



## Weekly Commentary November 23, 2009

### The Markets

With apologies to Shakespeare, we feel like Hamlet when he asked, “Whether ‘tis nobler in the mind to suffer / The slings and arrows of outrageous fortune, / Or to take arms against a sea of troubles, / And by opposing end them?” Basically, for an investment strategist the question is, should we succumb to the many uncertainties our country and economy face and get out of the stock market? The other approach is to respect the action of the stock market, which has been “taking arms against a sea of troubles” and has rallied a big 62% from the March 9 lows. The bears use a long list of “outrageous fortune” to make their case, and they do have a great number of valid arguments. The most basic is the outlook for the economy. Current data continues to show that the economy is in a recovery mode. For example, the October leading economic indicators increased 0.3%, the seventh-such consecutive increase.

However, the economic recovery is fragile, and there remains plenty of downside risk. The labor market remains very soft, and business executives face many uncertainties that could keep them very cautious about future hiring. For example, what health-care and cap-and-trade costs will they face in the future? Also, the desire to expand one’s business is certainly not helped when the Secretary of the Treasury is under attack and there is a move in Congress to reduce the power of the Federal Reserve. Also, add to all of this a major dislike of Wall Street and financial institutions by Washington and many folks on Main Street. And do we even need to mention the extremely divisive mood in Washington on both sides of the aisle?

A real donnybrook is ready to break out in the Senate as work begins on a sweeping health-care plan estimated at \$848 billion, the biggest change in the U.S. health-care system since Medicare was created in 1965. Oh, and have we mentioned the screaming going on about the trial of Khalid Sheikh Mohammed in New York? No one knows how all these problems will work out, but we do know that the stock market hates uncertainty and usually heads south when the environment is very grey. But that’s not the case today. Everyone with a pulse is aware of all the troubles out there, and yet the stock market acts well. Also, the rally from the deeply oversold level reached on March 9 has not been unusual in the history of post-recession bottoms. Today, the S&P 500 is selling at about 14.5 times earnings estimated for 2010. Ten years ago, the multiple was close to 40. Also, stocks still look attractively valued compared to alternative assets. The stock market has done well because of confidence in the resilience of our country and economy, and we share that optimism. Hamlet said, “To be, nor not to be: that is the question.” We advise investors “to be” in the stock market and “not to be” surprised by normal corrections.

## Index Performance Statistics – November 23

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	10450.95	132.79	1.29	19.08	23.78
NASDAQ	2176.01	29.97	1.40	37.97	47.82
S&P 500	1106.24	14.86	1.36	22.47	29.87

Source: Bloomberg

\*Price return — does not include dividends

## Almost One in Four Mortgages US. Homeowners are Underwater

The number of U.S. homes worth less than the debt owed on them reached almost 10.7 million, or 23 percent of all mortgaged properties, at the end of the third quarter, according to a report from First American CoreLogic.

An additional 2.3 million mortgages are approaching “negative equity” as loan defaults mount nationwide, the Santa Ana, California-based real estate research company said today.

“Negative equity continues to be pervasive and to impact almost every segment of the housing market, Mark Fleming, chief economist at First American CoreLogic, said in a statement. “It will take a significant rebound in home prices, which we are not expecting, to offset the dampening effects of negative equity in the most depressed states.”

Job cuts and declining property values have increased mortgage defaults during the past three years. Freddie Mac, the mortgage-finance company under government control, said today that defaults among its loans rose to a record 3.54 percent last month, while its portfolio of residential assets fell at an annualized rate of 21.6 percent.

## Last Week

The sparing match between the bulls and bears got heated in the gym at the corner of Broad and Wall this week. Bulls initially controlled the action as the retail sales figures rebounded in October from the prior month’s decline. In addition, investors were encouraged by continued stimulus from Asian governments and Chairman Bernanke’s reiteration of a friendly Fed. As a result, the S&P 500 index rose to a 13-month high on Tuesday.

But the bears delivered a counter punch later in the week as several economic reports missed expectations and the tech sector got hit with disappointing earnings from Dell and Autodesk and a downgrade in the semiconductor space. In addition, the dollar recovered some after it slumped to a 15-month low, causing gold to retreat after hitting a record high on Wednesday. Over in bond land, concerns over the rally in stocks getting ahead of the economic recovery led to investors bidding up government paper. This sent yields on short-term Treasuries to their lowest levels since last year when the financial markets froze. Despite the flurry of negative news, the S&P 500 index was up about 0.1% heading into Friday’s session.

Next week, market action is expected to be light due to Thanksgiving holiday. However, there are several economic reports of note on the calendar before investors sit down to their tryptophan-filled feasts. Of particular interest will be updates on housing, durable goods, consumer confidence and sentiment as well as personal spending and income. There are no scheduled

speeches by the Fed on the calendar, but they will provide some reading material for investors with the release of the FOMC minutes from the November meeting.

On the earnings front, the calendar gets into the holiday spirit. Releases in the consumer staples sector resemble a shopping list for Thanksgiving with scheduled quarterly results from Campbell's Soup, Tyson Foods, Heinz and Hormel. Reports from retailers Border's, Barnes & Noble, Dollar Tree, J Crew and Tiffany's will be watched for clues how the holiday shopping season may fare. Other scheduled earnings of interest include BJ Services from the energy patch, Analog Devices and Hewlett-Packard in tech, and Deere representing the industrials sector.

## **Weekly Focus – Think about it**

"There's nothing wrong with cash. It gives you time to think."  
~ Robert Prechter Jr.

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.
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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 11/24/09.

\*Almost One if Four: cited from Bloomberg Oshrat Carmiel 11/24/09

\* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 11/20/09.

\* 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.