



Weekly Commentary April 27, 2009

The Markets

For many years we have talked about the three M's – mood, money and momentum – because we believe they control the direction of the stock market. It is timely to analyze them again now because the stock market is behaving so much better than the current economic environment and international political news imply. Basically, the further ahead investors are willing to look, the better things appear. Of course, that's always the case during economic recessions, but why now? For seven weeks, the stock market has basically been rallying with only modest pullbacks and no more than two down sessions in a row. Of course, the stock market is a discounting mechanism that is looking ahead from nine months to a year, and it is responding to what it envisions. Most folks realize that, but no one knows why investors decided to look beyond the valley to peaks ahead after the heavy selling before March 6 and the dumping of stocks on that day.

We are in our 50th year as a full-time student of the stock market, and we are the first to admit that we didn't know in advance that a change in one of our "M's" would occur on March 6 – except in hindsight. However, the message of the stock market is that the mood did shift from "the glass is half empty" (or maybe all empty) to one of "the glass is half full." The mood on and around March 6 was one of extreme pessimism and deep concern over the future of both the American and the global economies. Of course, the mood had been bearish for many months, but apparently not bearish enough until March 6 when many stockholders simply dumped stocks and headed for the exits. Panic reached a level that created stock prices attractive enough to bring in some aggressive buyers. In essence, the mood had become so negative the market was almost discounting the end of the Western world as we know it.

The mood had gotten so bad that it had no way to go but up – at what level that happens can never be known in advance. A positive mood shift does no good if our second "M," money, isn't available for stock buying. Market action the past seven weeks shows clearly that there is a very bullish supply/demand ratio for stocks because sidelined cash is close to record levels. MZM, a broad measure of money supply, is now at 92% of the value of all U.S. companies listed on the NYSE and Nasdaq Composite markets. The average had been in the 40%-50% range from the fall of 2003 to mid-2008.

Now how about momentum? Momentum is the way we describe the action of the stock market, and it gets a big "A" for the past seven weeks. Thus, our three "M's" are bullish, and this must be respected. Yes, the stock market has come a long way in a short time, and pullbacks have not been repealed. But the message of the market and our three "M's" is to say "think and act bullishly and don't let the short-term news affect your longer-term optimism."

Index Performance Statistics – April 24

| Index | Close | Change | % Change | % YTD Change | 52 Wk % Change |
|---------|---------|--------|----------|--------------|----------------|
| DJIA | 8076.29 | 119.23 | 1.50 | -7.98 | -37.35 |
| NASDAQ | 1694.29 | 42.08 | 2.55 | 7.44 | -30.07 |
| S&P 500 | 866.23 | 14.38 | 2.68 | 2.24 | -34.78 |

Source: Bloomberg

*Price return — does not include dividends

Thrill is gone – GM's Pontiac bites the dust

The party is finally over at General Motors' "We Build Excitement" division, Pontiac. The company said Monday it will discontinue the brand as part of its consolidation effort, letting it slim down its payroll and concentrate resources on its remaining, strategically more important brands: Chevrolet, Buick, Cadillac, and GMC trucks.

WHO Raises Swine Flu Alert

The World Health Organization raised its global pandemic alert to the highest since the system was adopted in 2005 and said swine flu was no longer containable with as many as 152 people dying in Mexico. The alarm level increased to 4 from 3. The virus has been confirmed in the U.K., Mexico, the U.S., Canada, New Zealand and Spain. The number of worldwide cases of the virus confirmed by laboratory tests reached 73. The number of confirmed cases in Mexico is 26. Scientists are trying to determine why the swine flu has been more severe in Mexico. In the U.S., where the number of confirmed cases doubled yesterday to 40, only one person has required hospitalization. Japan said today it will suspend visa-free entry for Mexican nationals, while Asian countries including Singapore and South Korea are screening air passengers. The Geneva-based WHO is not recommending travel restrictions.

Last Week

The markets had their poker faces on this week, which made it difficult for investors to determine if the recent optimism was real or a bluff. In particular, the action for the major indices this week was keyed off of the financial sector. This was mainly driven by the limited information available on the outcome for the stress test of nineteen of the largest banks expected on May 4. Also playing a factor this week were first quarter earnings results for the banks which have been mixed. Although several banks beat expectations, a number of them made sizeable increases to their loan loss provisions. This raised concerns the credit crisis may not be over and more funds from the government might be needed. With uncertainty surrounding the leader of the recent rally, the sector and the market pared back gains.

Given the steep rally we've seen over the previous six weeks, many observers view the market overbought in the short term. This belief stems in part from a dramatic shift in investor sentiment. Before the rally began in early March, investor sentiment was an extreme 70% bearish versus 14% bullish, according to the American Association of Individual Investors. The most recent

reading released on Thursday showed the number of investors bearish falling to 38% while those bullish now stands at 31%.

Weekly Focus – Think about it

“Take time to gather up the past so that you will be able to draw from your experience and invest them in the future.”

-Jim Rohn

Best Regards,

Jim, Aaron & Angela
Kennedy Financial Services

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- * The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.
- * The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.
- * The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.
- * Bloomberg is the source for any reference to the performance of an index between two specific periods.
- * Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
- * Consult your financial professional before making any investment decision.
- * You cannot invest directly in an index.
- * Past performance does not guarantee future results.

- * The Markets prepared by Al Goldman, Chief Market Strategist, Wachovia Securities 4/28/09.
- * Last Week sited from Dean Meehan, Market Analyst, Wachovia Securities 4/24/09.
- * Thrill is Gone sited from msnbc.com contributor Dan Carny.
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