# Weekly Commentary
# January 11, 2010

## The Markets

There is a situation in the stock market today that has most folks confused − and for good reasons. In life, usually bad is bad, good is good, and the appropriate results usually follow. This is sometimes not the case in the stock market, and it's a personality trait of a bull market that should be respected. For most of the bull market since March 9, bad news has pretty much been ignored, and good news has controlled investors' emotions. This is a strong positive, and we experienced more examples this past week. It was widely anticipated that the jobs data last Friday, Jan. 8, would show an increase in nonfarm jobs created. Instead, 85,000 jobs were lost as our nation continued to shed more jobs than it created. Yes, disappointing news, but the stock market lifted anyway. Bad was not taken as bad. Instead folks looked at the possible bright side.

In this bullish mood, investors decided that, perhaps, it was the very cold weather in December that hurt employment, and that's not unreasonable if you want to think positively. Some stated that the continued soft labor market would keep the Federal Reserve on the sidelines longer than otherwise. Also a reasonable conclusion. However, neither conclusion would have evolved if investors were not in a "half full" rather than "half empty" mood. The potentially tragic bomb threat on Christmas was indeed very frightening but did not shake up investors. A positive light has actually been cast on the horrible attempt as folks are pleased that President Obama acknowledged that the United States is at war with terrorists and appeared to have become more hawkish. At this time, most Americans were comforted by this – bad was good.

This "bad isn't bad" environment shows that investors are looking beyond the valley of problems to positive peaks ahead – that's called a bull market. But, there is always something to worry about and to give the financial media something to talk about. Today there is a great deal of speculation about whether the first half or second half of the year will be a bummer for the stock market. Of course, no one knows for sure. Our opinion, based on current stock market action, is that the market will experience normal time-outs in both halves, not a killer first or second half, and that stocks will be higher by year end. We have previously stated that we believe the labor market will start to show improvement by the spring. If so, both the media and the nervous public will begin to realize that the recession ended last year in the third quarter. Right now, bad being good is a strong bullish personality of the stock market. Bull markets often end when good is bad and bad is bad as it means all the good is already discounted. We see no signs of that condition at this time and remain positive on 2010.

## Index Performance Statistics – January 11

| Index | Close | Day Change | Day % Change | % YTD Change | 52 Wk % Change |
|---|---|---|---|---|---|
| DJIA | 10663.99 | 45.80 | 0.43 | 2.26 | 25.84 |
| NASDAQ | 2312.41 | -4.76 | -0.21 | 1.91 | 50.27 |
| S&P 500 | 1146.98 | 2.00 | 0.17 | 2.86 | 31.80 |

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

# Obama Plans to Raise $120 Billion from Banking Fees

President Barack Obama plans to raise as much as $120 billion through a fee on financial institutions to help recoup losses from the Troubled Asset Relief Program and reduce the deficit, according to an administration official. The White House hasn't settled on the final structure of the fee and how to target the big banks that have returned to profitability, said the official, who requested anonymity.

The plan is to have revenue from the fee dedicated to deficit reduction and to cover the amount that the Treasury Department estimates it will lose from TARP, which is $120 billion. Details will be contained in the fiscal 2011 budget that Obama will submit to Congress next month, the official said. The government's $700 billion rescue plan contributed to a record $1.4 trillion deficit last year. Tax experts, who discussed the possibilities before the President's plan was disclosed, say all of the administration's structural options, which include an income surtax, an excise tax, or a fee pegged on the value of assets or some other measure, are likely to be so porous that financial institutions would be able to sidestep most of them.

"Any new tax is always more complicated than the designers anticipated," said Ed Kleinbard, the former staff director of Congress' non-partisan Joint Committee on Taxation who is now a law professor at the University of Southern California. "When the numbers involved are this large, it's very difficult to design on the fly."

# Last Week

The bulls made it look easy during the first days of 2010. Stocks advanced on better than expected manufacturing reports and retail sales figures for the recent holiday season. Along with the positive economic data, the Fed reiterated it will keep interest rates low and has a number of tools at its disposal to pull back its stimulus efforts. Commodity-related shares got a boost as freezing temperatures sent the price of oil to a 14-month high. As a result, the S&P 500 index was up 2.4% heading into Friday's employment report.

The unofficial start to earnings season kicks off with Alcoa reporting after the close on Monday. Current expectations by Wall Street analysts are for fourth-quarter profits by the S&P 500 index to rise 60% from the same period a year ago, according to Bloomberg. If the index can produce a year-over-year increase in profits for the most recently completed quarter, it will be the first time since the second quarter of 2007. While the prospect of a return to earnings growth is a good thing, the danger is that expectations for this event may be already reflected in stock prices. Therefore, investors will likely want to see better-than-expected results from the companies such as Infosys, WD-40, KB Home Supervalu, Anheuser Busch InBev, Intel and JP Morgan next week to see whether the bar has been properly set.

In addition to the start of earnings season, there will be several economic reports scheduled. On Tuesday, the international trade data is projected to show the deficit widened to $34.8 billion in November from $32.9 billion the prior month. Investors will also look to Wednesday's release of the Beige Book for insight into the economy. Later in the week, there will be updates for retail sales, manufacturing and inflation. To complement the data, there will be several speeches by members of the Fed discussing the economic outlook.

Although the market got off to a good start, it remains to be seen how the song will go for the rest of the year. Barring any unforeseen event emerging, the Advisory Services Group (ASG) at Wells Fargo Advisors anticipates a U-shaped recovery with real GDP growth of 2.5%. More important, given the strong performance in 2009, ASG anticipates more modest returns this year.

## Weekly Focus – Think about it

"Emotions are your worst enemy in the stock market."
~ Don Hayes

Best Regards,

Jim, Aaron & Angela
Kennedy Financial Services



* 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 1/12/10.

* Obama Plans to Raise: cited from Bloomberg by Hans Nichols & Ryan Donmoyer 1/12/10

* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 1/8/10.

* 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.