

# Weekly Commentary

## March 1, 2010



### The Markets

Shakespeare must have had the year 2010 in mind when he opened the play *Richard III* with the statement that “now is the winter of our discontent.” Yes, discontent has been extreme this winter among investors and most Americans and not simply because of the very cold weather and severe snowstorms. We are often asked how we could have experienced a big market rally in the past year and how we can remain bullish despite all the valid reasons for discontent. Yes, the economy and financial system are on the mend, but progress is erratic. In February, consumer confidence fell to 46.0 from 55.9 in January. The upward revised GDP was not as strong as the number might suggest. On the positive side, January durable goods orders were stronger than expected. On the housing front, prices showed their third monthly increase in major metropolitan areas in December.

The major economic discontent is that the labor market remains very soft. Although we believe unemployment will bottom out this spring, any major improvement is probably years off. Of course, this is not a good thing and will continue to hurt consumer confidence. Probably the greatest discontent among Americans is due to our politicians in Washington. In our 50 years as a full-time market strategist, we have never witnessed such extremely low confidence in our political leadership on both sides of the aisle. The stock market favors gridlock in Washington as folks then believe nothing big will be forced on our nation. Today, partially because of the severe divisiveness in Washington, the fear is that things Americans don't want could be forced on them anyway. Then we have the scandals on both sides of the aisle to further reduce confidence.

Discontent turns to fear when Americans look abroad. The international scene, starting with Iran, remains very scary. The European Union has very serious economic problems, beginning with Greece. Weakness in the euro points out that the problems are serious and obvious to most. Relationships between the United States, China and Russia are not creating any smiles. And to swing back to the good old U.S. A., the health bill has caused a firestorm of discontent and will probably end in a reconciliation attempt in the Senate. The attitude of many folks from all corners of our great country reminds us of the title of that old musical, “Stop the World, I want to Get Off.” So how can the stock market act pretty well and how can we remain bullish past the very short term? The answer is confidence: confidence in the resilience of our economy; confidence in the basic American spirit; confidence that, as our nation has overcome terrible adversity in the past, we will do it again; confidence that after darkness comes light.

### Index Performance Statistics – March 1

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	10403.79	78.53	0.76	-0.23	53.83
NASDAQ	2273.57	35.31	1.58	0.19	71.87
S&P 500	1115.71	11.22	1.02	0.05	59.20

Source: Bloomberg

\*Price return — does not include dividends

## **Twenty-two bank failures this year – and it's only March**

Regulators shut down banks in Nevada and Washington on Friday, marking the 21st and 22nd failures this year of federally insured banks. The pace of bank seizures this year is likely to accelerate in coming months, FDIC officials said this week.

The number of banks on the agency's confidential "problem" list jumped to 702 in the fourth quarter from 552 three months earlier, even as the industry squeezed out a small profit. Banks earned \$914 million, compared with a \$37.8 billion loss in the fourth quarter of 2008, at the height of the financial crisis. Still, nearly one in every three banks reported a net loss for the latest quarter.

The 140 bank failures last year were the highest annual tally since 1992, at the height of the savings and loan crisis. They cost the insurance fund more than \$30 billion. There were 25 bank failures in 2008 and just three in 2007.

The FDIC expects the cost of resolving failed banks to grow to about \$100 billion over the next four years.

## **Last Week**

This week's market fluctuations left investors' heads spinning. Early action saw stocks fall on soft commodity prices and a 10-month low in consumer sentiment. The market recouped some losses on Wednesday after Fed Chairman Bernanke reiterated the Fed's intention to keep interest rates low for as long as necessary. Thursday's trade was particularly whippy. Greece's debt woes along with the disappointing weekly jobs claims data and durable goods orders reports brought red only to find a late session rally recover most of the day's losses. Despite being down for the week as of Friday morning, the S&P 500 index was poised to end the month in positive territory.

Next week's calendar of economic releases could help the market gain traction. Of particular importance is the release of the February employment reports on Friday. Consensus estimates expect the unemployment rate to tick up to 9.8% from 9.7% in January and non-farm payrolls to fall by 50,000. Leading up to the employment report, we will get monthly updates on personal spending and income, manufacturing, vehicle sales, and productivity. Along with the data updates will be speeches by regional Fed Presidents Rosengren, Kocherlakota, Lockhart, and Evans.

On the earnings front, fourth-quarter earnings reports continue to exceed analyst expectations. Of the 445 companies in the S&P 500 that have reported as of Thursday's close, 75% have come in ahead of consensus estimates, according to Bloomberg. For next week's calendar, most of the scheduled releases come from the retail, energy and utility sectors. The notable companies on tap to report include AutoZone, Staples, Costco, El Paso, CMS Energy, and Edison International.

## Weekly Focus – Think about it

“Don’t try to buy at the bottom and sell at the top. This can’t be done – except by liars.”  
~ Bernard Baruch

Best Regards,

Jim, Aaron & Angela  
Kennedy Financial Services

Securities & Advisory Services offered through VSR Financial Services, Inc.  
A Registered Investment Adviser and Member FINRA/SIPC  
Kennedy Financial Services is Independent of VSR.

- \* 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 3/1/10.
- \* *InvestmentNews*, online article, “Twenty-two bank failures this year – and it’s only March”  
<http://www.investmentnews.com/apps/pbcs.dll/article?AID=/20100301/FREE/100309997> 3/1/10
- \* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 2/26/10.
- \* 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.