



## Weekly Commentary December 7, 2009

### The Markets

The expression “pretty is as pretty does” to us means that actions speak louder than words. In the stock market, it means that how the market performs defines how “pretty” it is, not what some folks are predicting. Market action has been very “pretty” since March 9 despite many doubters, economic news that has ranged from mixed to positive, and very troubling international and domestic political environments. As always, we try to respect what the stock market is “doing” and try not to focus on the multiple problems we face. This requires a total deference to the message of the stock market. We must always listen to the stock market and not lecture it. This is not always easy. In fact, as we are writing this Market Commentary we are listening to Nat King Cole sing his version of “You Made Me Love You.” His voice and the words help us focus on the forest (the overall stock market) and not the trees (the many problems).

The market acts very pretty, and that’s why we remain bullish. However, our level of bullishness has to be tempered by many things, such as how far the market has already moved, the level of optimism versus pessimism (which is now a negative) and the fundamentals. In our Market Commentary last week, dated Dec. 1, we advised that, as the “going” had gotten easy the last eight months, it is time to assume a more conservative investment posture. Market action last week supports this advice. The jobs report Friday was a positive surprise. November nonfarm payrolls only declined by 11,000, and the unemployment rate dropped to 10%. This was unexpected good news; the DJIA immediately jumped 150 points but then spent the rest of the session pulling back and ended up only 22.75 points. Of course, this report does not mean the labor market problems are over, but that’s not why the market gave back most of the rally. The reason, in our opinion, was that the market has been in a well-deserved, mild correction for two weeks, and Friday’s action says more of a pause to refresh is needed.

The job market will probably continue to improve – we had previously projected an upturn by next spring. The surge in temporary jobs is an important positive. We hope that this news will reduce the political cries for another stimulus program. The employment report did help the dollar, which had its biggest rally since June. A stronger economy will cause the Federal Reserve to raise interest rates, which helps the dollar. However, we believe a raise in rates by the Fed is probably a year or so off. Commodity prices were hit hard on Friday as the dollar rose. Recently there has been increased talk in Washington about reducing the Federal deficit. So far, the conversation has drifted toward increased taxes, not spending cuts – surprise, surprise. The global situation is not pretty, but market action is. We are thus staying positive but much more conservative and nervous than we were in March. We will be listening to a lot of Nat King Cole’s music.

## Index Performance Statistics – December 7

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	10390.11	1.21	0.01	18.39	16.30
NASDAQ	2189.61	-4.74	-0.22	38.84	39.31
S&P 500	1103.25	-2.73	-0.25	22.14	21.28

Source: Bloomberg

\*Price return — does not include dividends

## Bernanke: Fed Will Make Profit on Bailout

Federal Reserve chairman Ben Bernanke said Monday he's confident the Federal Reserve will make money on the trillions it has pumped into the economy since the start of 2008.

"I think we're in very good shape," Bernanke said, answering questions following a speech at the Economic Club of Washington. "I do believe we're going to get back all the money, and indeed we'll be showing for the taxpayers fairly significant extra income."

Bernanke was referring specifically to Fed programs -- not the Troubled Asset Relief Program (TARP). The U.S. Treasury will likely lose money on TARP, though the Obama administration is expected to announce soon that losses will be \$200 billion less than initially expected.

The Fed has actually pumped far more money into the economy than Treasury did through TARP. Its balance sheet soared to \$2.2 trillion currently, from less than \$900 billion before the financial crisis began in 2008.

## Last Week

This week, the bulls tried their best to take bad news in stride. After the initial sell-off over the Thanksgiving holiday due to the Dubai debt debacle, the market rebounded as both the size and scope were less than original reports suggested. In addition, the Fed's Beige Book viewed as positive as it showed the U.S. experienced modest growth. News that both AIG and Bank of America would pay off government assistance also encouraged investors to believe that things may be on the mend. However, stocks gave back some gains heading into Friday's employment report, as investors were concerned the non-farm payroll number and unemployment rate could come in higher than projected.

Although investors moved beyond the Dubai debt situation, it did serve as a reminder of the risks to investing abroad. As a result, Wells Fargo Advisors Macro Strategist Gary Thayer suggests reviewing one's international exposure to understand the risks they may be taking on. In addition, Thayer notes that the recent weakness of foreign markets could be a more important indicator of investors reducing risk already. As a result, the Advisory Services Group (ASG) at Wells Fargo Advisors recommends an even weight rating to emerging markets on a tactical basis.

Looking to next week, there will be several economic reports of interest. In particular, investors look to the international trade report as well as updates on retail sales and the University of Michigan confidence report for indications the economy is running down the right path. On the Fed front, Chairman Bernanke should have an easier audience than he did on Capitol Hill when

he speaks to the Economic Club of Washington. In terms of earnings, the number of reports slows to a crawl as the pace of the holiday season picks up. Of the limited scheduled releases, retailers Kroger, Costco, Pep Boys, AutoZone, and Lululemon will be of interest. In the tech space, National Semiconductor and Ciena are the notable companies expected to announce quarterly results.

## **Weekly Focus – Think about it**

“Inflation is like sin; every government denounces it and every government practices it.”  
~ Frederick Leith-Ross

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.
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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 12/8/09.
- \* Bernanke Fed will make profit: cited from CNNMoney.com Chris Isidore 12/7/09

\* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 12/4/09.

\* 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.