Weekly Commentary
April 12, 2010

The Markets

April 15 is upon us with its usual gloom and uncertainty. Yes, it remains one of the two things in life that we can rely on. It is a fact; it is known and thus no surprise to investors. Our nation will face another fact of life on Jan. 1, 2011, when the Bush tax cuts expire. April 15 is a known event; Jan. 1 holds a ton of uncertainties and thus will probably be a major negative for the stock market, perhaps by the fall and reaching a crescendo by year end. This prospect may not cause serious problems for this bull market, and recent market action says not to worry about it at this time. So why discuss it now? Well, as we stated last week, it is what you don't know that can hurt the market. Perhaps by thinking about the Bush tax cut expiration some eight months early, we can reduce its potential negative impact. This is particularly true if the economy continues to recover.

No one knows what the Congress will do to the Bush tax cuts. If they are simply allowed to go away, dividends would go back to being taxed at ordinary income rates and the maximum capital gains rate would return to 20% from 15%. We believe this development would be quite negative for the economy and the stock market. As the economy will still probably be in a fragile condition at year end, the tax cuts could be extended for a year. And there is the possibility that some adjustments will be made so that the effects of the expiration will not be as severe as they would be otherwise. The timing of Congressional action is also unclear. Politicians may not want to touch taxes before the November elections or the Democrats may believe that before the election they will have more power.

We are not sadistic, and we don't want to push this tax thing on our readers, just because it's causing us to lose sleep. There has been little talk about the Jan. 1 expiration, but it will pick up by late summer. We want our readers to be prepared because we all know the market hates uncertainty. The very good news is that the economy is recovering, the labor market outlook is improving and the market is selling at reasonable valuation levels. Most critical, the market is acting very well. Our economy and stock market have often adjusted to major changes, and higher taxes in the 1990s did not stop the bull market from following the good economy. Market action has been very strong for nine weeks, and stocks are stretched out. A pause-to-refresh is likely soon. The Bush tax cut expiration may not be added to the wall of worry for several months, and then, perhaps, some of the uncertainties will be cleared up.

Index Performance Statistics – April 12

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	11005.97	8.62	0.08	5.54	36.59
NASDAQ	2457.87	3.82	0.16	8.32	48.66
S&P 500	1196.48	2.11	0.18	7.30	39.33

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

Trade Gap Widens More Than Anticipated on Imports

The trade deficit in the U.S. widened in February more than anticipated as Americans bought more foreign-made televisions and computers, illustrating the rebound in economic growth. The gap increased 7.4 percent to $39.7 billion from a revised $37 billion the prior month, the Commerce Department said today in Washington. Imports climbed 1.7 percent, outpacing a gain in exports that pushed sales abroad to the highest level since October 2008.

The global recovery from the worst economic slump in the post-World War II era means imports and exports will probably keep growing in coming months. Rising surpluses with emerging economies in Asia and Latin America point to gains in overseas demand that is giving companies like General Electric Co. and Dow Chemical Co. a boost. “The pickup in imports speaks to the breadth of the recovery,” said Michael Feroli, chief U.S. economist at JPMorgan Chase & Co. in New York, who projected the gap would widen to $39.5 billion. “The deficit should narrow a little from here over the next year or two because it does look like foreign growth is pretty strong.”

Last Week

Don’t write the rally off just yet! The week started off strong as more positive economic data made the scene. Stocks were bid up after the March non-farm payroll report that showed the largest job increase in three years. Further signs of growth in the service sector and improvement in home sales also were encouraging. But the market got penalized on Wednesday as the Greek tragedy continued to play out in Europe and U.S. consumer credit declined more than expected. The decline was short-lived as positive same-store sales numbers by retailers on Thursday set the S&P 500 index up for a nice return for the week heading into Friday’s trading session.

Along with the Taxman comes a plethora of economic data next week. Key releases begin on Tuesday with the monthly trade balance report, which is expected to show the deficit increased to $39.0 billion from the previous reading of $37.3 billion. On Wednesday, consumer prices are projected to show a modest increase of 0.1% sequentially while the retail sales figures will be watched to see how early filers saved or spent their tax returns. Also, be careful not to write-off the housing starts and confidence readings at the end of the week. Complementing the bevy of data points are a number of speeches by Fed officials. Of particular interest will be Tuesday's Congressional testimony by Fed head Ben Bernanke regarding the outlook for the economy.

In addition to the government bean counting, first-quarter earnings season begins Monday with Alcoa reporting after the close. Current consensus estimates call for S&P 500 earnings to increase 36% along with a 10% rise in revenues over the same period a year ago, according to Thomson Reuters. At the sector level, financials are expected to report the largest increase in earnings growth while energy is estimated to see the best year-over-year improvement to the top-line. In addition to Alcoa, earnings filings likely to receive audits by investors next week include Fastenal, Infosys, Talbots, Intel, JP Morgan, YUM! Brands, Advanced Micro Devices, Google, Bank of America and General Electric.

Weekly Focus – Think about it

"The hardest thing in the world to understand is the income tax."
~ Albert Einstein

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 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 4/13/10.

* Trade Gap Widens: cited by Bob Willis Bloomberg 4/13/10

* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 4/9/10.

* 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.