



## Weekly Commentary July 6, 2009

### The Markets

Americans love the fourth of July. Each year we personally magnify our enjoyment by watching (again) the movie “Yankee Doodle Dandy” starring Jimmy Cagney. Unfortunately, the stock market wasn’t patriotic last Thursday since the Dow dropped 223.32 points, which was not a fun way to start the holiday weekend. The market’s decline was exaggerated by the thin crowd and the very light trading volume, but there were some excuses to fuel the sellers. June nonfarm payrolls decreased 467,000-more than expected-and the unemployment rate rose to 9.5%, which is the highest percentage since August 1982. Seven banks were seized by regulators, bringing the total to 52, the most since 1992. However, six of the seven were all controlled by the same family. In the good news/bad news category, the dollar gained against the euro due to speculation that the economic recovery is faltering, and this boosted demand for safety.

The background news wasn’t all bad. On the manufacturing side, the Institute of Supply Management’s June purchasing managers’ index (PMI) increased to 44.8 from 42.8 in May, and the Chicago-area PMI increased to 39.9 from 34.9 in May. Unfortunately, in a “tired blood” market, the bad news gets accentuated and the good news gets eliminated. The stock market has been churning/consolidating/correcting for eight weeks, which has most wondering if we are in a normal time-out or a more serious top-out. We believe we are in a time-out that will restore the bull’s vigor for three main reasons. First, market action relative to the 44% rally from the March 9 lows has been positive. The S&P 500 has given up a normal 20% of the prior advance, and selling has not been aggressive.

Our second reason is that the supply/demand ratio for stocks remains very bullish despite the big rally. And our third reason is that most economic data, other than employment, is starting to improve. The eight-week correction is accomplishing what corrections do – it is reducing investor confidence, increasing fear and improving price/earnings multiples. You know, we Americans are generally a great people, but we have no patience. Instant gratification is our goal. At a July 4th party, several guests expressed concern and unhappiness about the recent market pullback. We reminded them that up 44% and down 20% was a trade we would take anytime. They seemed relieved for a moment, but frowns reappeared as they walked away. Oh well, human nature just doesn’t change. Investors should try to be up emotionally when the market is down, and become down emotionally when the market is up. Remember, Yankee Doodle Dandy sadly lost the horse race in London, but quickly sang “Give my regards to Wall Street” ... or was it Broadway?

## Index Performance Statistics – July 6

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	8324.87	44.13	0.53	-5.15	-25.88
NASDAQ	1787.40	-9.12	-.51	13.34	-20.32
S&P 500	898.72	2.30	0.26	-.5	-28.24

Source: Bloomberg

\*Price return — does not include dividends

## California IOUs Will Pay 3.75%, State Panel Decides

California will pay an interest rate of 3.75 percent on IOUs it will begin using today to pay its bills, a panel decided, as Governor Arnold Schwarzenegger and lawmakers remain deadlocked over how to close a \$26 billion budget deficit. The California Pooled Money Investment Board, made up of the controller, the treasurer and the governor's finance director, set the rate during an emergency meeting in Sacramento.

Thousands of businesses and individuals will receive a note promising to be paid by October for everything from tax refunds to services and goods. California, a state with the eighth-largest economy in the world, was forced to issue the IOUs after Schwarzenegger and lawmakers failed to produce an agreement before fiscal year began yesterday.

"We don't have the money to pay our bills because the Legislature has decided that it's more important to protect their special interests rather than protect the taxpayers," Schwarzenegger told reporters in Los Angeles before the meeting. Bank of America Corp., the biggest U.S. bank by assets, said yesterday it would accept the IOUs from its customers through July 10. Wells Fargo & Co., JPMorgan Chase & Co and Citigroup Inc. said today they will accept the so-called registered warrants, also through July 10.

## Last Week

Welcome to July, the month of barbeques, baseball and bottle rockets. The bull enters the month resting on his laurels, as the heady 15.2% second-quarter gains for the S&P 500 were all inked in April and May while June went out with a 1.7% loss. Historically, the *Stock Trader's Almanac* says post-election Julys have been positive for the market, with the DJIA and the S&P 500 averaging 1.6% gains and the Nasdaq Composite averaging a 2.6% advance. Equities move into the summer months stuck in no-man's land, still digesting spring gains and searching for a catalyst. Bonds, on the other hand, have been a tale of two markets. Investment-grade corporate debt returned 9.2% in the first half of the year, outperforming Treasuries by 13.7%, the most on record, according to Merrill Lynch index data.

The devil is always in the details, and for Wall Street, that is economic data at this point in the cycle. Recent reports continue to show signs of improvement, which is to say that the news continues to get "less bad." The S&P/CaseShiller data depicted some signs of life in the beleaguered housing market while pending home resales increased for a fourth month. Manufacturing activity is also stabilizing as evidenced by the Chicago purchasing managers index and the National Association of Purchasing Managers (NAPM) data. In addition, the Institute for

Supply Management's factory index shrank at the slowest pace in 10 months. Consumer confidence, which gave back some ground in the June figures reported this week, has still seen a big bounce off of the lowest levels in history earlier this year. Part of the recipe for recovery lies in the combination of outsized government spending and a stabilization of the consumer. The employment picture is also essential. The June ADP unemployment data was a setback as job losses reversed higher, rattling some nerves as the market braced for the June employment data from the Bureau of Labor Statistics ahead of the holiday weekend.

Rested and ready, players will return from the holiday to a relatively light economic calendar in the week ahead. On the data front, the services side of the economy will come into view with Monday's release of the ISM nonmanufacturing index. The measure is expected to improve month-over-month but remain below 50, suggesting contraction. Along with the normal complement of mortgage applications and energy inventories data on Wednesday, the May consumer credit figures will be released — they are expected to be down \$5.7 billion month-over-month. Thursday brings weekly jobless claims and May wholesale inventories, with Michigan consumer sentiment and the May trade data hitting the tape on Friday.

July also brings the earnings parade. Analysts estimate profits in the S&P 500 will decline 34% in the second-quarter and 22% in the third quarter of this year, before rebounding 62% in the final three-month period, according to Bloomberg data. Second-quarter earnings season officially kicks off with aluminum producer Alcoa reporting results on July 8. Pepsi Bottling, Rockwell Collins, 3Com, WD-40 and Progressive Insurance are also scheduled to release earnings next week.

From a strategy perspective, the Advisory Services Group (ASG) at Wells Fargo Advisors continues to believe the economy appears to be on track to bottom out and start a recovery during the second half of this year. Recent market action suggests we may see some consolidation in coming weeks but not another leg back down to the March 9 lows.

## **Weekly Focus – Think about it**

"In economics it is a far, far wiser thing to be right than to be consistent."  
~ John Kenneth Galbraith

Best Regards,

Jim, Aaron & Angela  
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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.
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- \* Past performance does not guarantee future results.
- \* The Markets prepared by Al Goldman, Chief Market Strategist, Wachovia Securities 7/7/09.
- \* California IOUs: cited from Bloomberg by Michael B. Marois & Ryan Flinn 7/2/09
- \* Last Week cited from Dean Meehan, Market Analyst, Wachovia Securities 7/2/09.
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