

# Weekly Commentary

## September 28, 2009



### The Markets

You almost have to pity the bearish market analysts. While the S&P 500 rose 60% from its March 9 lows, those grumpy folks have missed the whole party. But even worse, anyone who listened to them - and there were lots - has been sitting on cash receiving very low interest rates and not having any fun. To maintain some degree of sanity, the disbelievers have come up with all kinds of reasons that the stock market has been “wrong” and never should have gone up. Denial may help them maintain some degree of sanity, but it surely has been expensive. But, are the bears finally right? Last week the market declined three days in a row, which represented a little (very little) fuel for their misplaced opinions. Most bears are not dumb. The problem that many folks run into is that they believe they are smarter than the stock market. This tragic error is usually caused by investors who are focused on the current news and not on what market action is saying about the future.

OK, three days down in a row and probably a few more to come this week. Last week in our Weekly Market Commentary we stated “the stock market needs a breather, and in fact, one is overdue.” Now that one has apparently started, will it be a short-lived time-out or a top-out for our bull market? The answer is not easy, as there are strong arguments on both sides. In fact, we are listening to Beethoven’s Concerto No. 5 for Piano to help us think as best we can – we employ any helpful tools. Our long-term readers know that during times of less duress, we have often used Frank Sinatra as a source of mental and emotional aid. For today’s world, we believe we chose the best mental cleanser for us. Well, nothing is perfect, but here we go anyway.

A top-out argument could validly be based on the already dramatic market advance. After all, a 60% leap upward is no small thing. The global situation keeps getting more frightening and complex. On the scary side, Israel has said they will not allow Iran to develop a nuclear bomb. If military action is seen as fairly imminent, the price of oil will likely spike upward. The top-out camp can also find support from the unclear economic outlook for 2010. Well, we were never promised a rose garden when we became a stock market strategist, but the job surely keeps you on your toes and awake at night. We believe that the economic data continues to signal that the economy is heading into recovery; that the current price/earnings multiple of 14.3 times the \$73-a-share estimate for the S&P 500 in 2010 is reasonable; and that the action of the market says the supply/demand ratio for stocks remains bullish. Thus, this pullback is a buying opportunity, and Beethoven is the best source of correct thinking at this time.

### Index Performance Statistics – September 28

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	9789.36	124.17	1.28	11.54	-5.56
NASDAQ	2130.74	39.82	1.90	35.11	7.41
S&P 500	1062.98	18.60	1.78	17.68	-3.93

Source: Bloomberg

\*Price return — does not include dividends

## Home Prices Gain for 3<sup>rd</sup> Straight Month

There was another tick-up in home prices in July, a further indication that housing markets may be stabilizing, according to a report issued Tuesday. Prices for the S&P Case-Shiller Home Price index of 20 cities rose 1.6% from a month earlier, the third consecutive month of gains. They went up 1.4% in June.

Prices were still down 13.3% compared with July 2008, but even that performance was better than expected. A panel of industry experts surveyed by Briefing.com had forecast a 14.2% loss. "The rate of annual decline in home price values continues to decelerate and we now seem to be witnessing some sustained monthly increases across many of the markets" said David Blitzer, chairman of the Index Committee at Standard & Poor's.

Craig Thomas, a senior economist with PNC Financial Services Group, called the report very encouraging. "The rule of thumb is that three observations is a trend," he said. "There have been three straight good reports, so, this is a trend."

The home-price gains also confirmed other positive recent housing reports such as lower inventories and more traffic being reported by home builders, according to Thomas. Trends in other economic indicators, such as job losses and retail sales have also improved lately.

A pattern is developing, according to Lawrence Yun, chief economist for the National Association of Realtors (NAR), one in which stabilizing prices could contribute to a self-sustaining recovery. "When prices are falling, consumers ask themselves, 'Why buy now when I can buy later for less?'" he said, adding that rising prices are a strong incentive to act more quickly.

## Last Week

There was a slight ripple in the rally as the major indices retreated from their recent highs this week. Driving stocks lower were concerns that stock valuations have become extended as the multiple on the S&P 500 index rose to a five-year high. Although the leading indicators rose for a fifth consecutive month suggesting the economy is improving, the Fed statement that followed Wednesday's FOMC failed to provide investors with additional confidence to build off Chairman Bernanke's recent comment that the recession is likely over. An unexpected decline in the August existing home sales report was viewed as disappointing while a rebound in the dollar gave investors a reason to take profits in commodity-related stocks. As a result, the S&P 500 was down for the week through Thursday's close. However, it remains in the green for the month of September and on track to post a double-digit gain for a second consecutive quarter.

With a full calendar of economic releases scheduled, next week could be volatile as investors dissect the data. After the unexpected decline in existing home sales, there will be interest as to what the Case-Shiller index reveals at the beginning of the week. Given Fed Chairman Bernanke's recent comments that suggested the possibility of a "jobless recovery," anticipation in front of Friday's release of data on the employment situation could dictate market action. Although we are on the road to recovery, it might not be a highway if the September non-farm payroll number misses the consensus views for 189,000 jobs lost in the month and the unemployment rate rises to 9.8%. In addition to the employment situation, other noteworthy data releases next week include updates on personal spending and income, consumer confidence and ISM manufacturing.

Adding to potential volatility is that third quarter earnings season is right around the corner. Current consensus view sees earnings declining about 22% vs. a year ago, according to Thomson Reuters. Despite the expectation for a record ninth consecutive decline in earnings, this would be an improvement relative to last quarter's 35% year-over-year drop in profits. More importantly, investors will look for improvement in earnings at the company level as they did last quarter when over 70% of companies posted results above consensus projections. Next week earnings results from Walgreen's, Darden Restaurants, Jabil Circuit, Nike, Allscripts, Constellation Brands, and Accenture could influence investor expectations as to whether the bar on corporate profits has been set low enough.

## Weekly Focus – Think about it

“Underlying most arguments against the free market is a lack of belief in freedom itself.”  
~ Milton Friedman

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 9/29/09.
- \* Home Prices Gain: cited from CNNMoney.com by Les Christie 9/29/09

\* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 9/25/09.

\* 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.