Weekly Commentary
July 27, 2009

The Markets

The song, “What a Difference a Day Makes!” was written in 1934. The big “difference” referenced in the song’s title came in “twenty-four little hours.” If we take a little liberty and adjust the time period from 24 hours to four months, we have a very good description of today’s stock-market mood. On March 9, the bears were having a ball, and the general mood was one of gloom and doom. The mood change has been dramatic, which is a classic action for the stock market, because it is controlled by very volatile human emotions. Since the March 9 low, the S&P 500 is up 44% including a rather dramatic 11% in the past two weeks. The song goes on to say that “Where there used to be rain, my yesterday was blue.” So do we have blue skies ahead for investors? Well, yes and no. Helping fuel the bullish sentiment was the report that June existing home sales increased 3.6%, the highest level in eight months. As is usually the case, the stock market started to sense the improved economic data well before the news was on the table. We continue to predict that the recession will end in the August-September period.

The song goes on to state “there’s a rainbow before me, skies above can’t be stormy.” This is where we have to part a bit from this very optimistic song, as we do face some storms right now. A few economists are already talking about a possible “double-dip” recession out in late 2010 or 2011. This is not an unusual prediction as we come out of a recession. The biggest cloud over our heads is, just how strong will the economic recovery be next year?” We believe it will be modest with little inflation and low interest rates. Thus, we continue to believe the market will be higher by year-end. The bulls have used up a lot of energy in the past four months and thus pauses to refresh are to be expected. Although the skies are blue at the moment, we would keep an “umbrella” of buying power available for pullbacks.

Index Performance Statistics – July 27

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	9108.51	15.27	0.17	3.78	-18.17
NASDAQ	1967.89	1.93	0.10	24.79	-13.09
S&P 500	982.18	2.92	0.30	8.74	-20.43

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

U.S. Home Prices Rise for First Time in Three Years

Home prices posted their first monthly gain in three years in May, a gauge of values in 20 major U.S. cities showed, reinforcing signs of stabilization in a market hammered by the worst slump since the 1930s.

The S&P/Case-Shiller home-price index rose 0.5 percent from April, the first monthly gain since July 2006 and biggest since May of that year, the group said today in New York. The measure was down 17.1 percent from May 2008, less than forecast and the smallest year-over-year drop in nine months.

Price declines may keep moderating as demand steadies and distressed properties account for a smaller share of transactions. Even so, rising unemployment, stagnant confidence and the loss of wealth caused in part by the drop in property values mean a rebound may be slow to take hold.

“After three years of this nasty housing recession, I think we’ve got to be pleased with such an improvement in a relatively short period,” said, Harm Bandholz, U.S. economist at UniCredit Research in New York.

Last Week

Bulls showed they had more left in the tank this week. Stocks moved higher on the heels of positive earnings reports from the likes of Caterpillar, Merck, Starbucks, Ford, eBay and Apple. The bull case also got a boost when a couple of well-known strategists increased their year-end targets for the S&P 500 index to the 1050-1060 range. Although the S&P 500 has performed well, the real standout has been the performance of the tech-heavy Nasdaq Composite index. Through Thursday’s action, the index had risen by about 13% on the back of 12 straight days of gains, the longest winning streak for the index since 1992.

The market also was encouraged by the better than expected housing data and Fed Chairman Bernanke’s positive comments during his testimony before Congress. Furthermore, Monday’s release of the June leading indicators index, a broad gauge of the overall economy, was another sign of economic stabilization. The reported 0.7% increase for the month, along with the positive readings in May and April, has produced the strongest three consecutive gains for the index since the end of the last recession back in 2001. Wells Fargo Advisors Senior Economist Gary Thayer notes that historically this occurrence is a sign the recession may be ending and the recovery is about to start.

In the coming week there will be several data points that could provide further indications of stabilization, particularly next Friday’s first look at second-quarter GDP. Current consensus estimates are calling for economic activity in the previous quarter to decline 1.5%. Leading up to the GDP report we’ll get updates on the housing front (Case/Shiller Home Price index and new home sales), manufacturing (durable goods and Chicago Purchasing Managers’ Index) and consumer confidence. In addition to the data releases, there will be speeches from Fed Bank Presidents Janet Yellen and William Dudley on U.S. economic growth as well as a three part town hall meeting with Chairman Bernanke on PBS.

According to Bloomberg data, earnings profits for the S&P 500 index are down about 25% compared with a year ago. Despite the decline, reports have been received positively, because when one looks under the hood we see that approximately 75% of results released so far have bested the dour expectations of Wall Street analysts. If the market is to continue to move higher, we’ll likely need to see more of the same (or better) next week from scheduled releases by Dow Industrials components Walt Disney, Chevron, Verizon, Travelers and Exxon Mobil. It would also be beneficial if we get positive tallies from the 133 companies in the S&P 500 index slated to report, which includes Electronic Arts, Aetna, ConocoPhillips, General Dynamics, Colgate-

Palmolive, Kellogg, MasterCard, Motorola, Dominion Resources, Time Warner, Hartford Financial Services and Weyerhaeuser.

As we get ready for the final week of July, the bulls are in the driver's seat. The major indices are up double digits over two weeks and in position to post a positive return for the month after taking a pit stop in June. Earnings season has gone well, and the economic data continues to suggest the economy may be ready to turn. However, that doesn't mean we can take our eyes off the road, as there could be bumps and speed traps that could slow us down as we thunder down the road.

Weekly Focus – Think about it

"Obstacles are those frightful things you see when you take your eyes off the goal."
~ Hannah Moore

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, Wells Fargo Advisors7/28/09.

*U.S. Home Prices Rise: cited from Bloomberg by Courtney Schlisserman 7/28/09

* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 7/24/09.

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* This report was prepared by VSR Financial Services, Inc. Wealth Management Department.