

Weekly Commentary

November 9, 2009



The Markets

The old bromide, “do what I say, not what I do,” reflects a very cynical attitude about some people. We don’t like the expression, but it probably does apply in selected cases. However, in the stock market, the opposite advice is right-on. We must always do what the market does, and not what “it says.” What that means is that the action of the stock market must be respected – what it is doing – rather than what is being said about the market. Last week, the stock market had several days of positive action despite news that could have brought in some heavy selling pressure. Friday’s unemployment news for October showed a loss of 190,000 nonfarm jobs and a jump in the unemployment rate to 10.2%. Both were worse than expected and could have been fuel for the bears. However, there was some good news as the September job loss was reduced to 219,000 from a prior figure of 263,000. Also, there was a pickup in temporary hirings.

Added to the bad news was a report that if you add in part-time workers who would prefer to work full-time, the unemployment rate pops up to 17.5%. Well, investors had a chance to latch on to the good or bad news, and they chose the good. The result was a modest rally on Friday. It wasn’t a “thing of beauty,” but the 10.2% unemployment rate could really have gotten the sellers going. Overall, we give the bulls a fractional victory Friday and last week after two weeks of a moderate correction/consolidation. Also in the “do what I do, not what I say” philosophy we have the health-care bill and its many uncertainties. Some politicians say it is a done deal, despite all the uncertainties it represents in its current form. What the market is “doing” reflects its opinion that a health-care bill will be coming but in a much less controversial form.

Because we always try to respect what the stock market is doing despite what some folks may be saying, we have to question our cautious short-term advice of the past three weeks. Being bullish for quite some time, we are inclined to make the market prove that the correction is over by a bit more positive action. Our feeling is that there has been a lot of good news already on the table. Corporate earnings for the third quarter have been much better than expected, and third-quarter productivity increased at a 9.5% seasonally adjusted rate. This means that labor costs have fallen, which will help boost profits and set the stage for a potential job increase by next spring. The very soft job market and its negative impact on consumer spirits have been negative for the stock market. With lots of good news already out there and the market up 62% since its March 9 lows, we believe the market probably needs more work at lower levels to reduce optimism. But, we will not ignore for long what the market “does” despite what we are “saying” now.

Index Performance Statistics – November 9

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	10226.94	203.52	2.03	16.53	15.29
NASDAQ	2154.06	41.62	1.97	36.59	33.23
S&P 500	1093.08	23.78	2.22	21.02	18.92

Source: Bloomberg

*Price return — does not include dividends

Jobless Rate to Hit 10.5%, Keeping Fed in Box

Unemployment in the United States will shoot to 10.5 percent by the middle of next year, constraining the Federal Reserve's ability to raise interest rates, according to economists surveyed by Reuters. The survey's findings, drawn from a sample of around 50 economists across the U.S. and Europe, come on the heels of a government report on Friday showing that the nation's jobless rate jumped to a 26-1/2-year high of 10.2 percent in October.

Stubbornly high unemployment has raised fears that the economy's recovery from the most brutal recession since the 1930s may be accompanied by little job creation and slow down the growth momentum next year. If the unemployment rate rises to 10.5 percent as predicted in the survey, it will be just shy of the 10.8 percent peak during the 1982 recession, which was the highest since 1948. In the previous poll, economists were expecting the jobless rate to top 10.1 percent by the first quarter of 2010.

With the unemployment rate yet to peak, the survey predicted the Federal Reserve would not start raising interest rates before the third quarter of next year. That was unchanged from the findings of October's poll. The U.S. central bank last week held overnight interest rate close to zero and said it expected to keep them low for an "extended period."

Last Week

There were cheers from the Bronx to the corner of Broad and Wall as the "Evil Empire" captured its 27th World Series Championship and the market staged a comeback from its 5.6% decline since the October 19 highs. The market was driven higher by the better-than-expected earnings tallies from the likes of Ford and Cisco and positive reports on housing, manufacturing, productivity and weekly jobless claims. The Fed did its part by maintaining an accommodative stance on interest rates as well as stating the U.S. economy is picking up. Investors were also encouraged by announcements on the M&A front with Berkshire Hathaway buying Burlington Northern and Stanley Works acquiring Black & Decker. The S&P 500 index would have been higher than about 3% for the week heading into Friday's employment data if not for a couple of wild pitches from the House regarding credit-card regulation and cautious comments by a well-known bank analyst on Wednesday.

The baseball season is now over and the one for third quarter earnings isn't far behind. Despite overall reported profits for the S&P 500 index being down around 15% on a year-over-year basis, earnings season has been viewed positively. Of the over 420 companies in the index that have reported since earnings season began back on October 9, about 83% have posted results ahead of consensus estimates, according to Bloomberg. In terms of the earnings expected next week, the focus will shift toward the consumer with scheduled releases from Disney, retailers Wal-Mart, Macy's, Kohl's and Nordstrom's, video game maker Electronic Arts and online travel agent priceline.com.

Next week's economic calendar is light. Most of the noteworthy reports come at the end of the week with the release of the Treasury Budget on Thursday and the International Trade and preliminary University of Michigan Sentiment reports scheduled on Friday. To make up for a lack of data there will be plenty of Fed speak with regional presidents Lockhart, Yellen and Fisher all slated to speak on Tuesday about the economic outlook. Investors will also have interest in how the market responds to the record amount of new supply in Treasuries – \$81 billion will be auctioned off in 3-year, 10-year and 30-year in the week ahead.

Weekly Focus – Think about it

“The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups.”

~ Henry Hazlitt

Best Regards,

Jim, Aaron & Angela
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- * 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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- * The Markets prepared by Al Goldman, Chief Market Strategist, Wells Fargo Advisors 11/10/09.
- * Jobless Rate to hit 10.5%: cited from CNBC.com 11/10/09
- * Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 11/6/09.
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