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The Intelligent Investor U.S.

The Economic Monitor Series. Free Edition.

INSIDE THE REPORT

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- Analysis and views on **Money Market Accounts** and **Credit Card Charges**

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- **Cisco Systems**: 2Q results could be 2012 technology bellwether

MARKETS AT A GLANCE

- **Stocks** rose slightly on Tuesday, but with the outcome of discussions on a bailout package for Greece uncertain, investors are unlikely to make big bets in coming days. The **Dow Jones industrial average** was up 33.07 points, or 0.26 percent, at 12,878.20.
- **Treasury** debt prices fell as investors set up for this week's \$72 billion quarterly refunding and a safety bid waned following a report Greece was close to agreeing terms of a financial bailout. **Benchmark 10-year note** traded 16/32 lower in price to yield 1.98 percent.
- The **euro** accelerated gains against the **dollar**, climbing to its highest in about eight weeks on Tuesday, boosted by expectations a Greek rescue deal will be completed. The euro was last at \$1.32555, up 0.9 percent on the day.
- **Gold** prices rose 1 percent boosted by a drop in the dollar versus the euro after a Greek official said the country's government was drafting an agreement on a bailout deal. **Spot gold** was up 1 percent at \$1,736.50 an ounce.
- U.S. **crude** oil futures strengthened further to trade more than \$2 a barrel higher with traders focusing on spread trading between the U.S. benchmark WTI and Brent crude futures. **ICE March Brent** settled at \$116.23 a barrel.

STOCK INDICES

INDEX	LAST	CHNG	% CHNG
DJIA*	12,878.20	33.07	0.26
Nasdaq*	2,904.08	2.09	0.07
S&P 500*	1,347.05	2.72	0.20
DJ US Total Stock Market*	14,063.43	23.51	0.17
DJ Global Total Stock Index	2,567.59	4.31	0.17

* CLOSING VALUES

CURRENCIES

INDEX	LAST	PRIOR
Euro (EUR/USD)	1.3246	1.3261
U.K. Pound (GBP/USD)	1.5895	1.5898
Japanese Yen (USD/JPY)	77.03	76.77

All prices are at 12:03 AM EST

FUTURES

	LAST	CHANGE
Crude Oil, (Mar)	98.87	0.46
Natural Gas, (Mar)	2.474	0.002
Gold, (Feb)	1748.1	-0.3
Copper, (Feb)	3.88	0.00

All prices are at 11:54 AM EST

STOCK RECOMMENDATIONS BY BROKERAGE HOUSES

BROKERAGE/COMPANY	ACTIONS	RATING
JMP Securities		
Advent Software	Raises price target to \$34 from \$31	--
Redwood Trust	Cuts target price to \$13 from \$15	--
Dahlman Rose		
Yamana Gold	Cuts to hold from buy on valuation	Hold
Baird		
Amylin Pharmaceuticals	Raises price target to \$19 from \$17	--
BCD Semiconductor Manufacturing	Cuts price target to \$7	--
Longbow		
Home Depot	Raises price target to \$50 from \$42	--
Lowe's Companies	Raises price target to \$33.00 from \$29.00	--
BMO		
Amylin Pharmaceuticals	Raises price target to \$26 from \$17	--
Health Net	Raises price target to \$39 from \$33	--
Susquehanna		
HCA Holdings	Raises price target to \$34 from \$30	--
Lincare Holdings	Raises price target to \$27 from \$22	--
Rowan Companies	Raises price target to \$38 from \$35	--
Stifel		
Bankrate	Cuts to hold from buy on valuation	Hold
Brookdale Senior Living	Raises to buy from hold	Buy
HCP	Raises to buy from hold	Buy
LTC Properties	Cuts to hold from buy	Hold
Senior Housing Properties Trust	Cuts to hold from buy	Hold
Surewest Communications	Cuts to hold from buy	Hold
Citigroup		
Coca Cola	Raises price target to \$81 from \$78	--
CVS Caremark	Raises target price to \$51 from \$45	--
Equinix	Raises price target to \$150 from \$124	--
Lincare Holdings	Raises price target to \$25 from \$23	--
Molina Healthcare	Raises price target to \$55 from \$36	--
News	Raises price target to \$22.50 from \$19	--
Walgreen	Cuts to sell from neutral	Sell
Deutsche Bank		
Domtar	Raises price target to \$90 from \$80	--
Gaylord Entertainment	Raises price target to \$32 from \$23	--
PepsiCo	Raises price target to \$72 from \$70	--
Pioneer Natural Resources	Raises price target to \$108 from \$103	--

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ECONOMIC INDICATOR WATCH ON 8 FEBRUARY 2012

EST	Indicator	Period	Forecast	Prior
1730	Mortgage Market Index	Weekly	-	753.3
	Mortgage Market Change	Weekly	-	-2.90%
	MBA Purchase Index	Weekly	-	181.7
	Mortgage Refinance Index	Weekly	-	4113.8
	Refinancing Change	Weekly	-	-3.6%
	MBA Purchase : Change	Weekly	-	-1.70%
	MBA 30-yr Mortgage rate	Weekly	-	4.09%

THE TRADING DAY AHEAD

COMPANY NAME	Results	EPS Estimate (\$)	EPS (year ago) (\$)
Apartment Investment and Management	Q4	-0.30	-0.33
Akamai Technologies	Q4	0.40	0.40
Cincinnati Financial	Q4	0.59	0.70
Computer Sciences	Q3	0.58	1.54
CISCO Systems	Q2	0.43	0.37
Cognizant Technology Solutions	Q4	0.77	0.66
Coventry Health Care	Q4	0.63	0.96
CVS Caremark	Q4	0.89	0.80
Equifax	Q4	0.67	0.62
FMC	Q4	1.37	1.07
Intercontinental Exchange	Q4	1.69	1.35
Kimco Realty	Q4	0.08	0.02
Moody's	Q4	0.48	0.50
News	Q2	0.34	0.29
O'Reilly Automotive	Q4	0.85	0.69
Prologis	Q4	-0.04	0.00
Prudential Financial	Q4	1.76	1.76
Reynolds American	Q4	0.69	0.60
Ralph Lauren	Q3	1.67	1.72
Sprint Nextel	Q4	-0.37	-0.29
Time Warner	Q4	0.87	0.67
Visa	Q1	1.45	1.23
Whole Foods Market	Q1	0.60	0.51
Wyndham Worldwide	Q4	0.44	0.46

Economic Events

- Federal Reserve Bank of San Francisco President **John Williams** speaks on "The Federal Reserve and the Economic Recovery" before the **Bishop Ranch Forum** at 1540.
- 12th Annual **Atlanta Jewish Film Festival** (to Feb. 29).
- 2012 **Chicago Auto Show** (to Feb. 19).

Money market accounts could disappear if new SEC rules go forward: Industry

By Eleazar David Meléndez, IBTimes

Money market accounts could soon join "free checking" in the dustbin of retail banking history.



That's what various portfolio managers who make up a large chunk of the industry are saying could happen if regulatory provisions being discussed in Washington are enacted. The new rules, still to be officially proposed by the **Securities and Exchange Commission** but being widely discussed behind the scenes, are meant to protect the money market by preventing panic in a financial crisis.

But asset managers do not see things that way.

"The generosity of giving you the choice of which way to die is really not much of a choice," J. Christopher Donahue, president and chief executive of large portfolio manager Federated Investors, told the Wall Street Journal about the upcoming rules. His firm -- which handles assets constituting about 10 percent of the \$2.66 trillion investors hold in money funds -- is planning to sue the government once rules are released, the newspaper reported.

"We're going to do everything in our power to attack it," Donahue said.

In a Feb. 3 letter to the SEC, **Fidelity Investments**, another portfolio manager that handles an even larger chunk of the market, \$433 billion, said reforms being discussed "could spark retail and institutional investors to pull significant amounts of assets out of money-market mutual funds, leading to unintended consequences for the financial markets and U.S. economy." The letter cited internal research among Fidelity clients that suggested 47 percent of retail investors would close out or pull money out of their money market accounts if specific rules are enacted.

Floating value, fleeing customers

"Money funds and their institutional investors are keenly opposed to floating the NAV (net asset value) on their funds," Joseph Abate, interest rate strategist for **Barclays Capital**, wrote in a recent research note to clients, referring to a proposal industry insiders find particularly objectionable.

"Floating the NAV," which is one of the things the upcoming SEC rules are believed to require of fund managers, involves reporting the actual market-to-market value of securities held in money market funds at regular intervals. Current rules allow fund managers to report projected values.

Other rules being considered include obliging portfolio managers to set aside a percentage of the amount deposited in money market accounts as capital buffers, and another rule preventing people from withdrawing all the money in their money market account immediately, they'd have to leave 5 percent of the balance in the fund for 30 days after requesting a full withdrawal.

While these measures are intended to prevent "runs" on money market funds, in which a large portion of depositors suddenly ask for their money back, they would also eat into the margins such funds would be able to yield, making them less attractive overall.

"As a result, it is unclear how much of the institutional money held in money funds ... would 'go elsewhere'," Abate wrote in his note.

Main Street Savers and Wall Street Investors

Assets in the nation's retail money market accounts amounted to \$926.52 billion last week, according to industry data. The difference in the balance is made up by institutional money market funds, used by investors wishing to park their cash in ostensibly ultra-safe short term investment vehicles. The yield customers are being paid varies widely, but the national average, according to consumer finance Web site Bankrate.com, is an annualized 0.13 percent.

Once a saver (or an investor) puts cash into a money market account, portfolio managers use the funds to buy investment-grade notes -- generally ultra-short term government securities and day-to-day corporate loans known as commercial paper. What that all means is that, were the money market to shrink or fold altogether, public institutions and private corporations would see somewhat of a squeeze in daily financing.

Already, the commercial paper market has undergone a substantial amount of scaling-back, with the amount of this debt outstanding from financial institutions, for example, falling to levels below those seen in 2008, when the collapse of broker-dealer Lehman Brothers brought a financing squeeze.

The downfall of Lehman Brothers is actually intrinsically linked to the current regulatory issues. In Sept. 16, 2008, worries about money market funds being exposed to worthless **Lehman Brothers** commercial paper sparked a run on money market funds that was only halted when the government stepped in with a taxpayer-funded backstop.

The government is trying to prevent that from happening again and the issue for the regulators now is to strike the balance that protects the market without "finishing the job" that Lehman started.

Critics say they are far away from that balance.

The rules being hashed out by the SEC would "force an enormous number of sponsors out of the business and leave those that remain with a product that nobody will want to invest in or make available to investors," Paul Schott Stevens, president of the industry Investment Company Institute, told the Journal.

ANALYSIS AND VIEWS

Credit card charges in December spike consumer credit

By Eleazar David Meléndez, IBTimes

Back in January, when holiday retail sales numbers blew away the rosier of expectations, helping feed the notion that confidence in the economy was turning around, contrarian analysts pointed out that something about the numbers smelled.

Turns out they were right. The smell? Consumers burning the plastic off their credit cards' magnetic strip, as they charged nearly \$20 billion in purchases for the month.

U.S. borrowers tacked on \$19.6 billion in revolving, mostly credit card-related, debt in December, according to preliminary data from the **Federal Reserve**. Non-revolving credit, which had driven consumer credit increases in the previous month, was up a more modest \$13.5 billion. Borrowing grew across all categories, be it charges on commercial credit cards, student promissory notes, auto loans of fixed-term mortgages.

While numbers indicating consumers are spending are widely seen as an economic positive, numbers indicating a high level of borrowing have a more ambiguous interpretation since "you're effectively borrowing from what can be spent in the future," says **JB Orecchia**, chief executive of **SavvyMoney.com**, which helps consumers understand and manage their debt load.

Part of the fluctuation is likely to be seasonal since "we see more spending over the Christmas holiday as a rule," Orecchia says.

But the increase blew away even the highest of expectations. Economists polled by Reuters had expected a rise of \$7.7 billion in consumer credit.

Even the more muted increase in non-revolving credit brought the total amount held by Americans in that category to a record high, \$1.697 trillion dollars.

An alternative view on the rise in consumer credit, put forward in a note to client by **Barclays Capital** economist **Cooper Howes**, is that the increase is as much a part of banks' willingness to lend as it is of consumers' interest in borrowing.

"We view this report as being consistent with broader trends of increased bank willingness to lend to consumers and increased consumer demand for credit," Howes wrote in a note

The surprising data, which is not usually considered market-moving, seemed to have little effect on the equity markets. The benchmark **S&P 500 Index** of U.S. stocks, which was near the unchanged mark at 3 p.m., when the report came out, Tuesday closed up 0.20 percent to 1,347.



TOP STORIES

Yahoo shakeup: Chairman out, 3 other directors out

Yahoo, No. 2 in search, shook up its board of directors Tuesday, a month after recruiting new CEO **Scott Thompson** from **eBay's PayPal** unit. Gone are Chairman **Roy Bostock**, a retired advertising executive, as well as three others, including **Vyomesh Joshi**, the top printers executive of **Hewlett-Packard**, who will retire from the board of the Sunnyvale, Calif.-based company at the annual meeting. Meanwhile, Yahoo elected two outsiders as directors Tuesday. They are **Alfred Amoroso**, former CEO of **Rovi** and a former top executive of **IBM**, and **Maynard Webb Jr.**, former CEO of **LiveOps** and a former Senior VP and Chief Information Officer of **Gateway**, the PC maker acquired by **Acer**. Yahoo co-founder and former CEO **Jerry Yang** quit last month. In a letter to shareholders, Bostock said the developments will leave Yahoo with a majority of directors "new to the board this year," which should provide "a fresh set of perspectives and a diverse set of skills." That could presage steps to divest Yahoo assets valued as high as \$20 billion, such as sale of a 40 percent interest in China's **Alibaba Group** and a 20 percent stake in Yahoo Japan.

After personally firing CEO **Carol Bartz** last September, Bostock hired **Goldman Sachs** and **Allen & Co** to provide financial advice to the board. In his shareholder letter, Bostock pointedly wrote that the company is "in active discussions with our partners in Asia" about restructuring. "Yahoo is an incredibly strong brand with formidable assets," Bostock wrote, echoing comments of Third Point Capital's principal, **Daniel Loeb**, who acquired a 5 percent stake in the company after Bartz's ouster. Yahoo shares rose a penny to \$15.83 Tuesday, giving the company a market value of \$19.6 billion. Since September, the shares have gained 23 percent.



Apple may launch 'iTV': Analyst

Apple will launch its own **HDTV**, called the "iTV," according to the latest analyst report. As reported by **Peter Misek** of **Jefferies & Company** in a note to clients, Apple might buy licenses for programming through possible partnerships with **Verizon** and **AT&T** and could leverage content into a **YouTube**-like model by taking advantage of videos created by users of the iPhone and iPad. "We think that partnerships with carriers and MSOs are possible whereby they provide the video content as they already have deals in place (at least to sell video over their own pipes), whereas Apple has to negotiate for new over-the-top distribution rights," he wrote. It is also noted that lower margins and higher risks will most likely keep Apple away from creating original programming. Misek has pointed that Apple could select about 100 groups to create channels and provide upfront financing in exchange for a year of exclusivity. Also Apple could buy access to exclusive content, much as **Netflix** has done for the **House of Cards** program and **DirecTV** with its exclusive **NFL Sunday Ticket** package. Misek also notes that gaining access to non-exclusive content is the most likely scenario, as Apple will pay less, provide access to a broader range of integrated content and package everything with a superior user interface and ecosystem.

TOP STORIES (Continued....)

PepsiCo earnings preview: Q4 boosted by sales in emerging markets

PepsiCo is projected to report stronger fourth-quarter profit as the world's largest snack-food maker continues targeting emerging market growth and improves its hedging against commodity price swings. PepsiCo Inc., which reports earnings Thursday before the markets open, is expected to post a profit of \$1.13 per share, up 7.6 percent from a year ago when PepsiCo reported earnings of \$1.05 per share, according to analysts polled by **Thomson Reuters**. Revenue is projected to come in at \$19.92 billion for the quarter, 9.7 percent above the year-earlier total of \$18.16 billion. For the year, analysts expect PepsiCo to earn \$4.39 per share on revenue of \$66.32 billion. "Growth in the international markets is going to dwarf slower growth in PepsiCo's more developed markets," said Thomas **Mullarkey**, an analyst at **Morningstar**. The Purchase, N.Y.-based company said it expects to record high single-digit core earnings per share growth on a 52-week U.S. dollar basis from its 2010 core EPS of \$4.13. In the event that more bearish sentiment creeps into the market, Mullarkey thinks PepsiCo could provide a safe haven in a flight to quality. He also thinks the shares, on which he has a \$76 price target, could be attractive to value investors. PepsiCo's major competitor, the **Coca-Cola Company**, reported its fourth-quarter profit that topped analysts' estimates helped by sales of teas and juices in Asia. Other competitors include: **Dr. Pepper Snapple Group** and **Monster Beverage Corp**. Both companies' stocks rose by less than one percent in midday trading. PepsiCo closed at \$66.76, up 24 cents or 0.36 percent, in Tuesday trading. Year to date, the stock gained 0.62 percent in value.



Oracle rejects pact, wants new trial in SAP copyright dispute

Oracle, the No. 1 database developer, rejected a \$272 million settlement from German arch-rival **SAP** over alleged infringement of intellectual property. Oracle had won a \$1.3 billion jury award over unauthorized access to its servers by SAP unit **TomorrowNow**, which the German rival acquired in 2005. But a federal judge slashed payout to Redwood Shores, Calif.-based Oracle nearly 80 percent because she believed the award was too high. Shares of Oracle fell 5 cents to \$28.95 Tuesday, as U.S. shares of SAP rose 61 cents to \$63.60. SAP said it was "disappointed" Oracle had rejected a settlement and added it would try to end the dispute. The case is pending in **U.S. District Court in Oakland, Calif.** before **Judge Phyllis Hamilton**. Meanwhile, Oracle remains embroiled in a totally separate case against **Google**, the No. 1 search company, over alleged infringement of Java patents Oracle acquired via its \$7.3 billion acquisition of **Sun Microsystems** in 2010. Oracle alleged Google had abused the patents to develop the Android OS for smartphones and tablets. In that case, in U.S. District Court in San Francisco, **Judge William Alsup** ordered Oracle CEO **Larry Ellison** and Google CEO **Larry Page** to appear before a U.S. magistrate in San Jose, Calif., last fall. Alsup had rejected a demand by Oracle that Google, based in Mountain View, Calif., pay as much as \$6.1 billion in damages. After face-to-face negotiations failed, the judge scheduled a trial date of March 12 but subsequently scrubbed it.

Cisco Systems: 2Q results could be 2012 technology bellwether

Shares of **Cisco Systems**, the No. 1 provider of Internet equipment, could be volatile the next two days before the company reports second-quarter results after Wednesday's close. Cisco shares closed Tuesday at \$20.20, up a penny, giving the San Jose, Calif.-based giant a market capitalization of \$108.59 billion, down about 8.3 percent over the past year. Cisco's performance could be a bellwether for the entire technology sector, which in general reported improved performance in the fourth quarter for computers and software, with mixed results for semiconductors. As well, Cisco's results selling switches, hubs and routers for Internet traffic may foreshadow demand from Eurozone countries, which account for about a quarter of revenue. Over the past six months, most technology companies headed by **IBM**, **Hewlett-Packard** and **Microsoft** have been relatively immune from the European crisis because customers ordered more products to become more efficient. Analysts expect Cisco, based in San Jose, Calif., to report second-quarter net income of \$2.3 billion, or 43 cents a share, right along with company guidance, with revenue ranging between \$11.12 to \$11.23 billion. A year ago, Cisco reported net income of \$2.07 billion, or 32 cents, on revenue of \$10.4 billion. CEO **John Chambers**, 62, last year took steps to lower Cisco's costs, especially after the company paid \$6.9 billion to acquire Scientific Atlanta in 2006, leaving it with costly factories in Mexico and a bigger payroll. The company fired 9 percent of its 73,000 employees in July, incurring \$1.3 billion in severance and termination costs that were spread over several quarters.

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