

## Weekly Commentary May 11, 2009

### The Markets

The stock market always does its best to befuddle the majority. The year 2008 was the worst in market history since the Great Depression, and then the new year started with the best rally since 2003. Yes, this action got folks' attention, but what does it really mean? Is everything now coming up roses and all is well? No, but FDR said it best in his inauguration speech in 1933. Most remembered is his statement that "The only thing we have to fear is fear itself." Certainly sound advice for most areas of our life. Before that statement, however, he said "This great nation will endure as it has endured, will revive and will prosper." Now that fits perfectly into today's economy and stock market. Many have lost confidence in America because of the horrible stock and credit market problems of 2008, but we believe that fear is overdone. Is America perfect? Of course not. Are we finished as a great nation? Of course not.

America remains the largest economy in the world with a \$14 trillion GDP. That's three times greater than Japan, which ranks second. Size is one thing, but confidence in a country is even more important. While the world faces a recession, investors around the globe have been aggressively buying U.S. Treasury bills. This is not because foreigners love us. It is because they are very confident our government will pay its obligations. Yes, our economy will probably get worse before it gets better, but so will almost all nations. As President Roosevelt said, we "will revive and will prosper." Although our economy ended the year very weak, there has been some positive economic data. Orders for durable goods other than transportation equipment rose in November. Also, the big energy price decline is having a positive effect on consumer income.

Fed Chairman Bernanke has stated that the Federal Reserve will do whatever is necessary to revive the economy. Combined with a large stimulus package early this year, it is realistic to believe the economy will be doing better by the second half of 2009. Of course, this could be wishful thinking as there is no solid evidence that the economy will turn back up this year. However, there is solid evidence being given by the action of the stock market. For the past six weeks, the global economic news has been awful: the situation in Gaza has gotten much more serious, China's economy appears to be dropping sharply and our nation's credit markets have shown little improvement. Despite all of these negatives, the stock market has been able to achieve a solid rally. We believe the good market action reflects the fact that most Americans believe what an eastern Monarch was told many centuries ago when he charged his wise men to come up with what would be true for all time: "This too shall pass." Short term, the stock market may over-celebrate how quickly a President Obama and the Congress can turn the economy around. Long term, Obama has the opportunity to achieve some great things for our nation.

## Index Performance Statistics – May 8

Index	Close	Change	% Change	% YTD Change	52 Wk % Change
DJIA	8574.65	164.80	1.96	-2.30	-32.73
NASDAQ	1739.00	22.76	1.33	10.27	-28.89
S&P 500	929.23	21.84	2.41	2.88	-33.07

Source: Bloomberg

\*Price return — does not include dividends

## The Happy Warrior

Jack Kemp was one of the most influential figures in American history. It was he, more than anyone else, who convinced Ronald Reagan in the late 1970s that massive income tax rate cuts were the way to revive America's inflation-contracted economy. Those reductions, which Reagan enacted when he became President (along with Reagan/Kemp ideas of a strong dollar and a strong military), set off our greatest economic boom. Our global share of GDP over the next 20 years increased impressively. The U.S. experienced a profound era of innovation, epitomized by Silicon Valley. This fantastic period was punctuated by only two mild recessions. The U.S. went on to win the Cold War, whose aftermath saw one of the most sweeping global economic liberalizations ever, as China, India, central and eastern Europe, as well as parts of Africa and Latin America experienced impressive expansions. Hundreds of millions of people around the world entered to middle class.

## Last Week

No more pencils, no more books, no more of the government's dirty looks. The market extended its rally as some of the unknown was removed when the "closely guarded" results of the stress test showed 10 of the 19 largest banks will need to improve their capital. Investors got further encouragement when the non-farm payroll number showed a slowdown in the number of jobs being lost, which many viewed as improving the outlook for a recovery from the current recession. As a result, the S&P 500 ended the week with gains and pushed the index in to positive territory for the year.

One clear sign summer is rapidly approaching is that earnings season is winding down. Overall, earnings for the S&P 500 are down about 35% versus a year ago with nine of ten sectors posting negative growth. However, under the surface, the results have been generally viewed positively with about 70% of companies beating significantly lowered analyst estimates. Next week the focus will be on the retail sector as Wal-mart, Nordstrom's, Abercrombie, Kohl's, Macy's and J.C. Penny are scheduled to report. As for the economic calendar, attention turns to readings on inflation and manufacturing due out at the end of the week.

## Weekly Focus – Think about it

"Inflation is when you pay fifteen dollars for the ten-dollar haircut you used to get for five dollars when you had hair."

-Sam Ewing

Best Regards,

Jim, Aaron & Angela  
Kennedy Financial Services

Securities & Advisory Services offered through VSR Financial Services, Inc.  
A Registered Investment Adviser and Member FINRA/SIPC  
Kennedy Financial Services is Independent of VSR

- \* 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.
- \* This commentary should not be considered individual investment advice and you should 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 5/12/09.
- \* Last Week cited from Dean Meehan, Market Analyst, Wachovia Securities 5/8/09.
- \* The Happy Warrior cited from Steve Forbes Editor-in-Chief, Forbes.com 5/5/09
- \* The opinions expressed here reflect the judgment of the authors as of the date the report and are subject to change without notice.
- \* This report was prepared by VSR Financial Services, Inc. Wealth Management Department.