Weekly Commentary
March 15, 2010

The Markets

Our job as a stock market strategist is to give our opinion of the market and, to the best of our ability, explain why we believe that way. Communication between people is always difficult – some folks just don't agree, some don't want to listen, and some have an opinion that may prove more accurate. As we look at a chart of the S&P 500 Index from its low on March 9, 2009, to today, we see a rising pattern interrupted by a few short-lived pullbacks. It has been a very impressive period for stocks and reminds us of an ideal pattern for a golfer trying to improve his or her game. Golf is a very difficult activity and subject to many highs and lows. We believe investing in the stock market is very similar, and we will attempt to use golf to further explain why we have been and remain bullish on the stock market. Hopefully, you happy people who have not succumbed to the siren song of golf will still be able to understand our points.

On the emotional side, the game of golf has both very high highs and very low lows as scores can rise or drop dramatically for no apparent reason. In the stock market, bear and bull markets do the same thing. After a good round of golf, the worst thing one can do is feel "I've got it now." After a long bull run, many investors get all excited and become more aggressive just when they should become more realistic. After a poor round of golf, depression rises, and golfers get grumpy. What they should do is have the golf pro take a look at their swing to see what the problem is. After a bad stock market period, many investors become depressed and swear off the market. However, that is just the time to talk to their market professional and learn that the best time to buy stocks is when you and most everybody is depressed -- remember the mood on March 9, 2009?

In golf, if you make a bad shot, forget it and move on as quickly as possible. The pros are good at this; we weekend golfers are not. In the stock market, if you made a bad purchase, sell it and forget it. Now to the mental game. Many great golfers believe the game is somewhere between 80% to 90% mental – you have to trust the club, swing smoothly, and not think about anything except taking the club back and letting it go. For a long time we have stated that we believe the determinant of the direction of the stock market is 90% mental. Fundamentals are, of course, important, but more critical is how the fundamentals are interpreted, and this is based on the mood of the market. For example, retail sales and the mood of consumers say that the economy is recovering moderately, and yet we have had one big rally. Why? Because the mental, or mood side, of investors says that the U.S. and global economies will perk up. The stock market has very strong bullish momentum that must be respected. In golf, positive momentum is to be cherished while it lasts. We remain bullish but have to dash as we tee off in an hour.

Index Performance Statistics – March 15

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	10642.15	17.46	0.16	2.05	47.46
NASDAQ	2362.21	-5.45	-0.23	4.10	68.25
S&P 500	1150.51	0.52	0.05	3.18	52.61

Source: Bloomberg
**Price return — does not include dividends*

Greece Gets EU Financial Lifeline Pledge

Europe's blueprint for a financial lifeline to Greece amounts to an unprecedented bet by finance ministers that they can avert a euro crisis by sidestepping the no-bailout rules intended to sustain the 11-year-old currency. Improvising their way through the euro's harshest test since its debut in 1999, officials meeting in Brussels late yesterday and today worked out a strategy for emergency loans in case Greece's plan for 4.8 billion euros ($6.6 billion) in tax increases and wage cuts fails to stave off fiscal disaster.

German bonds, Europe's benchmark, slipped amid concern that the stopgap solution will leave the euro area's $12 trillion economy with the same muddled management system that failed to prevent Greece's slide toward the fiscal abyss. "What they are working on is the bare minimum," said Philippe Moreau Defarges, a researcher at the French Institute of International Relations in Paris. "It's all very ad hoc. The crisis isn't over. There's an element of just crossing their fingers, hoping the crisis won't spread."

Last Week

This week Wall Street took a stroll down Memory Lane. Bulls spent the time recounting the run from the market bottom made a year ago while the bears reminisced about the fact it's been a decade since the top of the dot-com bubble. In between the nostalgia, the market tried to get back to the Jan. 19 high on expectations of a resolution to Greece's deficit woes and positive data suggesting the continued recovery of the U.S. economy. Speculation that healthcare reform would stall offset Thursday's early weakness due to an uptick of China's inflation to a 16-month high and concerns it could spur the central bank tightening, thereby curtailing growth.

Recently, Wells Fargo Advisors' Chief Macro Strategist Gary Thayer outlined the bull and bear cases for the S&P 500 to break out of its four-month trading range. In his opinion, in order for the index to make a sustained advance above the Jan. 19 high, the economic data will need to indicate the recovery is stronger and broader than current expectations. Other bullish signals would be an increased investor risk tolerance coupled with foreign markets resuming their rallies. Conversely, Thayer thinks the market could break below the February lows if more countries encounter problems similar to those of Greece, a spike in commodity prices curbs discretionary spending, central banks reduce liquidity and tighten credit, and a rise in commercial real estate problems sparks fears of a double-dip recession.

Given the current situation, next week's data will be important. Better-than-expected updates on manufacturing and housing would strengthen the bullish case. Because the Fed's message has been for interest rates to remain low for an extended period, investors do not expect a change at the conclusion of the FOMC meeting on Tuesday. However, attention will be paid to the statement and what language it uses to describe the economic outlook. Later in the week, analysts estimate a modest sequential increase in the inflation readings and the leading indicators index to rise for an eleventh consecutive month. Earnings releases from Discover Financial, Nike, FedEx, GameStop and Ross Stores should provide further insight on discretionary spending. Lastly, we could see added volatility with the start of March Madness and options expiration at the end of the week.

Weekly Focus – Think about it

"It's a recession when your neighbor loses his job; it's a depression when you lose yours."
~ Harry S. Truman

Best Regards,

Jim, Aaron & Angela
Kennedy Financial Services

* 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 e consider 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 3/16/10.

*EU Paves Way to Aid Greece: cited by James Neuger & Mark Deen Bloomberg 3/16/10

* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 3/12/10.

* The opinions expressed here reflect the judgment of the authors as of the date the report and are subject to change without notice.

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