



Gauging the Pulse of the Market

From time to time, it's good to take the pulse of the economy across different sectors so we can make an educated guess on market direction. Let's look at four relevant "pulse points".

[Interest Rates](#)

Recently, the minutes of the Federal Reserve Board's April 2011 meeting revealed that the Fed was in no immediate rush to raise interest rates in order to encourage business investment, and to foster economic growth.

U.S. businesses are well-aware of this incredible window of opportunity to raise cash at rather low interest rates, because they know that this will soon give way to higher borrowing costs. As a result, many cash strapped and cash rich firms are rushing to raise capital.

Even Google - with a cash hoard of \$36.7 billion - decided to get in on the action. It recently announced a public issue of corporate debt with three interest rates 1.25% notes due 2014, 2.125% notes due 2016 and 3.625% notes due 2016. What Google will do with that extra cash on top of its existing stash, no one really knows. My guess is they'll invest it, make more than the interest due, and juice profits further even though they state that the cash will be used "to repay outstanding commercial paper and for general corporate purposes". Yaa, right!

[LinkedIn's IPO Surge Sets Stage for More Internet IPOs](#)

It's not 1999, but it almost feels like it - with Microsoft buying Skype for \$8.5 billion and LinkedIn shares surging on its Initial Public Offering. LinkedIn's IPO was a major test of investor demand for a new wave of fast-growing social Web companies. And investors passed the test with flying colors!

LinkedIn's shares opened at \$83 – near double their offering price of \$45 – rose to a high of \$122.70, then settled at \$94.25, giving the company a market capitalization of almost \$9 billion – 584 times last year's earnings and 37 times last year's revenue.

A continuing low interest rate environment is good for business. LinkedIn's enthusiastically received IPO suggests investor willingness to re-embrace risk. Housing seems to be doing okay in non-distressed sectors that were not subject to builder excesses.

At the same time, commodities suggest moderation from the rapid economic growth rates in China, India and other emerging economies – a controlled slowdown is always better than a blowout at high speed.

So broadly speaking, the news is reasonably positive.

Now... one should buy when the news is awful (as it was in 2008) and refrain from buying when the news is good, ironic as it sounds.

So perhaps, for the moment anyway, investors should avoid getting in to the market at this 'good news' inflection point. It's better to wait and see whether the good news is a short-term blip or the beginning of a new trend.

Always intellectually challenging... that's why this business is so much fun. If you choose to sit it out for now - enjoy your holiday!