



Weekly Commentary May 25, 2009

The Markets

After a nine-week, 39% rally by the S&P 500, the stock market has spent the past two weeks consolidating and correcting the dramatic rally. That is normal action, but we sense that there has been a change in the mood of the market. During the big rally, buyers were encouraged by economic data that was not good but was better than what they had been seeing. Less bad proved to be enough to spark a big rally, because the stock market was so deeply oversold March 9 when the rally started. For the past two weeks, less bad has not been enough to spark the buyers. The problem may simply be that stocks are so short-term extended that nothing would cause the buyers to become aggressive at the moment. We hope so, but we sense that the mood of the market has changed and has turned into a State of Missouri "show me" attitude.

In a show-me environment, investors demand concrete evidence that the recession will be ending soon and that the economy will be growing again by year-end. There are valid reasons for this likely mood shift. The big rally has pushed the price/earnings multiple on the S&P 500 to about 15 times this year's projected earnings up from 11 times March 9. The rally has also increased complacency in the stock market, reduced the bearish camp and increased the number of bulls. The show-me demand is also increased by the multiple donnybrooks going on among our politicians. We have Obama vs. Cheney and Pelosi vs. the C.I.A. These verbal battles are not good for investors' mood and disrupt the running of the government. In an oversold market -- no problem, but after a big rally -- a big problem.

Market action this week will provide a clue as to whether the last two-week sell-off was due to a normal correction or a mood shift to "show me." We expect to see more evidence that the 16-month recession is probably coming to an end. April durable goods orders due Thursday is expected to increase 0.5% following a 0.8% decrease in March. The May Chicago area purchasing managers' index due Friday is expected to improve to 42.0 from 40.1. This reading below 50 shows contraction in business, but not as broadly as in April. And housing is expected to continue to stabilize. Thus, more economic data that is less bad, but not yet indicative of positive growth. If we are in a State of Missouri show-me market, stocks probably will experience another month or two of churning action up and down. This would give the economic fundamentals a chance to catch up with the stock market. If the recent stall is just a pause to refresh, the buyers should soon return. We advise investors to be more cautious short term until the market, by its action, has spoken.

Index Performance Statistics – May 26

| Index | Close | Change | % Change | % YTD Change | 52 Wk % Change |
|---------|---------|--------|----------|--------------|----------------|
| DJIA | 8277.32 | -14.81 | 0.18 | -5.69 | -33.67 |
| NASDAQ | 1692.01 | -3.24 | -0.19 | 7.29 | -30.79 |
| S&P 500 | 887.00 | -1.33 | -0.15 | -1.80 | -35.54 |

Source: Bloomberg

*Price return — does not include dividends

FDIC Insurance: Deposits up to \$250,000 Covered until 2014

Federal Deposit Insurance Corporation (FDIC): Depositor insurance protection for up to \$250,000 per depositor was set to expire at the end of this year and revert back to only \$100,000 in FDIC insurance protection per depositor. This past week that coverage was extended until the end of 2013. They should have made the change permanent, why stop at 2013?

On January 1, 2014, the standard insurance amount will return to \$100,000 per depositor for all account categories except IRAs and other certain retirement accounts, which will remain at \$250,000 per depositor. The new law also gave the FDIC the authority to borrow money from the U.S. Treasury if needed. The FDIC's reserve fund to cover deposit accounts has shrunk because of the failure of so many banks this past year.

You are not limited to only \$250,000 in FDIC coverage at a particular bank. You have coverage based on the type of account. Here are the limits.

- Single Accounts (owned by one person) \$250,000 per owner
- Joint Accounts (two or more persons) \$250,000 per co-owner
- Certain Retirement Accounts \$250,000 per owner

Last Week

Something's happening here, what it is ain't exactly clear. The rally is now over 50 days old, and it appears the investor's mood has shifted. Early in the rally, market participants were encouraged that the economic data pointed to things getting less bad. Now it appears they want to see signs that the economy is improving. This week did not provide this as the data showed the economy continued to contract. In addition, the release of last month's FOMC minutes indicated the Fed anticipates a deeper recession relative to projections at the beginning of the year and concerns of a potential downgrade of the U.K's AAA credit rating sent a message that the global economic landscape remains rocky. While the S&P 500 was able to end in the green this week, it remains below the rally's closing high of 929.23 set on May 8.

From a technical perspective, consensus expectations continue to call for a pullback of some kind for the market after the sharp advance from the March lows. The debate however, is to whether the correction will be shallow or deep. This week, the S&P 500 was able to hold the 880 level, the

former resistance for the index that is now viewed as support. Most technicians agree that in order for the rally to continue, the index would need to move above its 200-day moving average on strong volume.

When the market opens on Tuesday following the long weekend, there will be several scheduled events that investors will look to for signs of economic improvement. These include the release of several housing data points (Case/Shiller, and New and Existing Home Sales), Consumer Confidence, Durable Goods Orders, the University of Michigan's Consumer Confidence reading and the second look at first quarter GDP. On the earnings front, the retail sector continues to fill the calendar with high end players (Ralph Lauren and Tiffany) to the discount stores (Dollar Tree, Costco and Big Lots) scheduled to report next week. The other companies due out with first quarter results include tech bell whether Dell and Flowers and Heinz in the consumer staples sector.

Weekly Focus – Think about it

“Politicians say they’re beefing up our economy. Most don’t know beef from pork.”
-Harold Lowman

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.

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- * Last Week cited from Dean Meehan, Market Analyst, Wachovia Securities 5/22/09.
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