Weekly Commentary
July 13, 2009

The Markets

In the late 1960s there was a popular musical titled "Stop the World – I Want to Get Off." It was about a man who was dissatisfied with his existence, goes searching for something better than he had, only to realize in the twilight of his life that what he always had was enough to sustain himself, according to a Google report. We believe many investors today would like to stop the world and get off, and we understand why. We are all facing many serious problems and uncertainties that have created a great state of confusion and fear. Today's world seems more troubled than ever before, but we doubt it; today's problems are just somewhat different and represent change, which is always stressful. Uncertainties are a real enemy to the stock market, and we face lots of them. The current outlook is for an improving economy and better corporate earnings in 2010, but how much improved, no one knows. The unemployment rate is at 9.5% -- probably headed into double-digits -- and not expected to improve for a year or so.

The international scene provides lots of reasons why some wish to move to another planet. Both Iran and North Korea remain serious threats to world peace, and those are just the most obvious problems. No one can be sure how the move toward a much bigger government will work out in the long term, but it represents a change that is very stressful. Then we face prospects of a dramatic increase in government spending, and a federal deficit that is frightening to many on both sides of the political aisle. And how about the consumer who is moving from a "spend, spend" to a "save, save" mood? To further disturb folks and cause consumers more distress, the stock market has been correcting and consolidating for nine long weeks. Is anybody having any fun?

OK, enough already! The bears do not need any help in coming up with reasons to stop the world and get off. The problems are there, as some problems always are, and they are well known to most. As the old bromide goes, "bull markets climb a wall of worry," but is this wall so high and so full of potholes that the bull will be overcome? There is always that risk, but we don't believe so. Why are we still projecting a modestly higher stock market by year-end and a better economy in 2010, despite the very lengthy list of problems? It's because of history. The history of our great nation and resilient economy have survived and prospered since 1776, despite much tougher periods. Yes, it is different this time, but it is always different to a degree. Personally, we are very concerned about a number of the trends in Washington, but history has shown that the American people eventually get it pretty much right. Then the question is one of timing, if you agree with our long-term optimism about America. Why buy stocks now? Because we believe market action since March 9 says the lows have been seen; the supply/demand ratio for stocks is bullish; price/earnings multiples have become reasonable. And finally, because so many people are so fearful about our nation's future that they want to stop the world and get off.

Index Performance Statistics – July 6

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	8331.68	185.16	2.27	-5.07	-24.64
NASDAQ	1793.21	37.18	2.12	13.71	-18.97
S&P 500	901.05	21.92	2.49	-0.24	-26.64

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

Uncle Sam is $1 Trillion in the Hole

The federal budget deficit increased in June as spending surged and tax receipts sunk, pushing the total budget shortfall to over $1 trillion in the first 9 months of the fiscal year, according to a government report released Monday. The Treasury Department said the June deficit was $94.3 billion, a reversal of fortune from the $33.5 billion surplus the government managed in June 2008. In May, the deficit was $189.7 billion.

Economists surveyed by Briefing.com had forecast a budget deficit of $97 billion. The Congressional Budget Office had also forecast a $97 billion shortfall last month.
The deficit was the largest shortfall the government has ever recorded in the month of June, and the first time it has come up short in June since 1991, according to a Treasury official. The largest monthly deficit on record was February 2009, when the government increased its shortfall by $193.9 billion. For the first nine months of the fiscal year, which began in October, the total deficit hit $1.09 trillion.

Last Week

This week’s weather on Wall Street was cloudy with occasional showers as concerns over upcoming earnings releases had investors seeking shelter. Although the International Monetary Fund (IMF) increased expectations for the global economy to expand 2.5%, up from its previous estimate of 1.9% growth, it qualified its projections by saying the current recovery is “uneven” and expects growth to be “sluggish.” The market got a short reprieve midweek as the government’s four Treasury auctions went well, Alcoa posted a smaller-than-expected loss, and the weekly jobless claims came in better than estimated and at the lowest level since January. However, comments by Warren Buffet that the economy is not yet in recovery and may need more assistance by the government pared back the initial gains from these data points. As a result, the S&P 500 extended its recent correction from the June 12 peak.

Therefore, it would probably wise to carry an umbrella as the storm of second-quarter earnings season rolls into town. Currently, analysts project S&P 500 earnings for the period to show a 34% decline relative to the same period a year ago according to Bloomberg data. If this occurs, it will represent a record eighth straight quarter of negative earnings growth for the index. In the coming week, 24 companies in the S&P 500 and 6 Dow Industrials are scheduled to release earnings results. The list of notable companies with earnings due out next week includes Bank of America, Citigroup, General Electric, Goldman Sachs, Google, Intel, International Business Machines, JP Morgan, Johnson & Johnson, and Nokia.

In addition to the upcoming earnings releases, the economic forecast shows a chance of thunder next week. On the inflation front, estimates for both the Producer Price Index and Consumer Price Index show a modest increase month over month but remain negative on a year-over-year basis. This is consistent with Senior Economist Gary Thayer's projection for a rise in prices to remain low over the near term. Reports on retail sales, industrial production and housing also will be in focus for investors. The sharp decline in the price of crude oil over the past week will make the weekly inventory report of interest, as will the weekly jobless-claims figure and the release of the recent FOMC meeting minutes.

There was also a lot of discussion by market technicians this week regarding the short-term chart of the S&P 500 forming a bearish head & shoulders top. This is consistent with our Equity Strategy and Market Analysis teams' expectations for the market to experience a period of consolidation/correction. Our Market Analysis team sees support for the S&P 500 at 850, with the next level of support at 830. Although the near-term conditions suggest the possibility of a "hard rain falling," they believe we should not see a correction that takes the market back to the March lows.

Weekly Focus – Think about it

"My dog is worried about the economy because Alpo is up to 99 cents a can. That's almost $7.00 in dog money."
~ Joe Weinstein

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.

* 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 7/14/09.

*Uncle Sam: cited from CNNMoney by Catherine Clifford 7/13/09

* Last Week cited from Dean Meehan, Market Analyst, Wachovia Securities 7/10/09.

* 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.