



## Weekly Commentary April 20, 2009

### The Markets

This past week, the stock market continued its six-week, 28% rally from the March 6 lows. Market action has been impressive, as pullbacks have been modest and buyers quickly show up after only modest price declines. So, "is all well?" you might ask. Unfortunately it is not, but anytime all seems just dandy, watch out. George Santayana said, "The wisest mind has something yet to learn," and that couldn't be more true than in today's world. We do believe that the longest recession in the postwar period is easing. The positive action of the stock market and the four-week drop in Treasury bond prices support this opinion. Also, economic data is becoming less negative. The April University of Michigan consumer sentiment index improved to 61.9 from 57.3 during March. The index was at 55.3, a cycle low in November when the credit crisis hit. However, March industrial production dropped 1.5% following a similar decline in February. The economy hasn't hit its trough yet, but a light at the end of the tunnel is starting to flicker.

There are dramatic changes going on in our government concerning both domestic and international policies. No one knows for sure how it will turn out, so all of us do have something to learn yet. In the big picture, President Obama is approaching international politics quite differently than President Bush. We certainly hope that Obama's approach works for the good of the American people. Only time will tell. Certainly, the president is being tested by North Korea, Russia and several European common market countries.

On the domestic scene, the recession is still with us, but we will recover with or without future government help. But some important political problems are brewing. Already the U.S. Treasury and financial regulators are clashing with each other over how to disclose results from the stress tests of 19 U.S. banks. Also, former Fed Chairman Paul Volcker said, "Congress will probably review the authority granted the Federal Reserve following emerging credit problems." He also said, "I don't think the political system will tolerate the degree of activity, in conjunction with the Treasury, the Fed has taken." Also, the Obama administration declared that carbon dioxide and five other industrial emissions threaten the planet. The cost and success of any future policies are unknowable at this time, so we do have something to learn yet. And on the international scene, Iran sentenced a U.S. reporter to eight years in prison for supposed espionage. Well, we have never said it is easy to make money in the stock market, and there are many things we have to learn that are unknowable today. Thus, as always, we base our market opinion on the message of the stock market, and we believe it says to be cautious, but to be a holder of quality companies that also pay a reasonable dividend.

## Index Performance Statistics – April 17

Index	Close	Change	% Change	% YTD Change	52 Wk % Change
DJIA	8131.33	5.90	0.07	-7.35	-36.72
NASDAQ	1673.07	2.63	0.16	6.09	-30.38
S&P 500	869.60	4.30	0.50	-3.73	-37.45

Source: Bloomberg

\*Price return — does not include dividends

## Tea Party Economics

Accounts vary, but it seems that a few hundred thousand people attended one of about 500 Tax Day Tea Parties on April 15<sup>th</sup>. In the aftermath, politicians on both sides of the political isle were energized. Conservatives hoped the tea parties signaled renewed support for the idea of limited government, while some liberals called the protests unhealthy and un-patriotic. Don't ya just love politics?

What's interesting is that many who did not have the energy or ability to attend a tea party last week still wanted to watch on tv. And the coverage of the events by Fox News (which highlighted the protests) attracted more viewers than MSNBC, CNN and CNN Headline News combined. This shows that millions more were paying attention, and suggests wider support for the protests.

Some analysts have made the case that Americans are not overtaxed (at the federal level) and therefore the protests were not justified. But this misses the point. Government spending is exploding, with Congressional Budget Office projecting \$9.3 trillion in deficits over the next ten years. People know that this spending represents future taxes.

In addition, state and local taxes are going up, with at least ten states planning on hiking taxes. And promised future spending on Social Security and health care must also be paid for. Under the Obama's Administration's budget, federal government spending in the next ten years will average 24% of GDP; almost triple what it was back in the 1930s. As a result, when we add taxes, Americans face a bigger tax burden than anytime in history.

## Last Week

The rally extended into its sixth week as earnings reports and some economic data suggests that hope springs eternal on Wall Street. Investors stepped on the accelerator and bought stocks after seeing better than expected earnings results from Goldman Sachs, JP Morgan, and Citigroup. Additional encouragement came with the release of the Fed's Beige Book which is indicated the economy continues to contract, but the magnitude appears to be slowing. Furthermore, President Obama, in a speech at Georgetown, said the economic stimulus and bank rescue plans are starting to show signs of progress. In his comments, the President noted that there has been some rehiring of state and local government workers and credit markets are starting to thaw.

However, investors should not turn a blind eye to the reality that our economy remains in rough shape. The steep decline in retail sales in March served as a reminder of that this week. In McManus' opinion, (Tom McManus, Chief Investment Officer, Wachovia Securities) the major indices are likely to back and fill during the current bottoming process. Therefore, he believes it is too soon for investors to rely too heavily on a sustainable economic recovery at this stage.

That is why he anticipates a resumption of leadership in equities by large cap growth companies whose steady cash flows and strong balance sheets help them ride out the economic maelstroms.

## **Weekly Focus – Think about it**

“The road to success is always under construction.”  
-Lily Tomlin

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.
- \* 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 4/21/09

\* Last Week sited from Dean Meehan, Market Analyst, Wachovia Securities 4/17/09

\* Tea Party Economics sited from Brian Wesbury, Chief Economist & Robert Stein, Senior Economist, First Trust Advisors L.P. 4/20/09

\* 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