Weekly Commentary
June 8, 2009

The Markets

The bull-beat continued last week, although upside progress has been modest for the past four weeks. It is impressive that a 44% jump in the S&P 500 since March 9 has not brought on some heavy profit-taking. There are two main reasons for this good market action. First, evidence continues to grow that the recession has eased substantially. Last Friday, June 5, it was reported that May nonfarm payrolls decreased by 345,000, meaning companies eliminated the fewest jobs in the past eight months. The Institute for Supply Management surveys showed that the declines in manufacturing and services are less widespread, and April factory orders increased 0.7% after dropping 1.9% in March. The second big, bullish boost has come from a very positive supply/demand ratio for stocks. Although the supply of sidelined cash has been reduced somewhat because it helped fuel the big rally, the sale of government bonds has produced additional buying power.

So here we are, up 44% and selling at over 15 times projected year-end S&P 500 earnings, as compared with 11 times only three months ago. The super-depressed market of early March is gone. It is time to think about what investors need to stay positive, buy stocks, and take this market higher. We believe the market already assumes the recession will end by late summer and that the economy will be growing by year-end. Thus, these factors appear to be discounted and in stock prices already. Increased employment is probably at least a year off, so we do not expect any helpful bullish news from that area anytime soon. Let's "crystal ball" a few developments that would fuel this market nicely higher.

On the positive side, there is a chance that President Obama will be successful in reducing world tension. At best, this will not happen quickly, but hope for success would be helpful. The serious problems in the Middle East and Iran are very unlikely to go away this year, but even a modest degree of stabilization would help the stock market. As the economy improves, the Federal Reserve will raise interest rates. While the initial reaction to this will likely be negative, we believe investors will soon realize that the Fed is serious about fighting potential inflation, and they should take comfort from the start of a hike in rates. Now let's "pipe dream" a bit. The economy is starting to do better, but it is estimated that only $42 billion in stimulus money has been spent. In a $14 trillion economy, this is not even a drop in the bucket. It appears that the $787 billion stimulus package isn't needed, and those massive funds could be used to cut the federal deficit. If so, fears of run-away inflation and a giant government would be reduced, and the stock market would celebrate. If some of our potential positives are realized, this new bull could prance into 2010. If not, it will move at a slow walk. We would continue to hold buying power until some of these market uncertainties are clarified.

Index Performance Statistics – June 8

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	8764.49	1.36	0.02	-0.14	-28.63
NASDAQ	1842.40	-7.02	-0.38	16.83	-25.09
S&P 500	939.14	-0.95	-0.10	3.97	-31.04

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

Treasury: 10 Big Banks can Repay Bailout

The Treasury Department has approved 10 of the nation's largest banks to repay $68 billion in government bailout money. The department on Tuesday said the banks, which were not named, will be allowed to repay the money they received from the $700 billion Troubled Asset Relief Program created by Congress last October at the height of the financial crisis. The banks have been eager to get out of the program to escape government restrictions such as caps on compensation.

Last Week

Investors continued to read the news as signs of recovery while the market climbed for the third straight week. Better than expected personal income, manufacturing and construction reports set the bullish tone and sent the S&P 500 index above its 200-day moving average for the first time since December 2007. The market did experience a slight stumble mid-week, as the ISM Services report and an in-line ADP Employment number disappointed investors. However, the market returned to bullish form as several Wall Street analysts recommended buying bank stocks in front of the upcoming Treasury decision on requests for repaying TARP funds and higher oil prices boosted energy stocks. Also encouraging was Friday's release of the May Non-Farm Payroll number which showed 345,000 jobs were lost in the month, well below the consensus expectations of a loss of 520,000. Although the unemployment rate did jump to 9.4% from 8.9% in April, the payroll number provided investors with optimism the recession may be ending.

Even though the equity markets continue to act well, it was a different story in bond land as the benchmark 10-year Treasury fell for the third consecutive week. The decline is attributed to two concerns. The first is that as the Fed sells more Treasuries, yields will have to rise. If yields rise, it could have a negative impact on mortgage rates, thereby impeding the government's attempt to stabilize the housing market. The other concern is that an increase in the money supply could spur inflation. Gary Thayer, of the Wachovia Capital Markets Economics Group, notes that the increase of the money supply is being offset by a slowdown in the velocity of money. Also Gary points out that historically inflation has tended to remain low during periods after unemployment surges. As a result, he believes inflation should remain low during the next year.

With the S&P 500's move above its 200-day moving average, many technicians view the old resistance around 930 as new support for the index. On the upside, if the index can move and hold above its January 6 intra-day high of 943, the next upside targets that technicians see is the November 2008 peak at around 1000 level. Next week could put the new floor to the test as there are several economic data reports are on the calendar. Particular attention will be paid to the April Wholesale Inventories and Trade Balance reports, the May Retail Sales figures and Import Prices, and the preliminary University of Michigan Confidence report for June.

Weekly Focus – Think about it

"Government is not the generator of economic growth; working people are."
~ Phil Gramm

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 6/9/09.

* Treasury: cited from Associated Press 6/9/09.

* Last Week cited from Dean Meehan, Market Analyst, Wachovia Securities 6/5/09.

* 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.