Ripley, an investment bank at the time. Though just a simple researcher, he was also given some capital to trade. When Burnham and Company merged with DHR to form DB&C, Milken formed a high-yield (junk) bond trading operation which became very successful very quickly due to its 100% returns on investment. Due to the increasing amounts of trust clients gave him, he was able to raise enormous amounts of capital for upstarts at the time. He was also a huge contributor to the LBO firms such as KKR and fueled the M&A frenzy in the 1980s.

In 1986, Milken was responsible for giving bonuses to his department from a bonus pool of \$750 mil. He gave \$200 mil to his colleagues, and kept \$550 mil for himself, which was more than DB&C's profit for the entire year (\$525 mil).

Milken was eventually indicted for 98 counts fraud and racketeering due to his ownership in companies that PE firms were in the process of LBO-ing. He later served 22 months in club Fed, got prostate cancer, and then became a pioneer in the philanthropic funding medical research. Ω

Profiles of Poker Genius By John Wood

Michael Milken was playing a game of no-limit Texas hold'em online, when poker superstar and World Series of Poker champion Phil Hellmuth enters the table. They play a few rounds, until Phil Hellmuth raises on the big-blind. Michael looks at his cards, seeing that he has an off-suit 2 and a 10. Michael, however, would not be intimidated, so he goes all in. The other players fold, but not Phil. Phil reciprocates the all-in. The cards flop on the table, revealing Phil's same-suit ace and king of diamonds.

The onlookers watch in amusement and curiosity, as the flop, turn, and river are revealed. Amusement turns to horror for Hellmuth as the revealed cards give Michael a straight.

Hellmuth, realizing that he was outclassed, proceeded to leave the table Michael was at, but not before Michael was able to impart some wisdom to Phil:

"I'm Michael Milken, and I win with junk." Ω

Indicator Spotlight: Employment Situation By John Wood

Employment Situation

Released: First Thursday of month and data concerns previous month. Ex) Report released July 3, 2008 covers statistics for all of June, 2008.

Website: <http://www.bls.gov/news.release/empsit.htm>

Frequency: Monthly

Notes on Structure: Two parts- household survey and establishment (businesses) survey. Establishment data is taken far more seriously. For household data, being unemployed has a tricky definition. It's people who have made an effort, in the last 4 weeks, to find a job (people who haven't looked are "discouraged", and not included in the labor force) divided by the people in the labor force who aren't in the military. One caveat of the household survey is that people are ashamed to admit joblessness, and will instead claim to be contractors, consultants, and Lehman Brothers employees.

Table A

For the household survey, one of the numbers rising in importance is the jobless rate. This is because, due to advancements in information systems, businesses can predict demand slumps and fire people before they build up excess inventory, which has made an increasing joblessness rate a predictor of economic slumps. However, businesses are slow to rehire workers once in a recession, so jobless numbers can persist for some length of time into an economic rebound.

The most important number is the non-farm employment from the establishment data. This establishes whether or not the economy has net job growth or decline. An important way to split the data is to take out the net change in government employment, so you are left only with private enterprises' change in net jobs, as the top-line number is both government and private enterprises, and you don't want a burgeoning government sector giving you false hope about the private sector.

The second most important statistic is differences in hours worked and overtime pay. Employers will drop hours worked and overtime before they fire people, and increase both before they start hiring people. This can be another excellent leading indicator. Ω

Taking it to the next level.

A Call for Volunteers by IAG Insider

Thanks for reading IAG Insider, your favorite publication that comes out once every two weeks. This issue was populated with general tips, alternative humor, and a few basic definitions, which is due to its writing for the purposes of general consumption. Beginning the third week of IAG meetings, the IAG Insider will be released containing more advanced topics, analyses of industries, information about market indicators and patterns, and news pertaining to IAG. We will still have articles that cater to explaining basic concepts and ideas, but these will likely consume less than 50% of an issue. We're basically building an equity research team (in a way).

To achieve this ideal, I want to gather a number of people to work on the newsletter so that we can leverage a greater deal of intellectual potential in crafting this publication. If you are interested, you should ideally be able to come to school on the weekends. If you are unsure of your ability to contribute- don't fret! I will invest time in teaching volunteers the basic statistics, finance, and Bloomberg terminal skills needed to produce some hard-hitting analysis. As for writing skills, I clearly have none so don't let English language skills (or lack thereof) dampen your enthusiasm.

Also, there is definitely room in the newsletter for entrepreneurial students who want to either make a one-time article contribution or want to create a recurring featured article. For example, in 2007, Neal Sangani had a recurring half-page section called "Neal's Hot Picks", where he pitched a stock or two.

Ergo, if you are interested in learning more about the markets, making a name for yourself, or altruistically donating your expertise towards the development of your fellow IAGers, definitely send your resume and the most advanced finance/economics/statistics class you've taken (it's OK if you haven't taken any yet) to John.Wood@stern.nyu.edu so we can work together to build a better publication. Ω

Indicator Spotlight: Employment Situation cont.

Table A5

One overlooked indicator is the Part Time for Economic Reasons- people who take part time work because they cannot find full-time employment. An increasing number means people can't find full-time jobs. The problem is that the Establishment data counts a part time job and a full-time job as 1 job (a person with 2 new part time jobs created two new jobs), so you have to temper rising employment by the amount of forced part time jobs people are forced to take because they can't find proper full-time employment.

Table A12

Has various unemployment measurements. People who're discouraged workers show up with their own unemployment number, which is arguably better than the regular unemployment number (in my opinion).

Effects: Employment Up: Stocks Up, Bonds Down, Dollar Up Ω

The Effect of Economic Indicators by John Wood

Bonds: They hate inflation, so any sign of high employment growth and an overheating economy will cause bond yields to increase and bond prices to fall.

Stocks: They love high employment and a raging economy. A stronger economy means more buying and selling goods, which means higher corporate revenues and profits.

Dollar: The currency trades inversely to bonds. When the economy is roaring, interest rates increase, causing foreign investors to want to buy American bonds and treasuries. So when the economy is doing great, the dollar is doing great. Ω