Weekly Commentary
November 2, 2009

The Markets

Great minds have pondered for years as to which came first, the chicken or the egg. In the stock market, the question is what comes first, the news or the action of the stock market? We will leave the chicken/egg question up to folks who don't mind running around in circles. In the stock market, the answer is clear – market action precedes the news, and this is a very important fact of life to keep in mind. Last March 9, at the bottom of this bear market, the news about the economy was awful. So what did the stock market do? It started a big rally and rose 66%, as measured by the S&P 500, to its closing high October 19. The economic news didn't start looking more positive until late summer, some four months after the rally began. Once a trend has been established, up or down, daily market action does not control the news, but does control how investors react to the news.

Last Thursday, the DJIA rallied 199.89 points. The mood was quite positive and investors were assuming the global and domestic economies had turned around and some degree of "happy days are here again" was in the air. Why? Because the stock market was up and took investors' spirits with it. But what a difference a day can make! On Friday, Halloween got an early start and the DJIA plunged 249.85 points. Had anything fundamental changed overnight? Of course not. What changed is that profit-taking hit stocks and dragged investors' moods down with it. Now, all of a sudden, instead of anticipating a better economy, investors focused on a possible double-dip recession in 2010 and a potential crash in commercial real estate. The market drop generated fear, which took folks from a glass-is-half-full perspective to approaching it as being half-empty.

All in all, October ended a seven-month streak of a rising S&P 500, and fear leaped upward. Despite the pyrotechnics last Thursday and Friday, it still looks like we are in a slow wear-'em-out rather than a quick, cardiac arrest correction. From the closing highs on October 19 to the October 30 closing lows, the DJIA has dropped 3.76%, the S&P 500 5.62% and the Nasdaq Composite 6.03%. That type of moderate decline over a two-week period fits the slow and rather frustrating correction style. Stepping back from the fireworks the end of last week, we see economic news that showed the U.S. economy grew at an above-average rate of 3.5% in the third quarter. Inflation remains low at only a 0.8% annual rate. On the negative side, the Conference Board's October consumer confidence index declined to 47.7 from 53.4 in September. We look for the labor market to perk up by the spring and push up consumer confidence. The stock market is in our projected correction and thus we continue to recommend investors hold about 80% stock, 20% cash. Based on market action the past two weeks, we believe better buying opportunities will develop in a couple of weeks, but we will take our lead from market action. Market action comes before our action.

Index Performance Statistics – November 2

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	9789.44	76.71	0.79	11.54	5.04
NASDAQ	2049.20	4.09	0.20	29.94	18.70
S&P 500	1042.88	6.69	0.65	15.46	7.93

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

Buffet's Firm to Buy Burlington Northern

Warren Buffett's Berkshire Hathaway said Tuesday it will buy railroad operator Burlington Northern Santa Fe for $44 billion. Berkshire (BRKA, Fortune 500) which already has a major stake in Burlington Northern, said it would acquire the remaining 77.4% of the company in a cash-and-stock offer worth $100 per share.

Widely regarded as both one of the world's richest men and the investment community's more brilliant minds, Buffett called his firm's investment an "all-in wager on the economic future of the United States. Our country's future prosperity depends on its having an efficient and well-maintained rail system," Buffett said in a statement. Burlington Northern (BNI, Fortune 500) shares soared 28% in morning trading on the news.

Last Week

The bears gave the bulls a good scare this week. Despite continued strong third-quarter earnings reports, the market sold off in early action as the consumer confidence and housing reports disappointed relative to consensus expectations. In addition to the data, cautious comments on the rally from PIMCO's bond ghoul Bill Gross and GMO'S goblin Jeremy Grantham gave investors a reason to pause. By Wednesday's close, the S&P 500 index had extended its pullback from the recent October 19 peak to over 5%, putting the index in jeopardy of ending the month in the red. However, a stronger than anticipated advanced third-quarter GDP report on Thursday allowed stocks to recover, putting the index in position to end October in the green.

With two months left in 2009, the challenge will be whether bulls can remain resilient after the strong run off the March lows. Historically, November has been a very good month for the market as it ranks as the best for the S&P 500 and begins the "Best Six Months" period according to the Stock Trader's Almanac. However, it is more likely that the action for stocks will be predicated on continued signs of improvement on the economic front. Although the Fed is not likely to follow Australia and Norway and raise rates, investors will focus their attention to the comments released at the conclusion of the FOMC meeting Wednesday afternoon. In addition to the Fed speak, next week's data is projected to show the unemployment rate increase to 9.9% and the non-farm payrolls show further decline in the rate of job losses during the month of September. Other releases of note next week include updates on vehicle sales and ISM manufacturing.

Overall, third-quarter profits have shown that analysts had been too conservative with their estimates. Through Thursday's close, approximately two-thirds of the companies in the S&P 500 have released results with about 85% beating Wall Street consensus numbers by an average 13%, according to Bloomberg data. At the sector level, financials have reported the highest growth rate in profits compared with last year. Next week will also see a slowdown in the pace of earnings season with about 87 companies in the S&P 500 and 2 Dow Jones Industrial components scheduled to post results. Some of the more notable reports are due from Clorox, Archer Daniels Midland, MasterCard, Emerson Electric, Viacom, Kraft, Transocean, Whole Foods, Starbuck's, Edison International and CVS Caremark.

Besides earnings and economic data, investors should keep an eye on the movement of the U.S. dollar. Recently Chief Macro Strategist Gary Thayer noted that the slide in the dollar over the course of the rally has been a function of investors wishing to participate in the global rally in stocks. In Thayer's opinion, the move in stocks in foreign markets has been sharp and maybe got a bit overextended. Therefore, Thayer believes the dollar's recent bounce off its recent lows may be a signal that investors have gotten more cautious.

Weekly Focus – Think about it

"There are two times in a man's life when he should not speculate – when he can't afford it and when he can."
~ Mark Twain

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 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 11/3/09.

*Buffett's Firm to Buy: cited from CNNMoney.com by David Ellis 11/3/09

* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 10/30/09.

* 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.