# Weekly Commentary
# June 29, 2009

## The Markets

The bull market has been suffering from “tired blood” for seven weeks.   A long time ago, there was a tonic called Geritol that made the term “tired blood” a household word. Of course, blood isn’t tired, it is the animal that holds the blood that acts tired. In the human world, there are lots of medical reasons to explain fatigue. In the stock market, it results from a bull or a bear that has run up or down too rapidly and is in need of a rest to restore its energy. We believe the market has been resting rather than starting another leg back down to or lower than the March 9 lows that the bears are predicting. So far, the rather benign correction/consolidation supports our “rest, not re-test,” opinion. The message of the stock market, given by its action, remains the best way to predict future market direction. And the good news is that the economic fundamentals continue to improve and support the market.

The economic data last week showed further evidence the recession is beginning to abate. Personal income for May increased 1.4%, the second monthly increase and much better than analyst expectations. May durable goods orders rose 1.8%, also much better than consensus estimates. Also, the University of Michigan Confidence Index for June was 70.8, above estimates. The big news this week will be June nonfarm payrolls due on Thursday, July 2, expected to show a loss of 375,000 jobs following a 345,000 decrease in May. The unemployment rate is expected to rise to 9.6% from 9.4% in May. Employment is a lagging economic indicator and, as we have stated before, probably won’t start improving for a year or two after the recession ends. This negative is well known by the stock market and should not, on its own, cause problems.

One enduring fact about market action is that it is always intriguing. Sometimes “good” is good and sometimes “good” is bad, and it all depends on the state of the market at that time. Right now, the market is tired and things can quickly disturb it in its fatigued state, but it is tough to excite. The news that the average American household savings rate hit a 15-year high at 6.9% in May brought in some selling. What folks are doing is rebuilding their personal balance sheets and fundamentally changing their spending habits. Yes, this means that consumers will be spending in a more conservative fashion, which will cause problems for some retailers. However, more moderate, steady economic growth is preferable to the wild spending days that helped lead to the economic crash. A higher savings rate will slow the next economic expansion but not stop it, and in the long run will be much healthier. We believe the market’s “tired blood” is not a terminal disease and will be cured by a pause to refresh that may take another month or so. As always, the time to buy stocks is when most are not interested.

## Index Performance Statistics – June 29

| Index | Close | Day Change | Day % Change | % YTD Change | 52 Wk % Change |
|---|---|---|---|---|---|
| DJIA | 8529.38 | 90.99 | 1.08 | -2.81 | -24.85 |
| NASDAQ | 1844.06 | 5.84 | 0.32 | 16.93 | -19.58 |
| S&P 500 | 927.23 | 8.33 | 0.91 | 2.66 | -27.56 |

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

# Home Prices Post 18.1% Annual Drop in April

A key housing index shows a clear trend that home price declines are moderating. The Standard & Poor's/Case-Shiller index released Tuesday showed home prices in 20 major cities tumbled by 18.1 percent from April 2008. The 10-city index fell 18 percent from the year before.

April, however, marked the third straight month both indexes didn't set record price declines. And yearly losses in 13 metros improved compared to March. Still, the 20-city index is off almost 33 percent from its peak in the second quarter of 2006, and the 10-city has dropped by almost 34 percent, which means home values are now around 2003-levels.

"While one month's data cannot determine if a turnaround has begun, it seems that some stabilization may be appearing in some of the regions," said David Blitzer, chairman of the Index Committee of Standard & Poor's.

# Last Week

It feels like we've been here before as the market continues to ebb and flow. The week began with continuation of last week's decline after the World Bank said unemployment and poverty would increase in developed nations and anticipated a global economic contraction of about 2.9%, up from its expectation of a 1.7% decline. However, the losses were short-lived as the Fed commented in its Federal Open Market Committee (FOMC) meeting statement that the pace of economic contraction is slowing and expects inflation to be subdued near- term. In addition, the Organization for Economic Cooperation and Development raised its forecast for the first time in two years. Also helping stocks was a better-than-expected durable goods reading and positive earnings results from Oracle and Bed, Bath & Beyond.

Looking ahead there's the potential of some early fireworks before Wall Street heads to the Hamptons for the long weekend. Early week market action could be volatile as Tuesday closes the books on June. With the index up sharply from the March low, we could see window dressing by some institutional portfolio managers. On the economic front, we get more housing data next week with the monthly Case/Shiller Price Index and Pending Homes Sales Index scheduled. Also due out are readings on consumer confidence as well as manufacturing with the Chicago Purchasing Managers Index on Monday. We will also get some Fed speak following this Wednesday's FOMC Meeting with speeches from Fed presidents Bullard, Hoenig and Yellen. Of course, on Thursday, the monthly update on employment will be watched closely by investors. Current projections show the June Non-Farm Payrolls losing another 370,000 jobs in June, which

would be modest uptick from last month's decline but an improvement relative the rate of increase earlier this year. The unemployment rate is expected to rise 0.2% to 9.6%.

As for the earnings calendar, it won't pick up again until the unofficial start to earnings season begins when Dow Industrials component Alcoa reports after close on July 8. Overall expectations continue to see second-quarter earnings for the S&P 500 index to contract by about 35% year-over-year, according to Thomson Reuters. The decline in profits is projected to be broad-based with all 10 sectors estimated to see an earnings decline relative to the same period in 2008. That assumption is supported by 56 negative second quarter pre-announcements compared with 34 positive ones. Extending out to the upcoming third quarter, analysts see the year-over-year decline in earnings moderating to about 22 percent.
In summation, it feels like déjà vu because the market has been in a six-week period of consolidation.

## Weekly Focus – Think about it

"Economy is half the battle of life.  It is not so hard to earn money as to spend it well."
~ Charles H. Spurgeon

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.

* This commentary should not e consider 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 6/30/09.

* Home Prices: cited from Associated Press 6/30/09

* Last Week cited from Dean Meehan, Market Analyst, Wachovia Securities 6/26/09.

* 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.