

Weekly Commentary

March 8, 2010



The Markets

Making and keeping money in the stock market is not easy. If it were, everybody would be rich, and who would do the work? Investing in the stock market is a contact sport waged between an investor's perception of fact and fiction. And of course, how one analyzes fact and fiction is based on each individual's mood and personality. Some folks are in the glass-is-half-full group while others are in the opposite camp. Each group deals with fact and fiction based on their personality. Market action the past two months has created a lot of fact and fiction. During the first month, the S&P 500 dropped 8%. During the second, the market gained back about all of its decline. This raises a big question – has the market worked off the excesses created by the prior 70% jump in the S&P 500 that started March 9, 2009, or do we need more correction to restart the bull?

In an attempt to answer that question, let's analyze as best we can the fact and fiction of today's market environment. First, the facts. The big fact is that the stock market has acted very well during the past month as it rallied back up to recent highs despite many obstacles and uncertainties. That is a fact that even a bear can't deny. A negative fact is that complacency is way up, and mutual fund cash reserves are way down, according to the Investment Company Institute (ICI). Also, the recent rally has been on very light volume, which reduces the credibility of the rally. Another not-so-positive fact is that the market rallied six days in a row, which is often enough for the short term. The big fundamental facts are that the manufacturing sector is expanding while the labor market continues to contract.

Now, what about the fiction we all have to contend with? By fiction, we don't mean imaginary things but rather things off in the future that no one can be sure of at this time. In that category, we have the opinion of some that the economy will soon drop back into recession, and it could, but that is not the trend in place. Probably the major concern about the future in the minds of Americans is whether our growing fiscal deficit will bankrupt our country? The short-term trend in this area is scary, but the longer-term look back says our nation has always righted itself after serious problems. It is no fiction that our nation is in a very negative, divisive mood. This may not change soon, but the stock market can still do well as long as the economy does well. There is no simple key to success in the stock market. However, we believe the best guide is the "fact" of how the market acts and not the "fiction" of what might or might not happen in the future.

Index Performance Statistics – March 8

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	10552.52	-13.68	-0.13	1.19	61.18
NASDAQ	2332.21	5.86	0.25	2.78	83.84
S&P 500	1138.50	-0.20	-0.02	2.10	68.29

Source: Bloomberg

*Price return — does not include dividends

Stocks Surge One Year After the Lows

Stocks gained Tuesday, one year after what many consider to be the bottom of the bear market. On March 9, 2009, the Dow ended at a 12-year low of 6,547.05, as months of stock weakness in response to the financial market crisis pushed the blue-chip average to its nadir. Since then, the Dow has gained 61.2% through Monday's close, ending at 10,552.52. In the same time period, the S&P 500 gained 68%, bouncing off of 12-1/2 year lows. The Nasdaq's gain of 84% was off of six-year lows. The gains were fueled by bets on an economic recovery and the impact of trillions of dollars of government stimulus injected into the system.

But the pace of the advance has slowed this year, as investors have gone from pricing in an economic recovery to waiting for evidence that the recovery has legs. A still-abysmal job market and ongoing weakness in housing and consumer spending have dragged on sentiment. Worries about a European debt crisis and the impact of China slowing its growth have also been in play. But the ongoing skepticism of the so-called average investor, or retail investor, continues to give the market some support.

Last Week

This week the bulls took the lead and never looked back. Setting the positive tone was better-than-expected consumer spending, retail sales and preliminary reads on unemployment. In addition, Greece's plan to reduce its budget deficit and subsequent debt offering alleviated investors' concerns of the country's problem spreading to the rest of Europe. News on the M&A front provided a boost as both Millipore and OSI Pharmaceuticals received takeover bids and AIG sold its Asian insurance unit to Prudential PLC for \$35.5 billion. With the smaller than expected decline in job losses on Friday, the S&P 500 index was poised to extend its winning streak to six days. More important, the index recovered most of the losses from the recent correction to put it back into the plus column for the year.

If not for the one-year anniversary of the market bottom, it would be pretty quiet next week. With fourth-quarter earnings season on the books, the calendar does not pick up again until April 12 when Alcoa reports. On the economic front, Thursday's release of the January Trade Balance is expected to widen to \$41.0 billion from \$40.2 billion in December. Despite the bad winter, February same-store sales came in better than expected this week and could bode well for positive retail sales figures on Friday. Also on Friday, analysts project the preliminary University of Michigan consumer sentiment for March to see a modest improvement from the prior reading. Expect speeches by Fed presidents Evans and Dudley to reiterate the central bank's intention to keep rates low for the foreseeable future. Given the issues with Greece, comments by European Central Bank President Jean-Claude Trichet should garner interest when he speaks at Stanford University on Friday.

Weekly Focus – Think about it

“Nothing is more fatal to health than an over care of it.”
~ Benjamin Franklin

Best Regards,

Jim, Aaron & Angela
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- * 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.
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