

# Weekly Commentary

## October 5, 2009



### The Markets

We did experience a sleepless night over the weekend. Believe it or not, this says a great deal to us about the current condition of the stock market and the intermediate-term outlook. Let's look at the things that disturbed our sleep. Of course, the employment news last Friday was very disturbing. Employees cut 263,000 jobs in September and the unemployment rate rose to 9.8%, which is a 26-year high. While the economy appears to have bottomed and has begun to grow again, a weak labor market could keep a governor on economic growth in 2010. We were saddened that the U.S. did not win the 2016 Olympics, but there is more disturbing news from the war in Afghanistan. General McChrystal has requested as many as 45,000 additional troops, but so far the Obama administration has not responded. Some believe the general will resign if not given what he believes is needed to win the war. If so, this probably wouldn't provide a mood lift for investors.

Adding to our night of churning was the fact that the stock market is already in a correction, having declined seven of the last eight sessions. And this pullback comes in a market that had leaped up 60% from its March 9 lows. OK, so what does a sleepless night tell us about the current status and future direction of the stock market? The primary lesson is that everything worrying us is well-known and thus already in the market. As we have often stated, the snake you see is not the one that bites you. Also, despite all the problems facing the market and investors, stocks have still been able to put on a big rally. That ability says positive things about the future.

We don't enjoy losing sleep, but much more worrisome is when sleep comes very easily because almost everything affecting the stock market looks good. That condition usually occurs close to a market top, when bullishness is rampant. Most have heard of the "Super Bowl" and "skirt-length" market indicators. We are now adding the "sleep" indicator, and it is positive. Last week our Market Commentary dated September 29 was titled "Time-out or Top-out?" We continue to believe the stock market is in a normal time-out to correct some of the price excesses. Current downside momentum says the market has some more work to do moderately lower. Ahead of us we have the latest deal from Iran, as they now say they will allow an inspection of their newly disclosed uranium-processing plant on October 25. Well, we shall see. And of course, Israel is waiting, but not patiently, before taking some action. Right now about six hours of sleep is about it for us. If we ever oversleep due to total mental comfort, we will change our market opinion. In the meantime, we advise long-term investors to buy dips.

### Index Performance Statistics – October 5

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	9599.75	112.08	1.18	9.38	-3.57
NASDAQ	2068.15	20.04	0.98	31.14	11.01
S&P 500	1040.46	15.25	1.49	15.19	-1.55

Source: Bloomberg

\*Price return — does not include dividends

## **Gold Jumps to Record as Inflation Outlook Fuels Investor Demand**

Gold rose to a record on speculation that currencies will depreciate, spurring inflation and boosting the appeal of the precious metal for investors seeking to preserve their wealth. Gold futures climbed as high as \$1,045 an ounce in New York, topping the previous record of \$1,033.90 in March 2008. The spot price is headed for a ninth straight annual gain, the longest rally since at least 1948. The dollar fell as much as 0.7 percent against a basket of six major currencies.

"Gold is acting like the ultimate currency," said Chip Hanlon, the president of Delta Global Advisors Inc. in Huntington Beach, California. "Central banks are following the same monetary course and trying to stimulate and inflate their way back to growth. Everyone's concerned about the dollar, but it's not like you can hate the dollar and fall in love with the euro or the yen." U.S. President Barack Obama has increased the nation's marketable debt to an unprecedented \$6.78 trillion as he borrows to spur the world's largest economy. Goldman Sachs Group Inc. predicts the country will sell about \$2.9 trillion of debt in the two years ending next September.

Gold futures for December delivery climbed \$24.40, or 2.4 percent, to \$1,042.20 an ounce at 11:16 a.m. on the Comex division of the New York Mercantile Exchange. Prices may reach \$1,400 within six months, Hanlon said. Gold for immediate delivery in London gained as much as 2.6 percent to a record \$1,043.78. The metal has climbed 18 percent this year.

## **Last Week**

After two quarters of exceptional performance, the rally ran out of gas. Stocks extended their retreat for a second week as the economic data continued to be disappointing relative to Wall Street's expectations. In addition, bonds and the dollar rallied, suggesting investors became more risk adverse. As a result, the S&P 500 was down about 3.9% from its 11-month high of 1071.66 set on September 22 going into Friday's employment report.

The economic reports this week were disappointing to investors; however, they underscore the thoughts by Wells Fargo Advisors Macro Strategist Gary Thayer. In his opinion, things are looking better for the economy on its road to recovery. Overall, more reports are indicating improvement compared to those showing deterioration, which is normal when the economy begins to recover. However, lingering problems remain in the economy. As a result, Thayer thinks it is too soon to signal all clear for the economy at this time. At this juncture, the biggest risk he sees to continued economic improvement is an unexpected event that could strike and negatively impact confidence and spending. Therefore, he believes it is important that investors keep an eye on the geopolitical front, especially with regards to the Middle East and Iran.

The economic calendar will be light, but there is still a chance of thunder and lightning with the start of third quarter earnings season next week. Current projections see profits for the S&P 500 index declining around 22% year-over-year, according to Thomson Reuters. However, the focus by investors will likely be at the company level as to whether analysts have set the bar appropriately. Companies of particular interest to investors due to release results include Alcoa, Mosaic, YUM!, Brands, Pepsi, Costco, Family Dollar and Monsanto.

## Weekly Focus – Think about it

“Without a sense of urgency, desire loses its value.”

~ Jim Rohn

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.
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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 10/6/09.
- \* Gold Jumps to Record: cited from Bloomberg by Pham-Duy Nguyen, Nicholas Larkin, and Kim Kyoungwha 10/06/09
- \* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 10/2/09.
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