



## Weekly Commentary February 22, 2010

### The Markets

Many times we have stated that in the stock market you must listen to the message of the market and not lecture it about what you believe it should be doing. This is hard to do as it represents the suppression of one's own opinion to a much higher source -- the message the market gives by its actual performance. The direction of the market is a product of the mood of investors and how they perceive the fundamentals when they look out a year or so. We have been in a bull market since March 9, 2009, when a bottom was reached and investors started to anticipate an improving economy in a year or so. Well, here we are about a year later, and the bulls were correct. The manufacturing side of the economy has come back pretty solidly. To be reported on Friday, Feb. 25, orders for durable goods probably rose in January, and factories are expected to increase production to replenish inventories.

So far, the economic recovery is pretty classic with the labor market lagging behind. The jump in temporary hiring is a positive, and we believe the labor market has probably bottomed. However, it will be years before we see 5% unemployment. The stock market has been in a fairly muted correctional phase for five weeks. Coming after the 70% leap by the S&P 500 from the March 9 lows, this time-out should have been no surprise. Is the correction over? Well, no one knows for sure. More important, however, is that the message of the market presented by its fairly benign correction is that downside risk is not great and that the bull market is in a time-out, not a top-out.

Everyone knows our nation faces many serious problems both here and abroad. Our domestic political environment is not working well, and the people feel very underserved by most politicians on both sides of the aisle. And yet the stock market continues to act well because our economy is acting well and is recovering from the financial crisis. In recent years, commodities and alternative investments have been very popular, and that is understandable as the S&P 500 during the past 10 years has shown no overall progress. Thus, the idea to buy and hold quality stocks paying dividends is currently not popular. It should be. American industry is recovering. Valuation levels are attractive. Most folks are into instant gratification from exotic asset classes. History has proven that you usually don't make and keep money by chasing popularity. The buy-and-hold-good stocks philosophy is now unpopular, so values are there. The market has been saying this for almost a year. Listen to the market, but don't lecture it. We don't believe in setting a target for the market by year-end but a P/E of 15 times the popular estimate of \$80 a share would put the S&P 500 at the 1,200 area. Market action says that is certainly possible, and the general direction of that projection fits with market action.

## Index Performance Statistics – February 22

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	10383.38	-18.97	-0.18	-0.43	45.94
NASDAQ	2242.03	-1.84	-0.08	-1.20	61.56
S&P 500	1108.01	-1.16	-0.10	-0.64	49.06

Source: Bloomberg

\*Price return — does not include dividends

## FDIC Said Ready Sales of Bonds Backed by Failed Bank Assets

The Federal Deposit Insurance Corp. may start selling bonds tied to the assets of failed banks as soon as next month. Initial offerings may include about \$2 billion of the FDIC's remaining stakes in loans from Corus Bank and Franklin Bank, according to people familiar with the discussions who declined to be identified because the talks aren't public. The debt would be guaranteed by the agency, they said.

The FDIC holds about \$40 billion of assets from seized banks and expects to gather more as institutions continue to collapse after the worst U.S. recession and real-estate slump since the Great Depression, Jim Wigand, an agency official, said. For the FDIC, bond sales could represent an additional way to raise cash from the wreckage, reviving methods used during the early 1990s, he said.

## Last Week

The bulls battled to bring the market back into the black. Stocks saw gains as the news regarding the economy was generally positive as reports on manufacturing and housing reports beat consensus expectations. In addition, the leading indicators index showed economic activity increased for a tenth consecutive month, which helped to offset a disappointing weekly jobs number and earnings miss by Wal-Mart. As a result, the S&P 500 index posted its best three day rally since November.

The Fed has telegraphed its intention to remove stimulus for some time. However, its decision to raise the discount rate by 25 basis points to 0.75% after Thursday's close raised concerns that the economic recovery could slow. Therefore, investors will likely pay attention to next week's Fed speak, particularly Chairman Bernanke's monetary policy update to the House Financial Services Committee on Wednesday. In addition to the comments from the Fed, keep an eye on the data front with scheduled releases on housing, consumer confidence and durable goods orders.

Fourth-quarter earnings season continues to produce positive results. To date, 76% of companies in the S&P 500 index that have reported have beaten consensus expectations, according to Bloomberg. More important, with 80% year-over-year increase in earnings, the index will end its record streak of nine consecutive quarters of negative growth. Looking ahead to next week, the emphasis for profit reports will be on the retailers with scheduled releases by Target, Lowes, Home Depot, Nordstrom and Kohl's. Some of the other notable companies on the earnings

calendar include Campbell Soup, Heinz, Dr. Pepper Snapple, Express Scripts and Newmont Mining.

## **Weekly Focus – Think about it**

“A small loss, when realized, becomes an opportunity for profit elsewhere. It gives you the chance to turn a liability into an asset, instead of just sitting there praying that your old stock will come back.”

~ Martin Zweig

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 2/23/10.
- \* FDIC said to Ready Sale: cited by Jody Shenn in Bloomberg 2/23/10
- \* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 2/19/10.

\* 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.