



## Weekly Commentary September 14, 2009

### The Markets

In the stock market, “what you see is what you get,” and what you will probably continue to get. What we have seen is a stock market that spent most of August in a pretty benign correction of the big 56% leap by the S&P 500 from its March 9 lows to recent highs. That was very impressive action for an extended market. For the last three weeks we have recommended that investors be cautiously optimistic for the short term, to buy stocks during pullbacks but not chase rallies. The good market action last week and a five-day rally looked like valid signals that the correction was over. We thus dropped “cautious” from our advice to be cautiously optimistic in the short term. What we saw was positive action by the stock market, and that must be respected. The trend you usually see continues into the future until market action changes. When the message of the market - given by its performance - changes, so will our advice.

Another example of “what you see” is that the snake you see is not the one that bites investors. Most people “see” a ton of economic, geopolitical and domestic-political uncertainties and serious problems. The point is that they are seen, well-known, and thus already discounted by the stock market. Those fears are not unique to any individual, but are concerns most folks have. That helps explain why the stock market is selling at a reasonable price/earnings multiple of 14.3 times an estimate of \$73.00 a share for the S&P 500 in 2010. The strong market action since March 9 says that, despite the many problems we face, the outlook for the economy and corporate earnings is positive.

Going back to our snake analogy, it is the snake we don't see that bites investors. The problem here is that if some event is not seen, the stock market has not discounted it and thus is vulnerable to a big decline. A year ago provides a classic example of an unseen event that hit the market in a major way – the collapse of Lehman Brothers. Most investors knew the financial system had serious problems, but this shocking event created a freeze in the credit markets that few had “seen.” Of course, the “end-of-the-world” folks have always known that some disaster lies just ahead – history has proven them wrong much more often than right. Also, although optimism is growing, most investors are in a fairly somber mood and have forgotten that unforeseen events can also be positive. A good example is that the recent economic recovery and data this past week show the economy is continuing to stabilize. One important news item was that the University of Michigan preliminary September consumer sentiment index increased to 70.2 from 65.7 in August. We expect to see more good economic news that will take this market higher into year-end. The snakes we see are not poisonous.

## Index Performance Statistics – September 14

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	9626.80	21.39	0.22	9.69	-11.82
NASDAQ	2091.78	10.88	0.52	32.64	-4.04
S&P 500	1049.34	6.61	0.63	16.17	-12.02

Source: Bloomberg

\*Price return — does not include dividends

## Bernanke Says U.S. Recession ‘Very Likely’ Has Ended

Federal Reserve Chairman Ben S. Bernanke said the worst U.S. recession since the 1930s has probably ended, while warning that growth may not be strong enough to quickly reduce the unemployment rate.

“Even though from a technical perspective the recession is very likely over at this point, it’s still going to feel like a very weak economy for some time,” Bernanke said today at the Brookings Institution in Washington, responding to questions after a speech.

The remarks by the Fed chief followed a report today showing retail sales surged last month by the most in three years, adding to evidence of a recovery. The central bank has kept the benchmark lending rate as low as zero since December and in August said “exceptionally low” rates are likely warranted for “an extended period.”

“Unemployment will be slow to come down” if growth turns out to be “moderate” and not much more than the economy’s underlying potential, Bernanke said.

## Last Week

The bulls keep dancing in spite September’s reputation for being the weakest performing month of the year for stocks. This week began on a positive note with a well-known strategist suggesting that the S&P 500 could reach 1150 by the middle of next year. In addition, there was encouraging news on the M&A front with Kraft’s unsolicited \$16.7 billion bid for British candy and beverage maker Cadbury PLC. Although Cadbury rebuked the overture, it did not stop speculation that Kraft or another company could sweeten the bid to acquire the company. The President’s speech on Wednesday night did not bring any closure to the health care debate. However, Treasury Secretary Geithner’s comments to Congress that the government is preparing to withdraw support of the financial markets as we move from crisis to recovery was viewed positively by investors.

Along with the market news, there were further positive signs on the economic front the clouds may be going away. The release of the Fed’s Beige Book report on Wednesday indicated that the nation’s economy is stabilizing. Market participants were encouraged by the decline in the weekly jobless and continuing claims as they came in better than the consensus projections by economists. As a result, through Thursday’s trading, the S&P 500 index was up by 2.3% for the month and had risen 54% from the March lows.

Looking ahead to next week, there will be several economic releases of interest to investors. On the inflation front, consensus estimates are looking for Tuesday's release of the August Producer Price Index (PPI) to show an increase of 0.8% and the Consumer Price Index (CPI) on Wednesday to rise 0.4% vs. the prior month's readings. In addition to the PPI and CPI data, there will be updates on the consumer (August Retail Sales), manufacturing (Industrial Production) and housing (Housing Market index and Housing Starts) sector over the course of next week. Although third-quarter earnings will not start for about another month, there are several companies scheduled to report next week that could provide insight on what to expect come mid-October. The list includes notable names such as Best Buy, Discover Financial, Kroger, Oracle, Carnival, and FedEx.

## **Weekly Focus – Think about it**

“Timidity prompted by past failures causes investors to miss the most important bull markets.”  
~ Walter Schloss

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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- \* 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 9/15/09.
- \* Bernanke Says U.S. Recession: cited from Bloomberg by Craig Torres and Scott Lanman 9/15/09
- \* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 9/11/09.
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