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SUN-TIMES

MONEY

MARKET
LAST WEEK

597.42

DOW INDUSTRIALS
up 7.3 percent to 8,743.94

130.58

NASDAQ COMPOSITE
up 7.4 percent to 1,886.61

61.25

S&P 500
up 7 percent to 940.38

Time to give credit some credit?

CURIOS INVESTOR | Not so fast: 'Early stage' delinquencies rising at most credit card lenders

DAVID ROEDER

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The stock market rallied last week on upbeat earnings in the financial and tech sectors. Credit card issuers were among the stars of the party.

They grabbed center stage on reported declines in their delinquency rates for June. Delinquencies — loans up to 180 days past due — are treated as precursors of defaults, which companies write off as uncollectible. Is it time to put money on the credit sector?

Don't trust this trend any more than you would believe some come on low-rate teaser offer in the mail.

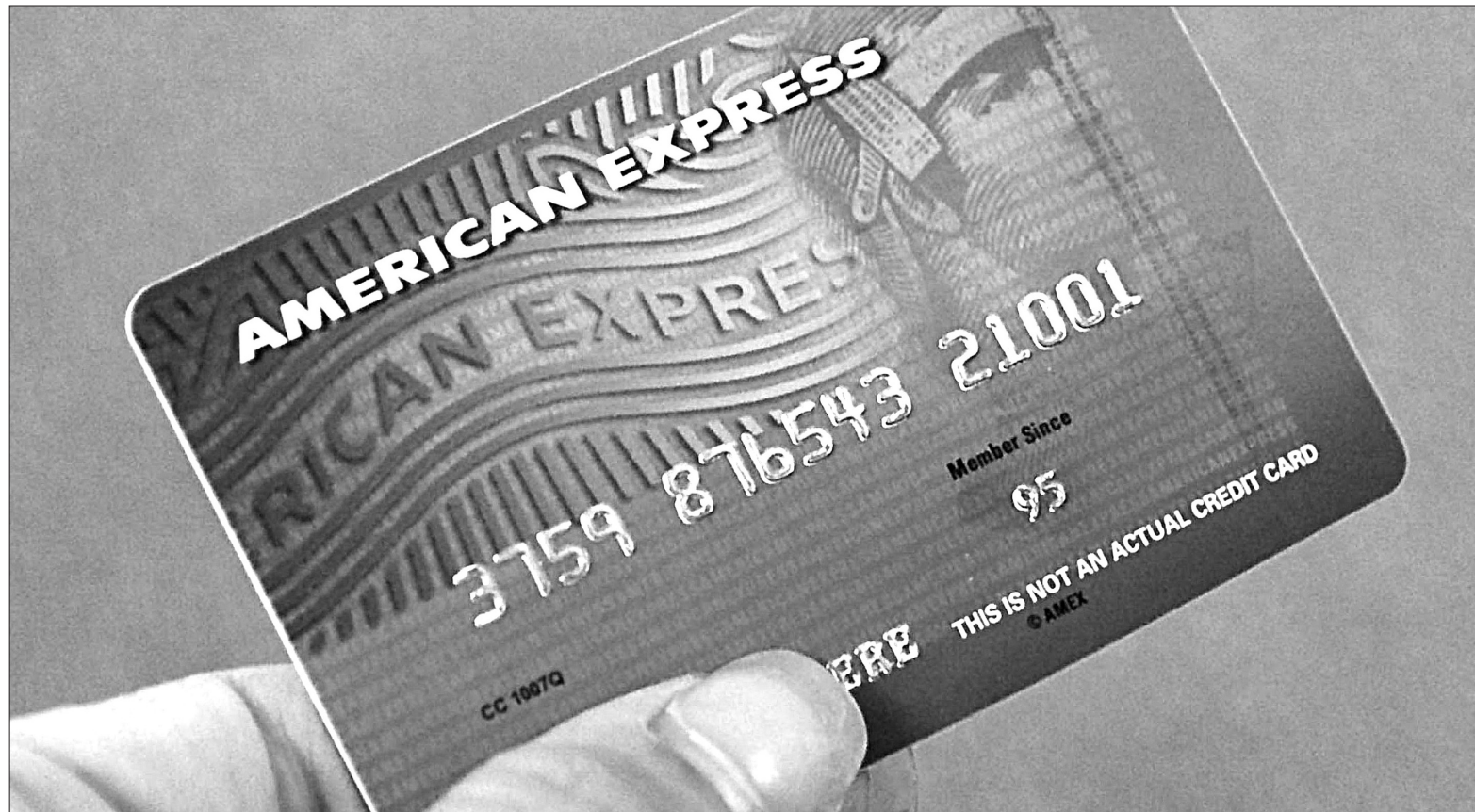
Stocks such as **American Express (AXP)**, **Capital One (COF)**, **JPMorgan Chase (JPM)** and **Bank of America (BAC)** have picked up momentum, reaching levels they last saw early in the year. AXP is the best stock in the Dow Jones industrial average. Analyst upgrades have fed the trend, with Stifel, Nicolaus & Co. researchers raising earnings estimates across the sector and a Jefries & Co. analyst saying he expects loan losses for credit cards to peak in the fourth quarter.

However, unemployment rates are still rising and retail spending lags. Real estate markets are delivering word of more foreclosures down the pike.

Look harder at the dip in delinquencies and you see the one-time effect of federal tax refunds and government stimulus checks that were issued in the spring.

Kathleen Shanley, analyst at corporate bond researcher Gimme Credit, has a realistic outlook, telling Bloomberg News that "early stage" delinquencies — loans a month or two late — are rising at most credit card lenders. Their performance "is going to be very highly correlated with what the economy does, what the unemployment rate is, and that we really don't know," she said.

SURVEY SAYS: Active traders are jumping back into the market, according to a survey by **Charles**

**American Express is the best stock in the Dow Jones industrial average. But how long will that last?** | KAREN BLEIER~AFP/GETTY IMAGES

ROEDER REPORTS

David Roeder reports on real estate every Thursday at 6:22 p.m. on WBBM-AM (780). The reports are repeated at 10:22 p.m. Thursday and 7:22 a.m. Sunday.

Schwab (SCHW). The discount brokerage said eight in 10 of busy traders it does business with reported a neutral or bullish market outlook. They also report holding 30 percent or less of their assets in cash, a sign that they have an appetite for risk.

Some of this must have showed up in Schwab's second-quarter profit, which was down 31 percent but was in line with analyst expectations. The company said brokerage customers were trading more, thus sending commission revenue up 18 percent. But asset management and administration fees fell 21 percent.

Also, **Insight Research Group** said its survey of consumers found people were rather blase (my word, not Insight's) about their own role

in the economic calamity. Only 33 percent think consumers' overspending was part of the problem, while 87 percent lay the blame on Wall Street and the U.S. government. Insight thinks this is a sign that consumers soon will shake off their hurt and head back to the stores.

Or . . . contrarian investors will take all this sentiment stuff as a sign that stocks will slap investors again over the next few months. When the "green shoots" of optimism are common and people don't own up to their own need to control spending (average credit card debt per household: \$10,679), we might see a hard "double dip" downturn.

WIND BLOWN? A year ago, oilman **T. Boone Pickens** set out on his public campaign behind wind energy, saying he would invest in turbines across the country's mid-section. Since then, his progress has been minimal. The tight credit markets have hurt. The Washington Post said Pickens backed away from plans for the world's largest wind farm on the Texas Panhandle because he couldn't get financing

for the transmission lines. That seems to be one of the biggest hurdles for this technology, generating the energy in remote regions but then getting it to the cities.

Another factor is the decline in oil prices. Wind energy needs costly oil to look like an attractive investment. **Owen Vater**, writing at *tickerspy.com*, noted that wind energy stocks are down about 40 percent from a year ago. Also, he said Pickens himself had no wind energy companies among the top 15 holdings of his BP Capital hedge fund. Instead, he favored coal and oil stocks.

TALKING TALF: **Mesirow Financial** said it sees opportunities in TALF, the Federal Reserve's Term Asset-Backed Securities Loan Facility. It provides loans for investors to acquire bonds backed by credit-card and auto loans and other short-term credit. **Joseph Gargan**, senior managing director at Mesirow, said "TALF-eligible securities are creating a whole new investment opportunity for income-focused investors," adding that the Fed's leverage is clearing access to highly rated debt.

GOLD BUG: **James DiGeorgia**, editor of Gold and Energy Advisory, says \$1,000 gold will be here before 2010. That's not much of a stretch, as gold is now close to \$940. But DiGeorgia predicts gold will be \$2,500 in 18 months and \$5,000 in three years. He uses the classic inflationary argument of too much printing of money by the Treasury. He recommends that 15 percent of every portfolio be invested in gold, calling it "insurance for the stupidity of politicians."

CLOSING QUOTE: "I share concerns about the vast sums being thrown at the very institutions that enabled this fiasco. I am personally disgusted by the recycling of overpaid and indisputably incompetent executives and worried about how we will ever pay the money back. However, none of us would have the luxury of these concerns if the actions taken, at lightning speed for a government, weren't working." — **Diana Joseph**, chief investment officer, **Barrington Strategic Wealth Management Group**

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