



Weekly Commentary August 3, 2009

The Markets

The economic data from the past several weeks indicates that the recession is going, going, and probably gone. Our long-time projection has been for the recession to end in the August-September period, but it now appears we are about there. Of course, the end of the recession won't be official until the National Bureau of Economic Research (NBER) makes the official announcement, but that's usually months after the fact. Our prediction was pretty accurate, and the stock market turned up five months before the better news. Once again, we have another clear example why market action must be respected much more than mere mortals who believe they are smarter than the market, and more than those who rely on simplistic, technical chart patterns such as a supposed head and shoulders top, that again was proven totally wrong.

Of course, the good news is that it appears the recession is about gone. However, going by its somewhat tired action the past several days, it also appears that our big rally from the March 9 lows (up 50% from lows to highs for the S&P 500) is also going, going, gone. This does not at all mean the market has stopped going up, but it does probably mean we are in for a normal pause-to-refresh. Basically, the market has gotten ahead of itself, and the dramatic mood shift has put stocks into an extended condition that needs to be corrected. This is a good thing. It takes a strong market backed by prospects of improved fundamentals to get extended on the upside. And corrections are also good things as they work off excesses, create a healthier market, and lower stock prices to more attractive levels.

The most encouraging economic data last week was that second-quarter, inflation-adjusted gross domestic product (GDP) contracted at only a 1.0% annual rate, substantially less than the 6.4% drop in the preceding quarter and the -5.4% rate in the last quarter of 2008. Also, June new-home sales jumped 11%. Manufacturing continues to contract, but not as broadly as previously. The uncertain health-reform proposals, no matter how one feels about the bill, have created a cloud of concern over the stock market. No one knows how it will finally develop, but the mood of the nation appears to be that we will see health-care reform later this year, but with modest and needed changes rather than dramatic ones. If so, this would reduce some investor fears. A possible "going, going, gone" for the recession and our recent dramatic rally does not mean that investors should stop holding/buying selected stocks. It probably does mean that the easy part of the market's advance is gone, but we still see the potential for solid stock appreciation for the rest of 2009.

Index Performance Statistics – August 3

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	9286.56	114.95	1.25	5.81	-17.70
NASDAQ	2008.61	30.11	1.52	27.37	-12.12
S&P 500	1002.63	15.15	1.53	11.00	-19.73

Source: Bloomberg

*Price return — does not include dividends

Top 1% of American Tax Filers Pay 40.4% of Nation's Taxes

According to newly released Internal Revenue Service data, the top 1% of American tax filers earned 22.8% of the nation's income in 2007 and paid 40.4% of the nation's federal income tax. This would mean the top 1% of tax filers pays more federal income tax than the bottom 95% of tax filers combined, according to a Tax Foundation analysis.

In 2007, income for the top 1% of tax returns hit an all time high, according to the Tax Foundation, a nonprofit group that historically has advocated for lower tax rates and a simple tax system. The top 1% of tax returns in the U.S. for that year had an average gross income of more than \$410,000.

Last Week

This week the rally slowed down on fears the market may have moved too fast. Early in the week, the markets stalled as investors became concerned that valuations of stocks got ahead of the pace of the economy. As we cross the bridge into a new month, there could be the possibility of a continuation of the slow down to the bullish pace. According to the *Stock Trader's Almanac*, August has been the worst performing month of the year for the S&P 500 since 1987.

In addition, many technicians believe the index is overextended with the S&P 500 up almost 50% from the March bottom and trading near the November high. Furthermore, the current level of the index is close to a technically significant 38% retracement of the decline from October 2007 to the March low. The Wells Fargo Advisors Market Analysis team thinks the index could experience a period of consolidation, as the bulls may be tired after using up a lot of energy over the past four months. In their opinion, initial support for the S&P 500 would come in at the 950 level, then at 930. If the index does pull back, they believe it would present investors with a buying opportunity.

For the economy, the road to recovery resembles a cobble stone street. Federal Reserve Bank President Janet Yellen stated in a speech that while the economy is showing the first signs of emerging from the recession, the recovery is likely to be a slow drawn out process. In the coming week, we could get a glimpse into how drawn out it will be with Friday's employment reports. Current consensus estimates see the unemployment rate ticking up modestly to 9.6% from 9.5%, while the projected non-farm payroll number calls for the number of jobs lost to moderate to 325,000 in July from 467,000 in June and the peak of over 600,000 in recent months.

Although the economy has given mixed signals, equity markets have benefited from second quarter earnings releases. The overall tally is nothing to cheer about as profits for the index are down 32% vs. a year ago. However, through the peak of the season, 75% of companies in the S&P 500 report better than expected results relative to analysts' estimates, according to Bloomberg. Historically, investors have viewed an earnings season with between 65-70% of companies that beat street consensus numbers as positive. Investors will look for this trend to continue with scheduled reports from companies such as Clorox,

Tyson Foods, Chesapeake Energy, Archer-Daniels Midland, CVS Caremark, Con Ed, Procter & Gamble, NASDAQ, Williams Companies and Transocean.

Weekly Focus – Think about it

“Life isn’t about finding yourself. Life is about creating yourself.”
~ George Bernard Shaw

Best Regards,

Jim, Aaron & Angela
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- * 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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