



Weekly Commentary October 26, 2009

The Markets

The stock market is just like life – sooner or later there is some pain as life and the stock market are not a bed of roses. If there is no pain, there can be no permanent gain. Consider this: if stocks only went up, no one would ever sell and thus there could be no stock market. How one deals with pain and disappointment separates the winners from the losers in both real life and the stock market. It is very easy to handle being a winner, if one controls their ego. The tough part is to get knocked down in life or the stock market and then get back up and win whatever you are seeking. We had a little pain in the stock market last week, but it was modest and resulted in a flat market. Everybody with a pulse knows the stock market is very stretched out, having risen 66% to recent S&P 500 highs from the March 9 lows. How much pain one will have to deal with is unknowable, but be prepared.

The stock market can correct its extended condition in several ways. The “cardiac arrest” correction is the scariest, but quickest and easier to identify when it is over. That is a correction in which the market drops sharply over several days, causes a lot of blood-letting, raises bearishness but gets the job done quickly. Basically, lots of pain for a fairly quick gain. Another type of correction is one that slowly drifts lower, wears people out, causes frustration and can take weeks of moderate daily declines to finally reach bottom. So far, the stock market has just drifted, not dropped. What market action will look like over the next month, no one knows. Thus, it continues to make investment sense to be about 80/20 invested in stocks vs. cash for long term growth investors. The 20% cash is an investment in patience.

Meanwhile, the economic news continues to show why the market was able to rally so sharply. September existing home sales jumped 9.4%, hitting the highest level in more than two years. Also, the September leading economic indicators index increased 1.0%, following a 0.4% rise in August. If our country can avoid any unexpected shocks, the economy seems to be on the road to sustainable recovery. The very soft labor market and the questions that raises about consumer spending in 2010 is a real concern. The Federal Reserve already has interest rates at record low levels. There’s talk of another stimulus program but the current one hasn’t helped the labor market. Perhaps we should look to Malaysia for advice. That country has cut income taxes for a second straight year to spur consumer spending, private investment and to help their economy recover from recession. They are rolling back decades of protectionist policies. Their Ministry of Finance said, “Emphasis will be on creating a conducive environment for businesses and entrepreneurship to thrive in a more liberalized environment.” An economist at HSBC Holdings said, “The budget signals the government’s intention to reduce direct involvement in the economy and encourage a greater role for the private sector.” Let’s hope our country can learn from others.

Index Performance Statistics – October 26

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	9867.96	-104.22	-1.05	12.44	20.70
NASDAQ	2141.85	-12.62	-0.59	35.82	42.23
S&P 500	1066.95	-12.65	-1.17	18.12	25.68

Source: Bloomberg

*Price return — does not include dividends

Consumer Confidence Slips Unexpectedly

Americans' confidence about the U.S. economy fell unexpectedly in October as job prospects remained bleak, a private research group said Tuesday, fueling speculation that an already gloomy holiday shopping forecast could worsen. The Consumer Confidence Index, released by The Conference Board, sank unexpectedly to 47.7 in October — its second-lowest reading since May. Forecasters predicted a higher reading of 53.1. A reading above 90 means the economy is on solid footing. Above 100 signals strong growth. The index has seesawed since reaching a historic low of 25.3 in February and climbed to 53.4 in September.

Economists watch consumer confidence because spending on goods and services by Americans accounts for about 70 percent of U.S. economic activity by federal measures. While the reading doesn't always predict short-term spending, it's a helpful barometer of spending levels over time, especially for expensive, big-ticket items.

Last Week

It was a wild week on Wall Street. Despite better than projected third-quarter earnings releases, stocks slid in early action due to some disappointing economic data and concerns over increased loan losses at large-cap banks. Also weighing on the market was speculation that China would raise interest rates and pare back on its stimulus after its economy grew at the fastest pace in a year. However, the market was able to recover from the early setback as earnings reports overall continued to exceed analyst expectations and as signs the economy remains in recovery mode with the leading indicators index advancing for a sixth consecutive month. By Thursday's close, the S&P 500 index moved back into the green while Treasuries were on pace for a third straight weekly decline and the dollar was trading near its 14-month lows.

As we enter the final week of October, market participants seem to be sitting on pins and needles awaiting a pullback as the recent American Association of Individual Investor sentiment reading showed the percentage of those bullish fell to 40% from 47% in the prior week. The Wells Fargo Advisors Market Analysis team believes the market may have entered into a corrective phase that could take the market down about 5%. Furthermore, if we continue to see a spike in oil prices or issues on the geopolitical front heat up, the correction could be closer to 10%. In their opinion, this would present an opportunity to accumulate stocks.

Whether a correction does occur will likely depend in part on how the remainder of third-quarter earnings season plays out in the week ahead with 137 S&P 500 companies and four Dow components expected to report. In the financial sector, the focus shifts from the banks to insurers with several Property & Casualty, Life and Health insurers expected to post earnings tallies. A

number of key releases will also come from the energy patch with Exxon Mobil, Conoco Philips, Hess and Royal Dutch Shell on the docket. Rounding out the long list of notable earnings due out next week include AK Steel, International Paper, Lorillard, McGraw-Hill, Moody's, Verizon, Motorola, Newmont Mining, Weyerhaeuser, Norfolk Southern, PG&E, Duke Energy and Dominion.

In addition to earnings, there will be several data points of the economic front next week to watch for continued signs of recovery. Specifically, we will get the first look at third quarter GDP on Thursday. Wells Fargo Advisors Chief Macro Strategist Gary Thayer anticipates this report to show the economy grew at an above-average rate due in large part to the cash-for-clunkers program helping to increase both consumer spending and industrial production. In addition to the GDP report, we will also get updates on Durable Goods Orders as well as on housing and consumer activity. Although there is no scheduled Fed speak on the calendar, Treasury Secretary Geithner speaks on Tuesday at the annual Securities and Financial Markets Association confab.

Weekly Focus – Think about it

“Economics is a subject that does not greatly respect one’s wishes.”
~ Nikita Khrushchev

Best Regards,

Jim, Aaron & Angela
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* 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 10/27/09.
- * Consumer Confidence Slips: cited from Associated Press 10/27/09
- * Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 10/23/09.
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