

Weekly Commentary August 24, 2009

The Markets

With our nation almost totally consumed by the health care bill, it is a good time to examine the medical condition of the stock market. We are pleased to report that the medical condition of the market appears a great deal clearer than that of the health care bill. And over the weekend, New York Senator Schumer said Democrats are considering bypassing Republicans on the bill. This would probably create more uncertainty, which the market does not like, but the market has been living with and acting well despite this unknown. OK, now on to a much more positive medical report. The stock market ran a treadmill “stress test” to a 50% advance by the S&P 500 in only five months. That’s a heck of an achievement, and this stock market “doctor” gives the market a top grade for its performance.

A treadmill stress test also involves an analysis of how the patient performs during a cool-down or resting period after exercise. Most stock market observers realize that the market really extended itself on its run-up. The only question was, how would the market handle a normal time-out? Well, so far the news is good. Up until last week, all of August had shown a “flatline” result, which is bad for humans but good for the stock market. Basically, the market churned and handled normal profit-taking in a positive fashion. Last week, the market got right back to work and rallied moderately. The reason was probably because evidence is growing that the global economy is coming out of the deep recession.

Economic news last week was encouraging. The July index of leading economic indicators increased 0.6%, following a 0.8% increase in June. This was the fourth consecutive monthly increase and the largest four-month gain since the end of the last recession in late 2001 and early 2002. Also, July existing-home sales jumped 7.2%, following a 3.6% increase in June. The main drag on the economy is consumer spending that probably slowed in July as payrolls dropped. The medical report on the stock market remains very positive and supports our bullish stance. However, the market does face some problems near-term. The curse of the month of September, the weakest month of the year, is likely to bring in some selling before we even enter the month. Also, there is not clear evidence that the market has totally worked off its five-month, 50% rally. Fortunately, these are only very short-term problems. Much more important are the improving fundamentals and a reasonable P/E ratio of 14 for the S&P 500 earnings estimate of \$73.00 per share in 2010. Overall, this “doctor’s” report on the market’s medical condition says the market is in good shape and has the energy needed to keep on moving higher.

Index Performance Statistics – August 24

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	9509.28	3.32	0.03	8.35	-16.48
NASDAQ	2017.98	-2.92	-0.14	27.96	-14.69
S&P 500	1025.57	-0.56	-0.05	13.54	-19.05

Source: Bloomberg

*Price return — does not include dividends

Bernanke Is Nominated for Second Term as Fed Chief

Federal Reserve Chairman Ben S. Bernanke, who led the biggest expansion of the central bank's power in its 95-year history to battle the worst economic slump since the Great Depression, was nominated to a second term today by President Barack Obama.

"Ben approached a financial system on the verge of collapse with calm and wisdom, with bold action and out-of-the box thinking that has helped put the brakes on our economic freefall," Obama said in Martha's Vineyard, Massachusetts, with Bernanke at his side.

Bernanke's nomination for a second four-year term starting Jan. 31 requires Senate approval and was endorsed by the head of the Banking Committee, Christopher Dodd. The Fed chief will still face tough questioning from lawmakers who say he was slow to recognize the severity of the mortgage crisis and didn't do enough to protect American consumers while leading bailouts of financial firms including Bear Stearns Cos. and American International Group Inc.

Last Week

Elvis may have left the building, but the bulls seem willing to stick around. Initially, it appeared the widely predicted pullback had begun as stocks fell in sympathy with overseas markets on concerns that earnings and economic growth could falter, especially in China. However, the better-than-expected economic data this week alleviated investors' fears. It was particularly encouraging to see that the regional updates on manufacturing showed expansion and the leading indicators index rose for the fourth consecutive month, its longest streak since 2004. An 8.4 million barrel decline of the weekly crude inventories, the most in more than a year, suggested the economy could be doing better than many thought. As a result, the major indices were in positive territory for the week.

Wells Fargo Advisors Senior Economist Gary Thayer believes the economy appears to be bottoming as job losses have decreased, productivity has improved, and the housing market is starting to firm. As a result, Thayer thinks we may begin to see signs the economy is in recovery during the next few months. Next week's economic releases on housing, personal income and spending, durable goods orders, and consumer confidence could provide further evidence the economy is emerging from recession and starting to recover. In addition to the economic data, there will be earnings releases of interest in the retail (Staples, J. Crew, Williams-Sonoma, Dillard's, Fred's and Tiffany & Co.) and technology (Dell, Sun Microsystems and Marvell) sectors.

Although the modest gains this week kept the rally from the March lows in tact, it may be foolish to rush in and buy stocks in the near term. Technical indicators suggest the market is overbought and is still vulnerable to a pullback. The Wells Fargo Advisors Market Analysis group believes we could experience a correction that is a frustrating and time-consuming process rather than a quick sell-off. However, a period of consolidation/contraction would be constructive for stocks, in their opinion, as it would unwind some of the short-term excess from the recent rally.

Weekly Focus – Think about it

"We cannot do everything at once, but we can do something at once."
~ Calvin Coolidge

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.
- * This commentary should not be considered 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 Advisors 8/25/09.
- * Bernanke Is Nominated: cited from Bloomberg by Julianna Goldmam, Scott Lanman, & Michael Mckee 8/25/09
- * Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 8/21/09.
- * 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.