



## Weekly Commentary February 8, 2010

### The Markets

That old song, “What a Difference a Day Makes, twenty-four little hours” describes today’s stock market mood to a tee – if we change the “hours” to three weeks. As the song states, “there’s a rainbow before me, skies above can’t be stormy” and that was the general mood of the stock market just three weeks ago. Today, confusion and concern are up, bullishness is down. Of course, the cause of this mood flip-flop is the stiff correction. Three weeks ago, the stock market made new highs. Today many are concerned the big bull run from the March 9, 2009 lows was a mistake. Folks, our economy does not change much in a short period. What changes quickly is the mood of investors’ when stocks drop sharply. The recent correction is normal. Stocks cannot go straight up without pullbacks. Several weeks ago, we advised investors not to get too concerned about a possible normal correction. We hope the advice worked.

Aside from having to deal with a correction, investors also were hit with mixed economic news. Economic reports showed that manufacturing is expanding more broadly but the service sector expanded only marginally. Consumer spending remains modest. Then the big news came last Friday, Feb. 5. January nonfarm payrolls declined 20,000 while most were looking for a modest increase. The unemployment rate declined to 9.7% from 10.0% in December, better than expectations. However, the drop was largely due to the fact that many discouraged, unemployed workers have probably stopped looking for work and are thus no longer counted as unemployed. Yes, a mixed employment report but the continued increase in temporary hiring supports our opinion that the labor market will improve by spring.

OK, what has really changed the past two weeks? The big change is that most stock prices are down and fear is up – those are good things. What hasn’t changed is that the economy continues to slowly recover and will continue to do so unless our politicians on both sides of the aisle do some incredibly dumb things – just moderately dumb things the economy can survive. Yes, we continue to have great confidence in the resilience of our economy and the “can do” attitude of most Americans. No one knows how much lower this market will drop or how long it will take before the bull is restarted. What we do know is that the S&P 500 is now selling at about 13.3 times a popular earnings estimate of \$80.00 a share for 2010. We know that alternative assets like bonds do not offer much competition for potential stock purchases. We do know that the time to do some selected buying is when it is uncomfortable to buy and that is what we advise investors to do into additional pullbacks. We believe there “Is a rainbow before me.”

## Index Performance Statistics – February 8

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	9908.39	-103.84	-1.04	-4.98	19.80
NASDAQ	2126.05	-15.07	-0.70	-6.31	33.58
S&P 500	1056.74	-9.45	-0.89	-5.23	21.48

Source: Bloomberg

\*Price return — does not include dividends

## China Becomes Oil ETF's No.4 Holder, Buys SPDR Gold

China Investment Corp., the nation's sovereign wealth fund, invested for the first time in the U.S. Oil Fund, an exchange-traded crude-futures fund, joining Morgan Stanley & Co. and Goldman Sachs Group among the top holders. China Investment became the fourth-largest holder in the Oil Fund by buying 2 million shares, equal to 3.48 percent of the outstanding units, with a value of \$78.6 million, according to a Securities and Exchange Commission 13-F filing posted on Feb. 5. It also took a 1.45 million share stake, or 0.4 percent of the total, in the SPDR Gold Trust worth \$155.6 million.

Chinese miners and oil companies have bought up zinc mines in Australia, oil reserves in Nigeria, and gold deposits in the Philippines to feed the country's demand for raw materials to fuel its economic growth. The \$300 billion sovereign wealth fund pumped about \$10 billion into commodity-related concerns in the second half of 2009.

"It looks like they are aware of their market power in commodity markets and want to hedge against the impact their buying has on commodity prices," said Timothy Condon, chief Asian economist with ING Groep NV in Singapore. "I think the reserves, via the CIC, will be used to hedge the risk of a cutoff of key raw material supplies by buying stakes in commodity producers." CIC's investments through the SPDR Gold Trust are equivalent to 145,000 ounces of bullion, or about 0.4 percent of the 33.9 million ounces China's government maintains, based on data from the International Monetary Fund.

## Last Week

It was another let down for the bulls this week. Initially stocks rallied after the ISM data showed manufacturing expanded at its fastest pace since August of 2004. The market was also encouraged by increases in pending home sales and personal income as well as fourth-quarter earnings from Exxon, D.R. Horton and Lexmark that exceeded expectations. However, the reversal attempt was short-lived.

Several factors contributed to the resumption of the downward trend. The recent Investors Intelligence survey showed that 38.9% of letter writers anticipated a market correction of 10% -- the highest level since April 1984. In addition to a disappointing weekly jobless claims number, there was growing concern the European P.I.G.S (Portugal, Italy, Greece and Spain) will struggle to control their budget deficits. This led the S&P 500 index to slip into negative territory heading into Friday's employment report.

Despite being overshadowed by the European debt debacle, the overall earnings trends have been positive. Since the unofficial start to fourth-quarter reporting season on Jan. 11, 81% of companies in the S&P 500 index that have posted results have exceeded consensus estimates, according to Bloomberg. Furthermore, 69% of reporting companies in the index have bested Wall Street's revenue projections. Next week the pace of scheduled earnings releases slows down with 61 companies in the S&P 500 expected to report. Along with fourth-quarter results, the market action next week may be influenced by the weekly jobs and energy data as well as updates on international trade, retail sales and consumer sentiment.

## **Weekly Focus – Think about it**

“The use of solar energy has not been opened up because the oil industry does not own the sun.”  
~ Ralph Nader

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 2/9/10.

\*China Becomes Oil ETF's No. 4 Holder: cited by Christian Schmollinger & Kyoungwha Kim in Bloomberg 2/9/10

\* Last Week cited from Dean Meehan & Mike Robben, Market Analyst, Wells Fargo Advisors 2/5/10.

\* 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.