Weekly Commentary
July 20, 2009

The Markets

Last week both the DJIA and S&P 500 rose over 7%, the best weekly advance since March, and many started to sing "Happy Days are Here Again." It's a wonderful, optimistic song but with a history of terrible timing. The song was copyrighted in 1929, probably the worst time in our history to be feeling giddy about the future. Further blackening its reputation for timeliness, it was the campaign song for Franklin Delano Roosevelt's 1932 presidential run. The nation still faced approximately eight years of economic grief. The timing of the song today is much better than its past record, but it is critical for investors to keep things in some common sense perspective. Market action since March 9 does say that prospects for stocks are much happier as evidence continues to grow that we have seen the bear market lows. Has happiness been over-celebrated a bit in the stock market lately? Yes, probably, but that's the nature of the stock market.

The economic data continues to look "happier." There was more evidence last week that the recession may be nearing an end. The economy isn't "happy" yet, but it may not decline much further before starting to climb out of the deep hole it has been in. For several months we have predicted the end of the recession by August or September, and that still appears reasonable. June industrial production did decrease 0.4%, but it is not declining as much as it did earlier this year. The Federal Reserve Bank of New York's July Empire State Manufacturing Index increased to -.55 from -9.41, a significant improvement. The June Open Market Committee meeting minutes showed that the Federal Reserve revised its economic forecast for the U.S. economy to contract -1.25% this year and to expand +2.7% in 2010. Both are improvements from prior estimates.

Given an equal chance, we will always err on the optimistic side because of our country's history of resilience. But there are some very important uncertainties facing investors that caused us to advise *not* declaring that happy days are here again for sure. For the stock market, the biggest uncertainty remains just how good the economic recovery will be doing in 2010. Another big uncertainty is just how things will go in Washington, where we have a major health care program as the current big, hot button. The cap and trade legislation has folks in a state of confusion, as do probable future tax hikes on the "rich" and a record federal deficit. The international scene also is enough to also cause sleep problems. We would feel much more comfortable if we adjust a few lines from "Happy Days are Here Again." Instead of "there's no one who can doubt it now," let's add that we fortunately still have lots of bears around. Then the line "so let's tell the world about it now" would be better if we said "let's kind of whisper the news." And then end with "happy days are here again," but so is common sense. Our overall optimism is still "here again."

Index Performance Statistics – July 6

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	8848.15	104.21	1.19	0.82	-22.84
NASDAQ	1909.29	22.68	1.20	21.07	-16.24
S&P 500	951.13	10.75	1.14	5.30	-24.51

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

Bernanke: Economy better, but…

Federal Reserve Chairman Ben Bernanke told lawmakers Tuesday that the economy has started to show signs of stabilization, although he cautioned that improvement is uncertain and likely to be gradual going forward. The head of the central bank, appearing before the House Financial Services Committee in his semi-annual testimony on the state of the economy, forecast a relatively sluggish recovery.

Bernanke said the unemployment rate would be higher than preferred levels until at least 2012. But he added that steps taken by the Fed to pump money into the economy have started to pay benefits. "The pace of decline appears to have slowed significantly, and final demand and production have shown tentative signs of stabilization," he said. But at the same time he cautioned that even with improvements, "financial conditions remain stressed, and many households and businesses are finding credit difficult to obtain."

Bernanke repeated the Fed's recent forecast that the economy would grow in the second half of this year, and picking up steam over time. He said he expects employers to start adding jobs either later this year or early next year but said it would take time for labor markets to return to normal. "I want to be clear we have a very long haul here," he said. "Unemployment will stay high for quite some time. It's not going to feel like a very strong economy." But Bernanke stopped short of endorsing some proposals for Congress to pass an additional round of economic stimulus -- at least at this time. "Less than a quarter of the first stimulus has been spent. It's early to make a judgment about that," he said about a second stimulus package. Some lawmakers questioned the steps taken by the Fed to try to fix the economy and argued that the economy had not yet taken a turn for the better for most Americans.

Last Week

Finally, the bulls were back in town this week. Word of the bovine return began with a well-known bearish bank analyst's upgrade of Goldman Sachs in front of its earnings report. The company did not disappoint; it actually topped already-great expectations. Following Goldman's lead were bellwethers Johnson & Johnson, Intel, JP Morgan and CSX Corp as they beat consensus profit announcements. Improving monthly retail sales figures and manufacturing reports helped the S&P 500 index recover most of its 7% slide from the June 12 highs.

The higher-than-expected June PPI and CPI numbers, prodded by a jump in commodity prices, brought a note of caution on the inflation front. However, as Wells Fargo Advisors Senior Economist Gary Thayer pointed out, prices remain down relative to a year ago. Going forward, Thayer believes inflation should remain subdued in the near-term because of high unemployment, an increasing savings rate and tight credit markets. As for the overall economic outlook, he still believes the U.S. should begin to recover in the later part of this year. Next week's leading indicators, existing home sales and consumer sentiment releases, and Fed speak from President Lockhart and Chairman Bernanke could shed some light where the economy stands. In addition, the Fed will continue with its quantitative easing policy, and there are several Treasury auctions scheduled.

So far, earnings for the S&P 500 generally have been viewed as positive with companies besting analysts' low expectations for earnings fall about 35% year-over-year, according to Bloomberg. However, the true test comes as we begin the peak of second-quarter earnings releases. On the schedule next week, 12 Dow Industrial Average and 129 S&P 500 companies are expected to release earnings results. In particular, the financials will be in focus with several regional and trust banks slated to report.

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 7/21/09.

*Bernanke: Economy Better, but: cited from CNNMoney by Chris Isidore 7/21/09

* Last Week cited from Dean Meehan, Market Analyst, Wachovia Securities 7/17/09.

* 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.