



## Weekly Commentary December 14, 2009

### The Markets

Very recent stock market action makes us break out into song – “I’m dreaming of a green (whoops – “white”) Christmas.” Yes, market action indicates that the stock market is now set up to rally into year-end and potentially create a “green” Christmas period, as in “money.” For the past three weeks, the popular market averages have been churning within a tight trading range. It has been a boring, low-trading-volume market, but this type of action is one way to work off short-term market excesses. Several days of heavy and bloody selling can create a bottom, which is easier to call, but it apparently was not to be this time. The reason we now believe the stock market will give us the year-end rally we had previously projected is that the market continues to show great resilience in the face of lots of problems and uncertainties. And this positive market action occurred in a market that was extended after a 66% rally from the March 9 lows for the S&P 500.

OK, so why has the market performed so well despite lots of reasons to give us a normal 10% correction after the big rally? Well, no one knows for sure. We always say that we listen to the message of the stock market (spoken by its performance) and that we never lecture the market. That makes sense and sounds easy, but it isn’t as the “translation” of the market’s message is not a science and can’t be quantified. A “reading” of the market’s message is a subjective task and is heavily influenced by each market analyst’s personality and experience. We confess to an optimistic bent resulting from the very long-term bullish history of our economy. No wonder “Yankee Doodle Dandy,” starring Jimmy Cagney, is one of our favorite movies (and by the way, a great watch for any pessimist during the holiday season.)

The market’s ability to hold together despite a lot of excuses to decline says to us that investors are focusing on some current and future potential positives. Our “reading of the tea leaves” is that folks believe the Federal Reserve’s very low interest rates will continue through most of 2010, and that economic growth will be much better than the modest growth many anticipate. As our long-time readers know, we do not believe anyone can see, with confidence, a year or two into the future. However, the best analyst of the always-unpredictable future is, in our opinion, the stock market. Recent market action is flashing a green light for 2010, so that’s the road we will stay on. Projecting the future is obviously very risky. One key to investment survival and success is to gauge the risk/reward ratio of one’s projections. The S&P 500 is now selling at a reasonable 15.1 times a conservative estimate of \$73 a share for the S&P 500 in 2010. If the economy is stronger than generally expected, as the market’s message says, earnings should be higher. We like the risk/reward ratio of owning stocks at this time.

## Index Performance Statistics – December 14

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	10501.05	29.55	0.28	19.65	22.61
NASDAQ	2212.10	21.79	0.99	40.27	46.66
S&P 500	1114.11	7.70	0.70	23.34	28.27

Source: Bloomberg

\*Price return — does not include dividends

## Fed will Hike Rates – in 2011

It appears 0% is here for the foreseeable future. A year ago, the Federal Reserve took its key overnight lending rate, the fed funds rate, down to near 0% for the first time in its history in an effort to keep the economy from falling into depression. The cheap money meant lower rates for consumers on credit cards and home equity loans, as well as for many business loans.

The threat of a depression is widely acknowledged to have passed and most economists believe the economy has begun at least a modest recovery. But the Fed hasn't moved the rates since, and experts don't think they're likely to do so for the foreseeable future, perhaps not until 2011. Fed funds futures on the Chicago Board of Trade, which track the key rate, show investors aren't betting on a hike anytime next year.

Part of that is because of talk from Fed officials. Fed Chairman Ben Bernanke has repeated frequently that one of the problems of the Great Depression was that the Fed raised rates too quickly when the economy first showed signs of life, causing a second, much more painful downturn that extended the Depression for years.

## Last Week

This week's market action tested the bulls' nerves. Stocks fell during the first few trading sessions on renewed credit concerns out of Dubai, a ratings downgrade of Greece's debt by Fitch and a reduced outlook for Spain's debt by S&P. In addition, Moody's said that U.S and U.K. deficits could put a strain on their triple-A ratings. Encouraging job and trade data later in the week helped the market regain its composure. Better than expected retail sales and consumer confidence reports along with Moody's qualifying earlier statements helped to ease investor anxiety. As a result, the S&P 500 recovered most of the week's losses by Friday's trading.

There will be plenty of economic news rolling into town next week. Along with the statement following the FOMC Meeting, investors will look to the leading indicators report for constructive commentary on the economy. Investors will also look for signs of improvement from the industrial production report as well as the inflation data. On the earnings front, there will be several quarterly reports that may provide insight into the consumer's psyche. For all of you holiday shoppers, there are releases scheduled for Best Buy, Nike and Pier 1. In the financials, we get reports from Discover Financial and PayChex, while Accenture, FactSet, Adobe, Oracle and

Research in Motion represent tech. Rounding out the list of notable companies with earnings expected in the coming week include General Mills, Darden Restaurants, CarMax, Joy Global and Steak N Shake.

While the S&P 500 is up 61% from the March low and 22% for the year, the recent sentiment reading suggests the potential for a pullback. The Investors Intelligence Sentiment Survey, a contrarian indicator used for market direction, showed 16.5% of participants were bearish, the lowest level since June of 2003. In addition, the survey showed expectations for correction rose to a 17-year high at 35.1%.

## **Weekly Focus – Think about it**

“There is only one side of the market and it is not the bull side or the bear side, but the right side.”  
~ Jesse Livermore

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 12/15/09.

\*Fed will Hike Rates: cited from CNNMoney.com Chris Isidore 12/15/09

\* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 12/11/09.

\* 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.