



## Weekly Commentary February 1, 2010

### The Markets

The expression, "It's the economy, stupid" was widely used during Bill Clinton's successful 1992 presidential campaign against George H.W. Bush. Basically, it means that most folks vote with their wallet. The phrase, coined by James Carville, was meant to indicate that then President Bush hadn't done enough about the economic recession. In politics, the current economic condition is critical to elections. In the stock market, it is and it isn't critical, depending upon the condition of the stock market at that moment. Right now, the data show an economy that is recovering. Fourth-quarter inflation-adjusted gross domestic product increased at a 5.7% annual rate, the largest increase in six years. The Conference Board reported that its January consumer confidence reading increased to 55.9 from 53.6 in December. Consumers are feeling a bit better about the economy because the labor situation shows early signs of recovery.

All is not rosy for the economy -- December existing home sales fell 16.7% after a previous surge in sales. And the big jump in GDP was heavily influenced by less inventory reduction. Without that, GDP would have increased only 2.2%. All in all, the economy is improving, and payrolls due to be reported Friday are expected to show an increase. Back in early March 2009, when the S&P 500 hit bottom, the economic news was still grim. It was the anticipation of a better economy that sparked the big rally. Now the economic news is supporting all that bullishness and stock buying from March through early January. So what has the stock market done lately? The past eight days, the S&P 500 dropped 6.8% and is down three weeks in a row. January was the worst market month since last February.

The old expression, "Be careful what you wish for because it might come true" fits the current stock market correction. For 10 months, investors bought stocks in anticipation of better economic news. The news came, and it was "the economy, stupid" at work, but investor's state of mind and investable cash had changed. Today, it is not the economy that is the problem -- it is the 70% bull run by the S&P 500. Basically, the market needs a time-out; it needs stock prices to drop some more; it needs bullishness to come down, which has already started; it needs a reason for stock buyers to again become aggressive. We have previously advised investors not to get too concerned about a possible normal correction, and that remains our advice. Last week President Obama met with Republicans to, in his words, "end the sour climate in Washington." We would love to see it, as bipartisanship can get things done, but we are not optimistic. Instead, we will rely on the current market correction to again ignite the stock buyer so "it's the economy, stupid" can again be a positive market stimulant.

## Index Performance Statistics – February 1

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	10185.53	118.20	1.17	-2.33	28.33
NASDAQ	2171.20	23.85	1.11	-4.32	45.29
S&P 500	1089.19	15.32	1.43	-2.32	31.95

Source: Bloomberg

\*Price return — does not include dividends

## BNY Mellon to Buy PNC Unit for \$2.3 Billion

Bank of New York Mellon, the largest custody bank said on Tuesday that it would buy an investment servicing unit from PNC Financial Services Group for \$2.31 billion.

New York-based BNY Mellon said the purchase price included \$1.57 billion of stock and repayment of intercompany debt from PNC. BNY Mellon plans to raise about \$800 million in stock as part of the deal.

Pittsburgh-based PNC had been shopping the unit for several months, the Wall Street Journal reported last week. The deal could help the bank repay its \$7.6 billion in bank bailout funds.

## Last Week

After the recent slide, the bulls tried to regain their footing. Market action early in the week was driven by near-term uncertainty surrounding the global economic rebound. Speculation China may further extend its lending restrictions to slow growth sent commodity related stocks lower. Also giving reason for investors to pause were concerns over Greece defaulting on its debt, the future of Federal Reserve Chairman Ben Bernanke and financial reform, and disappointing earnings releases in technology by Qualcomm, LSI Logic and Symantec.

The market was able to regain some of its balance later in the week. Stocks began to recover on Thursday afternoon as the Senate voted Bernanke to a second-term. More importantly, stocks rose after fourth-quarter GDP showed the economy grew at the fastest pace since 2004 and tallies by Microsoft and Amazon.com beat consensus estimates. As of early Friday morning, the rebound helped the S&P 500 index recover the week's losses. Unfortunately, it was not enough to keep the index from finishing January in negative territory.

With limited commentary expected from the Fed next week, the focus will turn back to the economic data. Of particular interest will be the January employment numbers released on Friday. Currently, consensus expectations call for nonfarm payrolls to show 13,000 jobs were created in the month and the unemployment rate to remain at 10%. Also keep an eye on updates for personal income and spending, vehicle sales and factory orders due out during the week.

Despite some disappointing results from the technology sector this week, overall fourth quarter-earnings season has been positive. As of Friday, approximately 79% of companies in the S&P

500 index that have reported earnings have exceeded consensus expectations, according to Bloomberg. Next week will take us through the peak of earnings season with 83 companies in the S&P 500 expected to post results. Some of the notable releases on the calendar include Exxon, Archer-Daniels Midland, Hershey, Aflac, MetLife, Pfizer, Cisco, MasterCard and Kellogg.

## **Weekly Focus – Think about it**

“A bank is a place that will lend you money if you can prove that you don’t need it.”  
~ Bob Hope

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.
- \* This commentary should not be considered 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 2/2/10.
- \* BNY Mellon to Buy PNC Mellon: cited from Reuters 2/2/10
- \* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 1/29/10.

\* 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.