

## RealMoney Silver - The Edge

Scott Rothbort, founder and president of LakeView Asset Management, LLC, is filling in for Doug Kass today. Email Rothbort at [scott.rothbort@thestreet.com](mailto:scott.rothbort@thestreet.com). Doug will return on Thursday.

### Foreign Bids for U.S. Stocks Could Lift Markets

Scott Rothbort  
5/28/08 9:12 AM EDT

The dollars are starting to rebound. I am not talking about the U.S. dollar rebounding, although that may be an unintended result of what I am about to discuss. I am talking about all of those dollars that are held abroad, the owners of which are now starting to shop in our market. I am not talking about shopping in our stores but in our stock market.

Last week intentions for **InBev** to buy **Anheuser Busch** (BUD) were announced. Today, **General Electric** (GE) CEO Jeff Immelt disclosed that **LG Electronics** of South Korea and **Haier Electronics** of China were named as potential bidders for GE's appliance division, which was recently put up for sale.

While U.S. investors think that U.S. stocks are not worth buying, foreigners may think otherwise. This is a natural consequence of international free trade and rising energy imports. As U.S. dollars are sent abroad, the buck weakens and foreigners go shopping in our market. This will benefit U.S. investors and U.S. investment banks. It may be time to lighten up on some international investments and reallocate some capital to the U.S. markets. Anticipate, don't react.

Eventually, this phenomenon will also create stabilization and a bid for the U.S. dollar. That will induce currency-based relief but not demand price relief to energy and materials. Demand for energy and materials will continue to remain strong for many years, but the rate of its future ascent will not be as dramatic as when the dollar was in bear mode. So be careful not to mix up the two concepts.

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### Lehman Upgrades AMLN

Scott Rothbort  
5/28/08 10:03 AM EDT

**Amylin** (AMLN) caught an upgrade from **Lehman Brothers** (LEH), moving the stock to "equal weight" from "underweight" (whatever that means) with a price target of \$31.

Yesterday, I added to my **Banco Bradesco** (BBD) position. I owned stock lower and waited for a pullback to add to my positions.

We have a mildly positive to mixed open, with techs leading the way as commodities continue to see a bout of profit-taking.

Position: *Long AMLN and BBD*

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### Social Security, Medicare and Taxes

Scott Rothbort  
5/28/08 11:32 AM EDT

On *TheFinanceProfessor.com* I posed a question: Is William Sharpe right or wrong on Social Security and taxes?

In the most recent edition of *Investment News*, an [article](#) discussing Nobel Prize winner William Sharpe's proposal to raise taxes and cut Social Security and Medicare benefits was published.

Sharpe believes that in order to meet the costs of the Social Security and Medicare systems, we need to raise taxes or cut benefits by as much as 7%, or do a combination of both.

What do you think? Post your thoughts on [TheFinanceProfessor.com](http://TheFinanceProfessor.com) or [send me an email](#), and I will share with everyone on The Edge later today.

My opinion? With all due respect to a Nobel Prize winner, let's not for one second think that we can tax our way into

fixing Social Security and Medicare. If I invested my deposits and my employer deposits to Social Security, I would have a nice nest egg. Instead, I will get taxed on what little I take out. It is a broken system that needs massive overhauling.

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### **Spotlight on Retail**

Scott Rothbort

5/28/08 1:49 PM EDT

It is a real yawner of a day, with retailers taking the spotlight on a summer-like Wednesday.

**Polo Ralph Lauren** (RL) is surging on that company's report. The teen/tween retailers --such as **American Eagle Outfitters** (AEO), **Abercrombie & Fitch** (ANF) and **Urban Outfitters** (URBN) -- are also on the rise. In the big-cap retail arena, **Costco** (COST) and **Sears Holdings** (SHLD) are also spiking ahead of their earnings releases tomorrow. Sears is rising from the depths of a multiyear low, while Costco is making another run at its all-time high hit earlier this month.

The retail group is so hated that any positive results are being met with fervent short-covering. But, as we saw with **Dicks Sporting Goods** (DKS) last week, any disappointment will be dealt a severe blow. I have some more thoughts on Dick's on [my blog](#).

Position: *Long URBN, SHLD and DKS*

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### **Dangerous Extrapolation**

Scott Rothbort

5/28/08 3:01 PM EDT

*Bloomberg* is reporting that **Viacom** (VIA) announced that its second-quarter ad growth has slowed from the first quarter. VIA shares are off about 3% on that disclosure. Recall what I wrote when last covering VIA earnings report on May 2 that advertising sales rose 8% worldwide and 7% domestically.

Of course, the uninformed trader is going to sell **Google** (GOOG) on the VIA news. That is likely the same bunch of people who placed short bets on GOOG based on **ComScore** (SCOR) data, which turned out to be bad research. Here is the real message -- VIA is losing ad revenues, just like the print media is, to the Internet.

If you ask me, VIA might want to take a hard look at **Yahoo!** (YHOO), though it may take a bigger partner to help team up with YHOO, which has a larger market cap than VIA.

In other news, mazel tov to my brother and sister-in-law who just welcomed a new boy into the family this afternoon.

Position: *long GOOG*

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### **IMA Spikes**

Scott Rothbort

5/28/08 3:24 PM EDT

#### **Inverness Medical Innovations**

(IMA) is spiking after disclosing that it is in discussions with several private equity firms for a potential joint venture.

Position: *Long IMA*

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### **Readers Respond**

Scott Rothbort

5/28/08 4:10 PM EDT

The responses to my question on the William Sharpe proposal were tremendous. Thanks to all of you. Maybe some of the Presidential candidates should read what is below. Here are some of your thoughts.

From E.S.:

*I wish William Sharpe was wrong, but, frankly, I see the problem clearly and cannot think of any other feasible solution. If left to the people themselves to finance their retirements, the returns might not be much better -- unless they are advised by professionals who have the customers' best interests at heart, which unfortunately is not always the case.*

From J.M.:

*Good idea opening the debate.*

*Medicare will have to ration care. This is how it works in places with socialized medicine. For instance, no bypasses if you are over 70 -- just treat the angina -- there isn't a payback to society for the years added to that person's life. No politician wants to touch this issue with a 10-foot pole.*

*Social Security has some place, but the retirement age needs to be raised in line with life expectancy. My proposal is one month later for each year after 1945 that a person was born. So for a person born in 1980, full benefits begin at 67 and 11 months, with a similar push back in early retirement age.*

From K.R.:

*Most of your Social Security taxes should go into a private account, with small percentage still to be taken as a tax to fund the current retirees, and the age limit to receive benefits should be raised to 70.*

*Inevitably, there will be a segment of the population that doesn't have enough for retirement...this group should be taken care of by the welfare program.*

From V.M.:

*I think it is about time that all government employees pay into Social Security. The government is growing faster than the rest of employment.*

*Also, the postal department should start delivery every other day instead of every day -- less gas and less people.*

From N.N.:

*I believe that the cap on the wage base upon which Social Security taxes are collected should be raised from present (\$95,000, I believe) to at least \$150,000 or more, and the retirement age to begin receiving benefits should be raised from 65 years old to 67 years old initially and later to 70 years old.*

*This merely gives recognition to the change in life expectancy and physical condition of 65-year-olds from 70 years ago when the retirement age was established.*

*Then, I also suggest that benefits be "means tested" and not be taxed if the recipient's total income is below some established level, say \$50,000.*

*Thanks for your valuable contribution to RealMoney Silver.*

From R.Z.:

*I am retired, so I agree from personal experience that an overhaul is needed, but the third rail is more than a truism, and Sharpe's proposal (one of my least favorite financial guys, but this is not my field) may be all that is doable.*

From R.C.:

*The Medicare program as it stands is fraught with waste and inefficiencies. I am a CFO for a health care services provider, and the amount of paperwork and B.S. that we have to go through to provide care to our Medicare patients is unbelievable -- all of which adds costs to the system.*

*The Medicare program utilizes various intermediaries for payment, provider credentialing and the like. Each one of these intermediaries has its own proclivities, so you can imagine the administrative waste.*

*Raising taxes to fix a broken program is asinine. Raising taxes in a slowing economy is asinine. And unfortunately, decreasing benefits for those presumably on a fixed income is also asinine.*

*I am all in favor of taking the taxes I pay into the system, having a choice to invest 100% of it (or a lesser percentage) and taking responsibility for my own retirement.*

From H.V.:

*I think that it is high time for Congress to cut spending and get back to basics. It seems fine that we have a Constitutional amendment that allows illegals to come into our country and have babies that are immediately a citizen and collect welfare, but screw the people that have paid into Social Security and Medicare all their working lives.*

*Not to mention the fact that all the time we have paid into Social Security, in particular, that the money went into the general fund and was promptly spent by Congress. The fact that Congress is beholden to themselves and they figured out years ago that by promising giveaway programs and catering to special interest groups, they could get re-elected pretty much says it all.*

*But, I say again, cut spending and live within a reasonable budget -- live like the rest of us have to do.*

From R.H.:

*Social Security and Medicare are middle-class entitlements that help to assure dignity in old age for middle-class and poor people. Crises caused by these benefits are greatly overstated by those who hate a government program that isn't for war making.*

*Raise taxes on everyone making more than \$1,000,000 per year, including stock options tied to employment; close corporate tax loopholes; and, since the army, navy and marines are the least effective way to fight terrorism, cut military spending in half.*

From C.P.:

*I am a retail financial adviser with a major brokerage firm and have been at this profession since 1976, so I've seen and heard a lot of political B.S. over the years. Trying to fix Social Security and Medicare is virtually a political impossibility, although it's nice to think about -- especially since those "benefits" will eventually bankrupt the country.*

*Since raising taxes won't really increase tax receipts much, just increase the tax burden on the people who are productive. I don't think that raising the tax rate will be very beneficial. What we really need is a tax cut. Tax cuts have always increased tax receipts, as history has proven every time there has been a tax cut.*

*Then, we need to pair the tax cut with a reduction in benefits in both programs. It will be painful, but depending on how big the reduction in benefits are, should go a long way to fixing the problem.*

From R.R.:

*I agree that in order to finally resolve this issue, it will take a combination of tax increases and benefit reductions and the sooner we enact this remedy, the less impact it will have on us. Delay only makes the associated pain that the politicians unrealistically wish to avoid get worse.*

From D.P.:

*How can insurance companies guarantee retirement income for life on an account base they guarantee to grow at 7% for 10 years if you do not access it for those 10 years? They do.*

*It is done in the market place. There is reward for disciplined investing -- you need to be in one of their models, which is at least 87% equities. There is careful attention to the actuarials and hedging.*

*It does require tax deferral during the accumulation phase, similar to a 401k.*

*The government could apply such a market solution, but it won't.*

From C.T.:

*We are in trouble as older generations paid very little into Social Security, paid peanuts into Medicare and paid nothing into the new drug prescription program. Nothing over the past years has gone up more than Social Security taxes. The maximum Social Security tax was \$348 for the wealthy in 1965, now it's 36 times higher at \$12,648, and it's still not enough to compensate what should have been paid by prior generations.*

*Thankfully, gas hasn't gone up so drastically. Despite the obvious reason (i.e., a huge growth in world population creating a huge demand for the stuff), at least we have a valid reason for gas going up. Social Security taxes have gone up because people are living longer and America has gotten fatter, older and lazier.*

*Bottom line: Older generations did not work long enough or contribute enough to the Social Security funds, etc. To really fix the system, you have to change the retirement age from 65 years old to 71 years old or 72 years old. People can still retire whenever they want, just don't expect any benefits until you hit 71 or 72. Instead of begging for money when you are 65 through 71, you'd be putting money into the system -- a win-win for the youth, whom we should be helping, not hurting, with this gigantic Ponzi system that AARP has endorsed over the years.*

From W.G.:

*Taxing productivity to pay for Social Security is a bit like selling income-producing assets to fund consumption. It may work for a while, but it is not a viable long-term solution.*

From C.B.:

*Certainly, Social Security provided hope and some financial comfort 60-plus years ago when you had eight workers for every retiree, and life expectancy after retirement at 65 years old was for only three or four more years. Now, it is a truly unfunded Ponzi scheme. In the late 1960s, under President Johnson and Tip O'Neil, when Social Security assets were rolled into the General account current, the beginning of the end was nigh.*

*My solution? Raise the retirement age to 75. Why? It will allow another 10 years of payments into the "fund." People are living longer, healthier, and many want to continue to be productive, earning much more than the current monthly payout.*

*Raising taxes in a somewhat fragile economic environment is a really bad idea. Bill Sharpe is totally brilliant, but part of his thesis that higher returns come from taking more risks seems flawed to me. Maybe he was awarded the Nobel Prize for the wrong reason.*

*I always enjoy your commentary. You don't seem to miss many market opportunities. I will be curious as to other opinions.*

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### **Back-to-Back Bull Sessions**

Scott Rothbort

5/28/08 4:36 PM EDT

It was a very solid day for the market with the **MidCap Index** and the mining/material complex leading the way. While it looked like the bears were going to spoil the week again earlier today, once again, the bulls managed to thwart their efforts and put together a pair of nice back-to-back sessions.

I am logging off for the day for a *Bloomberg Radio* interview at 4:35 p.m. EDT today to preview the **Costco** (COST) and **Sears Holdings** (SHLD) earnings reports slated for tomorrow morning. Then, I will follow that up tomorrow morning with a *Bloomberg TV* appearance to discuss both of those companies' earnings reports. Finally, I will join Cody Willard once again on *Fox Business Network's* "Happy Hour" on Friday evening.

Thanks for reading The Edge and participating in today's forum question from *TheFinanceProfessor.com*. The response was so wonderful that I look forward to the next opportunity to get all of you involved. Express your knowledge!

Position: *Long SHLD*