Weekly Commentary
October 19, 2009

The Markets

The old expression, “be careful what you wish for because you just might get it,” fits right into today’s stock market. At the bottom of the market on March 9, the mood was very bearish and the fundamental news was scary. These were classic signs of a market bottom and folks were wishing for some evidence that our nation was not slipping into a deep abyss. Well, seven months later the economic news is basically positive, “Dow 10,000” was breached and bullishness is way up. Yes, investors got what they wanted, but they also got a 62% jump in the S&P 500 from the market lows in March. Last Wednesday, with the DJIA over the “magical” 10,000 level, champagne bottle corks were being popped on financial-news-reporting TV stations. At the bottom, most were bearish and now, up 62%, most are bullish. Folks got what they wished for, but what should they do with it now that they’ve got it?

Of course, what we have witnessed the past seven months is classic market action. Most folks just can’t buy stocks when they are fearful (the right time to buy), but they do buy after a big rally when they are feeling good (the wrong time to buy). OK, here we are, up sharply with the economic news much improved, but the international scene is still very scary and the domestic political environment very divisive. So what do we do now? For the short term, we believe the market has entered a correction that will take the popular averages down about 5%. If things heat up further in Iran and oil leaps up in price, a 10% correction is likely. Last week we advised adding some caution to our optimism and assumed better buying opportunities lie ahead before a higher market by year-end. That remains our opinion.

The good news is that the stock market has been able to rise sharply despite a ton of problems and uncertainties. Also, there is still a great deal of buying power on the sidelines. Bullish talk is up a great deal, but bullish action by long-term investors has been modest. We believe that aggressive funds and traders have done most of the buying, not old-fashioned long-term investors. Thus, the supply/demand ratio for stocks remains bullish. It’s the next couple of weeks that have us concerned. Our “GGG (Goldman Gastronomic Gauge)” is very relaxed and shows low levels of stomach acid – that’s bad. Our new “sleep indicator” is also flashing a red light – we “overslept” twice last week. The biggest fundamental concern is the price of oil, which rose to a one-year high last Friday. The economic recovery is very fragile, and a big jump in oil prices could cause the economy to soften again. We also worry about weakness of the dollar, which is OK now for our exports, but a collapse of the dollar would cause lots of emotional problems and probably force the Federal Reserve to raise interest rates. The problems are not unknown, and yet the market acts well. As always, the message of the market is, in our opinion, the best indicator of where stocks are headed – the overall message remains bullish.

Index Performance Statistics – October 19

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	10092.19	92.28	0.98	14.99	8.92
NASDAQ	2176.32	19.52	0.91	38	22.95
S&P 500	1097.91	10.23	0.94	21.55	11.42

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

Oil Pushes Past $80 - Then Edges Off

Oil edged off an earlier peak just above $80 a barrel Tuesday, as investors awaited supply data and questioned the likelihood of a continued rally. Investors were awaiting supply data from the American Petroleum Institute due later on Tuesday. A consensus estimate of analysts polled by Reuters predicted a 2 million-barrel increase.

U.S. crude for November delivery was down 29 cents to $79.32 a barrel by 7:10 a.m., after reaching $80.05 earlier in the session. Oil has ended higher for the past eight days, but analysts have questioned whether the recent rally is justified as crude market fundamentals remain weak. Supply has climbed steadily in recent months, while demand remains unclear pending a broader economic recovery.

Last Week

The bulls remained in a party mood this week. Driving the advance was the overall good start to the third-quarter earnings season. Adding to the positive market action was encouragement on the economic front with a better-than-expected September retail sales report. Further weakness of the dollar continued to benefit the shares of commodity-related companies. As a result, the major indices climbed to their one year highs. Particular attention was given to the Dow Jones Industrial Average's climb back above 10,000, making it feel as if we were back in 1999. Let’s hope people don’t reenact sentiment next week with the anniversary of the 1987 market crash on Monday.

If the bull is to remain the life of the party, third-quarter earnings' results will need to remain positive relative to the current consensus of 24% year-over-year decline cited by Thomson Reuters. As the peak of the season begins next week, financials will be a sector to watch closely, with many of the asset managers, banks and brokers expected to post results. We'll also get several key profit tallies in tech with Apple, Texas Instruments, eBay, Seagate, EMC and Microsoft due to release. Outside of financials and technology, the notable companies on the calendar include Caterpillar, Honeywell, Boeing, United Technologies, 3M, Peabody Energy, Noble Corp, Schlumberger, AT&T, Altria, Wyeth, Amgen, and Fortune Brands.

In addition, news on the economic front will need to show further signs of recovery. Therefore, investors will be interested to see whether Thursday’s release of the September Leading Indicators index rises for a sixth consecutive month. Current consensus expectations call for the index to rise by 0.8% in the prior month. Along with the update on overall economic activity, there will be reports on both inflation and housing with the Producer Price Index and data on housing starts and existing home sales scheduled next week. In addition to the data, the Boston Fed hosts its Cape Cod conference in the quaint town of Chatham, Mass., while the Treasury auctions off debt of various maturities throughout the week.

Weekly Focus – Think about it

"The investor of today does not profit from yesterday's growth."
~ Warren Buffet

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 10/20/09.

*Oil Pushes Past $80: cited from CNNMoney.com by Juliane Pepitone 10/20/09

* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 10/16/09.

* 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.