



Weekly Commentary February 16, 2010

The Markets

The stock market has been in a normal correctional phase for four weeks. After the prior 70% run up by the S&P 500 from its March 9, 2009 lows, this time-out should be no surprise. We thus believe there is something much more critical to discuss that is receiving increased attention. It is the government's recently released budget and the red ink that extends as far as anyone can see. Skeptics and sourpuss bears are very negative about the future of America and if nothing is done, they could be right. However, we are reminded of a great poem by T.S. Eliot titled "The Hollow Men" (1925). In it, he states, "this is the way the world ends. Not with a bang but a whimper." America is not a bunch of whimperers who run around in circles, achieving nothing.

America is a land of positive thinkers, of optimists, and entrepreneurs. Optimism is not dead. It has been badly bruised, but is coming back.

We believe there is a revival of "bang" in our society. People are speaking up. Like the Tea Parties or not, they do show a new energy among folks who have been quiet for years. The bad news budget is a product of both the current and the prior administration and it is scary. Moody's, the credit rating agency, warned that the U.S. triple-A sovereign credit rating could come under pressure if our economy does not perform well or other action is not taken to reduce the deficit. The current budget forecast, different from prior ones, does not paint a rosy outlook for the deficit or the economy. If our people just "whimper" along, the long-term outlook for America is not bright. Our nation's history, however, says Americans will start doing whatever "banging" needs to be done to restore our nation to what it has been and can be again.

Wow! It's not even close to July 4 and we are already sounding like Jimmy Cagney in one of our favorite movies, "Yankee Doodle Dandy." Before you call us a cockeyed optimist, look at the history of America and what we have survived since 1776. Yes, we have very serious problems but that's the nature of life, the economy, and the stock market. You know, if we have so many faults, why is immigration such a problem? Frankly, if one is negative on the future of America, they should consider selling stocks that could appreciate if our economy grows. If one is optimistic about America's future, corrections such as the past four weeks create buying opportunities. Yes, we are going through very hard times both domestically and internationally. The good news is that everyone knows this and that is why the market's overall valuation level is very reasonable. We have been keeping the faith in America for 50 years as a professional student of the market and we see no reason to lose that faith now.

Index Performance Statistics – February 12

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	10099.14	Closed	Closed	-3.15	28.64
NASDAQ	2183.53	Closed	Closed	-3.77	42.31
S&P 500	1075.51	Closed	Closed	-3.55	30.07

Source: Bloomberg

*Price return — does not include dividends

Europe Ministers Ready to Force Deeper Cuts on Greece

European finance ministers turned up the pressure on Greece to put its public finances in order, and refused to say how they would make good on a promise to rescue the nation if it can't tame its debt. "We certainly won't let them off the hook," Austrian Finance Minister Josef Proell said today before a meeting of European Union finance ministers in Brussels. His Swedish counterpart, Andres Borg, called for Greece to take more "concrete steps to regain credibility in the markets."

The ministers from the 16 nations that use the euro told Greek authorities yesterday to ready more deficit measures for next month, in case the government fails to show sufficient progress reining in the region's largest budget deficit. After leaders promised to back Greece last week, EU governments are looking for guarantees that Greece can slash spending before they spell out what help they may offer.

Greek borrowing costs rose for a third day today, as the extra interest investors demand to hold Greek 10-year debt instead of German equivalents rose to 326 basis points, compared with 305 basis points yesterday. That's more than twice the difference at the start of November. Credit-default swaps on Greek government debt rose 15.5 basis points to 370 points, according to CMA DataVision prices. "The pressure on Greece has been increased to come up with additional measures by March 16," Proell said. Under stepped-up scrutiny, Greece presents a report on its progress to the European Commission on March 16, followed by regular updates.

Last Week

Greece was certainly the word on Wall Street this week. The market fluctuated on speculation as to whether the European Union would step in to help the nation with its budget deficit. In addition, investors had to contend with wintry conditions on the East Coast and the chilly comments by Fed Chairman Bernanke. During his congressional testimony, Bernanke said the Fed may raise the discount rate "before long" as the Fed prepares to unwind the record stimulus measures pumped into the financial system. The market got back into a groove on Thursday as European leaders finally pledged to help Greece with its budget woes. This news along with a weekly jobless claims report that came in lower than expected helped to lift the S&P 500 index into positive territory heading into Friday's session.

Next week's trading is shortened due to the observance of Presidents Day on Monday. When the markets reopen, there will be several economic data points of interest throughout the week. Along

with updates on housing, inflation and manufacturing, the January index of leading indicators is expected to post its tenth consecutive monthly increase. The Fed also will be busy next week. In addition to Wednesday's release of the January Federal Open Market Committee (FOMC) meeting minutes, Fed presidents Hoenig, Lockhart, Plosser, Bullard and Dudley are scheduled to speak.

The market's preoccupation with Greece has overshadowed a generally positive fourth-quarter earnings season. Since Alcoa kicked things off on Jan. 11, more than 350 companies in the S&P 500 index have released results. Of that number, approximately 76% have posted results above consensus Wall Street estimates, according to Bloomberg. With the European Union's intention to aid Greece, it's possible investors could turn their attention back to the remaining earnings releases on the calendar. Next week's list of companies scheduled to report to keep an eye on include Kraft, Merck, John Deere, Hewlett-Packard, Dell, Walmart and Barrick Gold.

Weekly Focus – Think about it

"There are two times in a man's life when he should not speculate – when he can't afford and when he can."

~ Mark Twain

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 2/16/10.
- * Europe Ministers Ready to Force Deeper Cuts: cited by Emma Ross-Thomas and Agnes Lovasz in Bloomberg 2/16/10
- * Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 2/12/10.
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