Weekly Commentary
April 19, 2010

The Markets

Friday, April 16, the stock market was hit very hard, and the media blamed Goldman Sachs as federal regulators filed civil fraud charges against the company. Yes, the stock market was "sacked" Friday, but Goldman Sachs was not the real reason in our opinion. The stock market is very similar to human beings. Doctors tell us that when our bodies are run-down, we are vulnerable to disease. Well folks, when the stock market has rallied 14% in only 10 weeks and the bulls' energy is run-down, it also is vulnerable to disease. The Goldman Sachs news provided the excuse, but the preconditions for a pullback were already in place. We stated in our Market Commentary dated April 13 that "a pause-to-refresh is likely soon." Friday's big sell-off probably reversed the upside momentum and started an overdue correction. The news also will further hurt folk's opinion of Wall Street and enhance the general negative mood about the financial sector.

OK, so what should investors do now? Most critical is to remain long-term bullish. The economic fundamentals show that the economy is continuing to recover and inflation remains low. Manufacturing continues to expand, and retail sales showed the strongest monthly increase since last November. The prospects are still for moderate growth as the labor market remains soft, housing is still weak, and consumers and small businesses continue to have limited access to credit. One new positive is that the federal deficit is improving. The flip side is that this might increase complacency about reducing the deficit. Another result of the Goldman Sachs situation is that the odds of financial reform have probably increased.

Our big bull run that started March 9, 2009, was fueled by institutions and not the public. Institutions can't watch the market go up without doing some buying. In like fashion, they do some selling when others do – yes, the old lemming syndrome. Thus, we look for Friday's drop, and tired market action the prior week, to herald the start of a moderate correction. We advise withholding some buying power for better opportunities out several weeks. Our caution is short-term, not long-term, so we will be looking to do selected buying as prices improve. We believe April showers will bring May flowers. We do not believe in that old bearish advice to "sell in May and go away." That bromide surely did not work last year. Last week in our Market Commentary we also stated that the market was causing us to lose sleep and that we would remain bullish but cautious unless market action deteriorated. Well, it has, and thus our advice goes from short-term cautious to short-term sit on your hands and hold some cash. We do not look for the stock market to be "sacked" big time, but we do see a normal correction that will improve the bull's health.

Index Performance Statistics – April 19

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	11092.05	73.39	0.67	6.37	41.45
NASDAQ	2480.11	-1.15	-0.05	9.30	54.22
S&P 500	1197.52	5.39	0.45	7.39	43.87

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

IMF Says Government Debt Poses Biggest Risk to Growth

The International Monetary Fund cautioned that rising government debt has replaced financial industry stress as the biggest threat to the global economy and cut its estimate for asset write downs by 19 percent. Banks reduced the value of loans and securities by $2.28 trillion since 2007, two-thirds of which had been realized by the end of 2009, down from the IMF's October estimate of $2.81 trillion, the fund said today in its Global Financial Stability Report. About 39 percent of the write downs were in U.S. banks, 29 percent in the euro area and 20 percent in the U.K., the IMF said.

While the global economic recovery has "gained steam" and risks to the financial system have subsided, concerns are rising for sovereign debt issued by advanced countries that bailed out banks, the IMF report said. Governments need "credible, medium- term" plans to reduce deficits and some nations need to do more to revive the flow of credit and boost growth.

"The deterioration of fiscal balances and the rapid accumulation of public debt have altered the global risk profile," the IMF said. "Vulnerabilities now increasingly emanate from concerns over the sustainability of governments' balance sheets."

Pacific Investment Management Co., manager of the world's largest bond fund, earlier this year identified the U.S., Italy, France, Greece, Japan and the U.K. as economies sitting in a "ring of fire." Each has debt above 90 percent of gross domestic product or the potential for it to rise there soon, slowing economic growth, Pimco said.

Last Week

Since the end of the pullback on Feb. 8, stocks have been on a wild wooly and bully ride. The divine bovine continued its advance this week as the European Union offered a rescue package to Greece in an effort to restore confidence in the region. Also helping the market reach 18-month highs were positive earnings and economic news that hit the tape. Better-than-expected results by Intel, JP Morgan, CSX and UPS overshadowed Alcoa's disappointing start to earnings season. Increases in retail sales and industrial production and Wednesday's release of the Fed's Beige Book showed further improvement in the economy. In addition to the positive data, Fed Chairman Ben Bernanke reiterated to Congress that the jobless recovery and low inflation environment would keep interest rates low for "an extended period."

As a result, the S&P 500 index climbed above 1200 and the Dow Jones Industrial Average rallied over 11,000 – the first time since September 2008.

Bull markets don't get wooly, they get weary. Two contrarian sentiment indicators recently suggested the potential for the latter in the near term. First, the Investors' Intelligence poll showed bulls increased to 51.1% from 48.9% while the bears stayed at 18.9%. In addition, those anticipating a correction dipped to 30% from 32.2%. The other contrarian signal to emerge was the magazine cover indicator, which says the end of a theme or trend could be close when it makes the cover of a major magazine. Therefore, this week's cover of Newsweek that touted "America's Back!" was viewed by some as a possible bearish omen.

A more likely impediment to the rally would be if first quarter earnings season is disappointing. Current consensus estimates project the S&P 500 index earnings to increase 37% on a year-over-year basis, according to Thomson Reuters. If better-than-expected reports from Intel, JP Morgan and UPS are any indication, then the S&P 500 index is on track for its second consecutive quarter of positive earnings growth. However, the tone could change quickly if the start to the peak weeks of earnings releases fails to live up to the rising tide of investor expectations as seen with Google's earnings, which were solid but below the high-end of analysts' estimates.

It will be a particularly important week for the financials. Given the consensus projections for the sector to experience a 205% annual increase in profits, things could get hairy if tallies from the likes of Citigroup, Goldman Sachs, Morgan Stanley, US Bancorp, American Express and Bank of New York come in below the bar set by JP Morgan. There will also be action in the tech sector. Improvement in the sector's relative underperformance this year versus the S&P 500 index could occur if Microsoft, International Business Machines, Qualcomm, Yahoo! and Seagate Technology can follow Intel's lead and Apple releases an iPositive report. Other potentially market-moving earnings updates next week include Halliburton, Illinois Tool Works, AK Steel, Freeport-McMoRan, Harley Davidson, AT&T, Verizon, McDonald's, Air Products, Schlumberger, Ford and Xerox.

While first-quarter earnings ramp up, the economic calendar slows down next week. That said, Monday's release of the leading indicators index is expected to show the economy expanded 1% in March and for 12 consecutive months. Following a benign consumer price index report this week, Thursday's release of the March producer price index is estimated to increase 0.6% sequentially. Positive updates on existing and new home sales slated at the back end of the week would be a welcome sign the recovery is broadening. After a busy week, the Fed will be relatively quiet until the April 28 Federal Open Market Committee (FOMC) Meeting with only Fed Chairman Bernanke and Chicago president Evans on Monday and Vice Chairman Kohn slated to speak next week.

Weekly Focus – Think about it

"Bank failures are caused by depositors who don't deposit enough money to cover losses due to mismanagement."
~ Dan Quayle

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 4/20/10.

* IMF Says Government: cited by Sandrine Rastello Bloomberg 4/20/10

* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 4/16/10.

* 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.