The Financial Digestive System

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Our market masters know there are only so many visits to the "well, we'll extend QE and asset purchases, keep interest rates zero, do whatever it takes" declarations before they begin to lose their effectiveness. So this week there was the "shout out a profit rise in a failing economy and make it so loud that it drowns out reports of declines" pulled out of a hat (or something else) trick.

Tuesday had the biggest market gain of the year. Was it from McDonald's and Coca-Cola, two DJIA heavyweights? No, they reported 30% and 14% profit *declines*, respectively. Maybe it was the Yahoo positive report, but that was largely from the one-off Alibaba IPO. Besides, Google reported a 5% decline last week -- not an encouraging sign for the search engine sector. Perhaps leftover excitement from the very good Apple report even though that is also one-off in that the company released a new popular product.

As Bloomberg recently reported, 95% of S&P company earnings have been used to purchase company stock. Apple doubled its buyback in the last fiscal year compared to the previous to the magnificent sum of $45 billion. Curiously, there was an $13 billion sell-off of their stock and bond investments from the 2nd to the 3rd quarter. Did that add a flourish to the profit figure and the markets?

Companies have been consuming themselves and then excreting for profit over and over again as if they were like old dogs consuming their own sh-t thinking they were eating Gaines-Burgers. Someone should inform the poor souls that they've already extracted all the nutrients.

Wednesday it was the famine following the feast. But then Thursday was another good day, and as big as Amazons are, the retailer was not large enough to get a negative investor reaction to its record quarterly loss although its stock is down 33% since February. ATT was also down. Microsoft had a profit decline, that became a positive because it beat "expectations." No, they say it was Caterpillar, the company with 21 consecutive monthly global retail declines. It managed to up dividends to $1.72 per share, way above $1.35 expectations. It did this with huge stock buybacks (reducing the number of outstanding shares, thus increasing dividend per share). No need to make big machines when you can just play the market and low interest loan game. CAT did acknowledge that their existing order backlog is about the same as it was last year. There is your growth.

Ford reported a profit decline. GM a rise. IBM reported major financial problems last week. There was a flurry of PMI reports -- some better some worse (as in the US), but as stated before, PMI info is essentially a data-less "trust me even though I'll do or say anything for a buck" worthless report.

Existing home sales were up for September, but that merely offset the August decline. There was only one important report of the week and that was Friday's new home sales. September sales were up 0.2% to an annualized 467,000, but we will have to wait a bit for the real number because all months back to May were cut. The ridiculous 18% rise in August (largest monthly increase since 1992) up to 504,000 was cut by 7.5% to 466,000. July's 429,000 to 409,000, June 419000 to 405,000, May 504,000 to 458,000. Median prices fell 4% to 259,000 year to year. This most critical sector of the economy as barely recovered from recession lows let alone reached its last good year of 1.2 million. The market went into a brief dive when this news came out, but the hyper-broadcast of Draghi's call for a united action to prevent a return to recession dispersed all fears. The Social Security Administration announced that in 2013 52% of all Americans earned less than $30,000 --- 39% earned less than $20,000. Stimulate that if you want to end the real recession of the rest of us.

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