Weekly Commentary
May 4, 2009

The Markets

One of the most venerable stock market clichés is to "sell in May and go away." The reason for its longevity is that history seems to support this advice because the stock market tends to produce much larger gains in the six months from Nov. 1 to April 30 than in the other half of the year. The Hirsch Stock Trader's Almanac states that for the past 58 years, the DJIA has had a 7.6% average gain in the former period as compared with 0.6% in the latter. Gosh, we wish life in the stock market was that easy. There are many reasons this cliché is not good advice for most investors: long-term capital gains holding periods could be affected; this data shows the results of the DJIA, not individual stocks; it doesn't say when one should buy back in or if the stocks sold are still attractive; and, emotionally, most folks who sell out of the market are very reluctant to get back in.

Well, so much for old clichés, but May 2009 does hold some challenges that should cause investors to become a bit more cautious. The biggest risk factor we face in May is the 31% leap by the S&P 500 since March 9. Many beaten-down groups like financials are up much more, and the price/earnings multiple on estimated 2009 earnings is up to over 14 from 11. We are also concerned because complacency is up and the volatile nature of market action recently indicates that much of the buying has been from aggressive traders rather than long-term investors. Traders are fickle, as they should be, and will move to the sell and short side of the market if momentum falters for just a few days. Fundamentally, according to ex-Fed Chairman Volcker, it will be a long time before our economy achieves its historical growth rate. And internationally, things have heated up in Pakistan and other parts of the Middle East.

We would be cautious in May, but we would not go away. The main reason we remain optimistic and see a higher market by year-end is the very bullish supply/demand ratio for stocks. Also, the economy is showing more signs that it is on the mend. U.S. manufacturing and consumer confidence last month jumped to their highest levels since the credit-market crisis intensified in September 2008. The Conference Board's April Consumer Confidence Index increased to 39.2 from 26.9 in March. Also, the April Chicago-Area Purchasing Managers' Index increased to 40.1 from 31.4 in March. These readings below 50 still indicate contraction. First-quarter GDP decreased at a seasonally adjusted 6.1% annual rate due somewhat to decreased production and increased consumer spending, causing inventories to drop sharply. Historically, a large drop in inventories often occurs toward the end of recessions. We expect some pullback in the stock market this month to correct the recent big rally. Instead of "sell in May," we advise investors to follow one of our market clichés – "buy stocks when you are very uncomfortable buying stocks."

Index Performance Statistics – May 1

Index	Close	Change	% Change	% YTD Change	52 Wk % Change
DJIA	8212.41	44.29	.54	-6.43	-37.11
NASDAQ	1719.20	1.90	.11	9.02	-30.59
S&P 500	877.52	4.71	.54	-2.85	-37.94

Source: Bloomberg
**Price return — does not include dividends*

Fed Stress Tests Show About 10 Banks Need Capital

The Federal Reserve plans to deliver results of stress tests on U.S. banks to executives today that may show about 10 companies need additional capital to weather a deeper recession, people familiar with the matter said.

Banks are formulating plans for filling their capital requirements, much of which would likely come from conversions of preferred shares, the people said. Many of the 19 lenders under review and the government are set to discuss publicly the examinations after markets close May 7, the people said.

Financial shares jumped the most in almost a month yesterday on optimism about the tests. The Treasury and regulators have presented different options for the banks to shore up their books without taking taxpayer money, including selling assets, seeking private capital and converting previous government investments from preferred to common shares.

Last Week

The bloom has yet to fall off the recent rally. Market action this week was resilient in the face of a Swine Flu pandemic, and a government forced chapter 11 bankruptcy of Chrysler. In addition, investors were inclined to look on the bright side of the data releases. Specifically, Wednesday's first look at first quarter GDP showed the economy contracted by 6.1%, which was more than consensus expectations of a 4.7% decline. The reason for steeper decline was due to a drop in inventories and government spending which Wachovia Capital Markets Economics Group Senior Analyst Gary Thayer viewed as constructive. Furthermore, the FOMC (Federal Open Market Committee) statement released this week indicates the economy continues to contract albeit at a somewhat slower pace. Lastly, earning season has produced better than expected results, with about 70% of the companies that have reported beating analysts" significantly reduced estimate projections.

Weekly Focus – Think about it

"One of the biggest mistakes is to focus on a stock price instead of its value."
-Warren Buffet

Best Regards,

Jim, Aaron & Angela
Kennedy Financial Services

* 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 5/5/09.

* Last Week sited from Dean Meehan, Market Analyst, Wachovia Securities 5/1/09.

* Fed Stress Tests sited from Robert Schmidt & Rebecca Christie, Bloomberg 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.