Weekly Commentary
August 31, 2009

The Markets

Our “Energizer bunny” bull market just keeps chugging along and has most folks scratching their heads and feeling left out. We are often asked how the S&P 500 has been able to climb 56% from its March 9 low in our troubled world and unclear economic outlook for 2010 and not sell off big time. Of course, these are usually the folks who did not buy stocks at lower levels and are hoping for another chance to buy comfortably. Unfortunately for those sitting on the sidelines holding all their cash, the stock market equals the game of golf, and also equals life in general. In both golf and life, it is usually critical to analyze the facts and then stop thinking and avoid paralysis by analysis. A good golfer decides what he or she wants to achieve, addresses the ball, and then takes the club back and lets it go with as little thought as possible.

All of us face difficult decisions in our lives which then must be adjusted if reality is different than we had anticipated. The stock market is like golf, except it isn’t a game, and is like life, because many things are out of our control. The strength shown by the stock market has surprised most investors. This is not unusual as the market glories in befuddling the majority in both up and down market cycles. It is difficult to change our minds and adjust our investment opinion -- or our golf swing -- to some new reality, but we must to be successful at either endeavor. Yes, that’s also the nature of life. The stock market has been able to rally dramatically and correct itself in a very benign fashion because it senses a better economy and much less troubled waters ahead.

The economic news last week continued to show that the economy is transitioning from a deep recession to a recovery. July new-home sales increased 9.6% following a 9.1% increase in June, and durable goods orders jumped 4.9%. And most critical, the Conference Board’s August Consumer Confidence index increased to 54.1 from 47.4 in July. The big economic news this week is August non-farm payrolls due Friday. Employment probably declined by 225,000 jobs following a 247,000 decrease in July. The official unemployment rate is expected to rise to 9.5% from 9.4% in July. We doubt these employment figures will cause a big reaction in the stock market. The big deal in the stock market today is the tug-of-war between the realistic bulls and the frustrated bears. The bulls believe a better economy and a still-positive supply/demand ratio for stocks is stronger than the risk that a 56% rally has created. We believe the bulls still have it right about the reality of the stock market, a go-with-the-flow attitude about life and the benefits of a smooth, unemotional golf swing.

Index Performance Statistics – August 31

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	9496.28	-47.92	-0.50	8.20	-17.74
NASDAQ	2009.06	-19.71	-0.97	27.40	-15.14
S&P 500	1020.62	-8.31	-0.81	12.99	-20.44

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

Manufacturing, Home Sales Show Growth Signs

The nation's manufacturing sector grew in August for the first time in 19 months, adding to evidence that the recession is ending. The better-than-expected reading Tuesday by the Institute for Supply Management showed the highest number for its manufacturing index since June 2007. New customer orders jumped to a level not seen since late 2004.

And in another sign of an improving economy, a gauge of future home sales rose more than expected in July to the highest point in more than two years. The reports raised hopes for a broad economic rebound. Still, as long as consumers remain hamstrung by weak pay and job losses, and wary of ramping up spending, the economy might not be able to sustain a recovery.

Last Week

The wind remains at the back of the bulls. Stocks continued to edge higher as investors were encouraged by economic data released this week. Specifically, the Case/Shiller index showed that the decline in home prices in the 20 major U.S. metro markets slowed and the Confidence Board's measure of consumer sentiment beat consensus projections. Also helping has been the increased correlation between the price of crude oil and the stock market. The current view by some is that the rise in the commodity reflects stronger demand in anticipation of the return of global economic growth. As a result, the major indices are in position to end the month of August in positive territory.

With earnings season officially on the books, the focus for investors over the next month will be on the upcoming economic data reports. On next week's schedule are updates on manufacturing with the Chicago PMI, the ISM data and factory orders. Friday’s release of the employment situation will keep folks around before sneaking off for the long weekend. Current consensus expectations by economists call for August non-farm payrolls to continue to show improvement with fewer jobs lost during this month. However, projections for the unemployment rate are that it ticks back up slightly to 9.5% from 9.4% in July. In addition to the data, Fed releases the minutes from the August 12 FOMC confab along with speeches from Fed President Lockhart on the financial crisis and President Fisher discussing the economy.

So far the market has been able to withstand days when there has been selling. In addition, the sentiment readings have moved to their most bearish since the March lows, a positive contrarian sign. However, the risk of a pullback remains. Several technical indicators still suggest an overbought market. Another potential headwind for stocks is that September historically has been the worst performing month of the year for the major averages according to the *Stock Trader’s Almanac*. Furthermore, there still appear to be lingering effects of the credit crisis. This week the CEO of regional bank SunTrust stated that lenders face additional credit losses and the FDIC's list of "problem banks" hit a 15-year high as it increased by 111 to 416 institutions. Therefore, even if a pullback does not occur, it would be prudent for investors to be cautious at this juncture of the rally.

Weekly Focus – Think about it

“The only way to make money buying overpriced stocks is if they become more overpriced.”
~ Michael Metz

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, Wells Fargo Advisors 9/1/09.

*Manufacturing, Home Sales: cited from Associated Press

* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 8/28/09.

* 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.