Weekly Commentary
December 21, 2009

The Markets

Each generation believes that the times it lived through were the most difficult ever experienced, and that makes sense. If the current generation only had to deal with past problems, the solutions would be known and appear easy. Even the 1950s had the problem of President Eisenhower's golf score (we will lose a lot of our readers on this one), the end of the Korean War and the supposed "music of the devil," rock 'n' roll. In our 50 years as a professional student of the stock market, we have never experienced so many extreme opinions on both sides of all arguments. We have black-and-white opinions about almost everything, and the divisiveness in Washington and our nation is both extreme and destructive. The need to "win" in Washington has replaced compromising and trying to do what is best for the people, rather than what it takes to get re-elected. Well, our history says the American people will eventually get control again of our great nation.

For now, let's look at some of the areas of severe conflict. It appears the Senate will pass its health-care plan by Dec. 24. The polls say the American people don't like it, and the politicians are all on one side or the other depending on their political party. Cap and trade has some strong political support but little support from the people. The popularity of Congress and President Obama is way down, and the Tea Parties are both strongly supported and vilified. Basically, we have never witnessed our people so nervous and upset about the state of our country, and we are not even mentioning the international scene. Well, at least we have one thing that we can analyze using facts to establish a clear opinion – the economy. Whoops, not so fast!

This past week, two highly regarded economic advisors to President Obama had opposite opinions about the economy. One said the recession is over, the other said "no way." So who is right? We believe the optimist, but recognize that all is not clear. Perhaps, growing up in the somewhat-silent 1950s, we are willing to look at both sides of an argument and come up with the conclusion that things are seldom black or white. We know that after deep recessions, the economy often has a "slingshot effect" and comes soaring back. Also, the leading economic indicators have now risen eight months in a row for the largest eight-month advance in more than a quarter century. We also realize that the labor market remains very soft, and a 10% unemployment rate does not make many folks "feel" like the recession is over. Shake it all up, and we are cautiously optimistic about the economy but pretty enthusiastic about the outlook for corporate earnings in 2010. With all the screaming and unpleasantness going on in our nation, what is a mere-mortal market strategist to do? Our solution – respect the action of the stock market. The past six weeks of churning action in the market has been a gentle way to work off excesses. The message of the market says that stocks are going higher next year. And if our supposed political leaders begin to talk to each other rather than warring, 2010 could be a very good year.

Index Performance Statistics – December 21

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	10414.14	85.25	0.20	18.66	22.23
NASDAQ	2237.66	25.97	1.45	41.89	46.03
S&P 500	1114.05	11.58	0.58	23.34	27.81

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

Sales of Existing Homes Increase More than Forecast

Sales of existing U.S. homes rose more than forecast in November, to the highest level since February 2007, a sign housing is gaining strength along with the broader economy entering 2010.

Purchases increased 7.4 percent to a 6.54 million annual rate from a revised 6.09 million pace the prior month, the National Association of Realtors said Monday in Washington. The median sales price declined 4.3 percent from the same month a year earlier, the smallest decrease since November 2007.

Lower interest rates, cheaper homes and a homebuyer tax credit have resuscitated a housing market that contributed to the worst economic slump since the 1930s. A sustained recovery in housing and the economy depends on a resumption of payroll growth after employers cut 7.2 million jobs in the past two years.

“The tax credit had the intended impact of drawing buyers in and lowering inventory,” Lawrence Yun, chief economist at the Realtors group, said in a press conference. “An estimated 2 million buyers have taken advantage of the credit.”

Last Week

The bulls ran out of gas this week. Initially it seemed the divine bovine had something left in the tank as equities rallied on news Abu Dhabi would bailout Dubai. Markets also reacted favorably to the M&A activity in the energy patch, as Exxon agreed to buy XTO Energy - the company’s largest deal since 1999 when it bought Mobil. However, gains proved to be short-lived as the news later in the week failed to get investors into the holiday spirit.

Specifically, the combination of mixed economic data with disappointing earnings from Best Buy and negative pre-announcement from FedEx made investors proceed with caution. In addition, financials weighed on the market due to several TARP-related equity offerings and rhetoric surrounding credit, interest rates and more stringent regulation. As a result, there was a flight to safety trade that pushed the dollar and Treasuries higher, while stocks and commodities lost ground. Heading into Friday’s quadruple witching, the S&P 500 index was off 1.18% for the week.

Investors are likely to be on cruise control due to the Christmas holiday falling on a Friday this year. The few data points on the economy of note due out next week include updates on housing, personal spending and income, consumer sentiment and durable goods. It will also be a light week on the calendar for earnings releases. Notable tallies come in tech with quarterly results expected from Jabil Circuits, Micron, Red Hat and Tibco Software. Other companies of interest with earnings due out next week include ConAgra, Walgreen’s, Cintas and American Greetings.

Weekly Focus – Think about it

"There is nothing wrong with America that the faith, love of freedom, intelligence, and energy of her citizens can not cure."
~ Dwight David Eisenhower

Best Regards,

Jim, Aaron & Angela
Kennedy Financial Services

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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 12/22/09.

* Sales of Existing Homes: cited from Bloomberg Bob Willis 12/22/09

* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 12/18/09.

* 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.