

## Weekly Commentary March 22, 2010



### The Markets

Well, like it or not, we are living through historic times. The passage of President Obama's health care bill will affect 310 million Americans and 17% of our economy. However, we suspect there is more to come as there appears to be several questions that could alter the bill and cause it to be sent back to the House. Also, some believe parts of the bill may be unconstitutional. Much more on this over the coming weeks and months.

Now, back to the reality of the stock market today. No question, the very positive action of the stock market for over a year and during the last six weeks in particular has many scratching their heads. We are often told by serious investors that the market shouldn't be going up. Well, this is where humility comes in and is critical to successful investing. In our opinion, what you see is what you get, and what we have seen for a year is a solid market advance that is saying we are just starting a global economic recovery. The economic data supports this opinion. Last week, the February leading economic indicators index increased 0.1%, following a 0.3% gain in January. This marks the eleventh straight monthly increase in the index and suggests the recovery will likely continue at least through the summer. Both China and India have taken steps to cool off their strong economies. Yes, economic expansion is happening, and the stock market knew it before the data showed up.

The economic recovery in the United States is slow but fairly steady. The Federal Reserve said we are in an economic recovery but there will be no near-term hike in interest rates as inflation remains low. This was music to the ears of investors. This news helped spark a rally in the S&P 500 last week for a third week in a row of advance for that index. The Fed appears to believe the economy will achieve a gradual increase in resource utilization and growth. A "steady Eddie" economic recovery is preferable to rapid growth as it does not build up the excesses that can cause its early demise.

No one knows for sure what our nation's health care system will look like long term. The big question is its impact on the economy. James Carville, President Clinton's campaign strategist, got it right when he said, "It's the economy, stupid." He was talking about the election cycle, but it describes the stock market to a tee. The reason the market has done so well during the past year despite many serious problems and uncertainties is that the market saw a good economic recovery ahead. If the economy does well and corporate earnings go up, the stock market historically has done well long term. The stock market is never a one-way street for very long. After all, if stocks only went up, no one would sell, and there could not be a stock market. The future is always unknowable, so we will stick with what we see, and for now that remains positive.

## Index Performance Statistics – March 22

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	10785.89	43.91	0.41	3.43	38.71
NASDAQ	2395.40	20.99	0.88	5.56	53.97
S&P 500	1165.81	5.91	0.51	4.55	41.67

Source: Bloomberg

\*Price return — does not include dividends

## Obama Signs Landmark Bill Overhauling US Healthcare Policy

President Barack Obama signed into law a sweeping rewrite of U.S. health-care policy that will touch every American and affect one-sixth of the economy, marking a victory that appeared beyond reach two months ago. “Today, after all the votes have been tallied, health insurance reform becomes the law in the United States of America,” Obama said before putting his signature on the measure. He called it “a new season in America.” The East Room, the largest in the White House, was packed for the ceremony with Democratic lawmakers who supported the bill and advocates for the cause of revamping the health-care system. They included Victoria Kennedy, the widow of Senator Edward Kennedy, who made enacting the legislation one of his central goals.

Obama spent a year and much of his political capital pushing the legislation through Congress. That struggle, which some Democrats have compared to the fight for civil rights legislation in the 1960s, is likely to shape Obama’s presidency as well as the makeup of Congress next year. The law passed Congress without getting a single Republican vote, a partisan divide promises to make health care the defining issue in November’s elections. The new law, phased in over several years, extends coverage to tens of millions of uninsured Americans, imposes new taxes on the highest wages earners, calls for fees on health-care companies, provides hundreds of billions in Medicare savings and would cost almost \$1 trillion.

## Last Week

The market continued to climb the wall of worry. Stocks advanced after the European Union said it would provide Greece with an emergency backstop and Standard & Poor’s maintained the country’s investment-grade credit rating. Bulls also got a boost when the Federal Reserve reiterated its accommodative stance on interest rates following Tuesday’s FOMC meeting. Readings on inflation corroborated the Fed’s position while the leading indicators index rose for the eleventh consecutive month and pointed to a moderate improvement in economic conditions. As a result, the S&P 500 index extended its advance to reach its highest level since October 2008 this week.

Up to this point, the meat of the data reports on the economy has been positive and helped spur the rally. However, the economic improvement will likely need to strengthen as well as broaden if the recent advance is to continue. Therefore, a key ingredient could be that existing and new home sales reports come in better than consensus expectations next week. In addition, economists project a modest increase for February’s durable goods orders, the final reading on fourth-quarter GDP to remain at 5.9% and the second look at the University of Michigan Sentiment reading to come in at 73.0.

Along with next week's data releases, investors will likely be interested in both Fed President Yellen's speech in Los Angeles on the economic outlook and Chairman Bernanke's testimony on Capitol Hill regarding the central bank's stimulus exit strategy.

March is quickly coming to an end which means the start of first-quarter earnings season is not far behind. Current expectations are for the S&P 500 index to experience 37% year-over-year growth in profits, according to Thomson Reuters. Due to the easier comparisons over last year, the hurdle for the financial sector is low. As a result, it is projected to experience the highest growth of all the sectors in the index. Next week there are a number of companies scheduled to report that could give an indication of what's in store when earnings season unofficially kicks off with Alcoa on April 12. This would include retailers Tiffany's, Walgreen's and Best Buy; consumer staples names General Mills, ConAgra and McCormick; and Adobe, Paychex, Red Hat, Accenture and Oracle in the tech sector.

## **Weekly Focus – Think about it**

"Formula for success: Rise early, work hard, strike oil."  
~ Jean Paul Getty

Best Regards,

Jim, Aaron & Angela  
Kennedy Financial Services

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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.

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- \* Past performance does not guarantee future results.
- \* The Markets prepared by Al Goldman, Chief Market Strategist, Wells Fargo Advisors 3/23/10.
- \* Obama Signs Landmark Bill: cited by Roger Runningen 3/23/10
- \* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 3/19/10.
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