# Weekly Commentary
# April 26, 2010

## The Markets

Market action lately reminds us of that great musical, "Fiddler on the Roof." The fiddler played his instrument on a most precarious place, a roof, and danced while he played. The stock market has been playing a bullish tune for 11 weeks and seems unconcerned about how high up it is and for how long it has been dancing. Both the fiddler and the stock market showed great energy. Describing the fiddler's activity, the song states that "it may not mean a thing, but then again it might!" So, we ask, what does this stock market activity mean? In our "Market Commentary" last week, April 20, we said that the market had probably started a "moderate correction." This past week the market not only stayed up on the "roof" but actually rose moderately to a new recovery high for both the DJIA and the S&P 500. One thing the market told us is that it still has some energy left.

The S&P 500 is up 16% in 11 weeks. That tells us loud and clear that the big picture remains bullish, and we continue to agree. It says that the economy continues to recover. Last week, the March leading economic indicator index increased for the 12th consecutive month, rising 1.4% following a 0.4% increase in February. Inflationary pressures remain benign as the core PPI, excluding the volatile food and energy components, increased only 0.1%. March existing home sales jumped 6.8%, and new home sales surged 26.9%. Both were helped by better weather and the upcoming end of tax incentives on April 30. Adding to our comfort with the longer term outlook for the stock market is a reasonable price/earnings multiple of 15.6 for the S&P 500 earnings this year. And the market is already looking into 2011, when earnings should be higher.

The market's message about the short-term is less clear. We know that bull markets surprise on the upside as this one has done for more than 13 months. We also know that Wall Street is not a one-way street and that corrections are simply part of the deal when one buys stocks. Should we just assume that the market's (and the fiddler's) legs will never tire and get off our advice to withhold some cash? Flashing a short-term amber light is no fun for us as long-term bulls, but sometimes it makes good investment sense. Is this one of those times? Well, no one knows for sure, but until we see a real pick-up in momentum rather than a tired market that still hangs in there, we will stick with our "sit on your hands" advice. We would not sell attractive stocks. We would remain bullish. But we would recognize that "Fiddler on the Roof" is a musical and not real life. The stock market is real and not a place of unending pleasure.

## Index Performance Statistics – April 26

| Index | Close | Day Change | Day % Change | % YTD Change | 52 Wk % Change |
|---|---|---|---|---|---|
| DJIA | 11205.03 | 0.75 | 0.01 | 7.45 | 39.63 |
| NASDAQ | 2522.92 | -7.20 | -0.28 | 11.18 | 50.23 |
| S&P 500 | 1212.05 | -5.23 | -0.43 | 8.69 | 41.35 |

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

# Treasury May Begin Selling Citigroup Shares Today

The U.S. Treasury Department may start selling its 7.7 billion Citigroup Inc. shares as soon as today, in the biggest step since December to wean the bailed-out bank off government support. The Treasury has initially granted underwriter Morgan Stanley authorization to sell 1.5 billion of the shares, New York-based Citigroup said today in a registration statement filed with securities regulators. The filing allows Treasury to begin selling immediately, said two people with knowledge of the matter, who declined to be identified because they weren't authorized to comment beyond the public statements.

Citigroup had to get a $45 billion bailout in late 2008 when it almost collapsed. Chief Executive Vikram Pandit has taken steps to end the bank's use of government support, while President Barack Obama says he wants to recoup "every single dime" of taxpayer money from the $700 billion Troubled Asset Relief Program used to provide bailout funds. "We're putting TARP out of its misery," Treasury Secretary Timothy F. Geithner said in an interview with CNN television aired yesterday. "This is going to cost us much less in fiscal terms than even the S&L crisis," he said, referring to the collapse of savings and loan banks in the 1980s and 1990s. The bank's shares fell 25 cents, or 5.1 percent, to $4.61 as of 4 p.m. in New York Stock Exchange composite trading. Based on that price, the Treasury's overall stake has a value of about $36 billion, for a paper profit of $11 billion. The government got the shares by converting $25 billion of bailout money into common stock at $3.25 each.

# Last Week

Ash-filled skies may have grounded air travel but not the bulls, as first-quarter earnings season continues to exceed expectations. Positive tallies from the likes of Apple, Morgan Stanley and Boeing helped to offset the recent negative news that hit the tape. Specifically, the bulls were able to avoid the falling debris from the SEC's civil suit charging Goldman Sachs with fraud and concerns over Greece's widening budget deficit. As a result, the S&P 500 index headed into the final week of April on pace to record its third consecutive monthly gain.

"Volcanic" activity by the bears remains dormant. However, one of Wall Street's popular geological instruments for the market has begun to register more bearish activity recently. This week, the needle on the Investors' Intelligence poll, which is a contrarian indicator, showed the percentage of bulls increased this week to 53.3% from 51.1%, while the number of bears declined to 17.4% from 18.9%. Although this does not mean the market can't rally further, investors might want to keep an eye out for the bullish crowd moving to greater extremes.

First-quarter earnings season has gotten off to a good start. To date, 85% of companies in the S&P 500 index posted results ahead of analyst projections, according to Bloomberg. If that pace continues, it will mark the largest percentage of better-than-expected earnings reports since 1993. That pace will be tested with scheduled releases from 152 companies in the index coming to the surface next week.

As the best-performing sector year-to-date in the S&P 500 index, profit tallies from industrial bellwethers 3M, Northrop Grumman, Owens-Illinois and Caterpillar will garner attention. In the financials, the focus shifts from banks to insurers with AFLAC, MetLife, XL Capital, Lincoln National, Hartford Financial and Allstate slated to post results. It will also be a big week for the energy patch with headliners Exxon Mobil, BP, ConocoPhillips and Royal Dutch Shell due out with earnings. Other potential market-moving first-quarter results due out next week include Kellogg, Corn Products, Newmont Mining, SAP, Sprint, Texas Instruments, Automatic Data Processing, Office Depot, Comcast, Colgate-Palmolive and Avon Products.

Between the steady flow of earnings reports, there will be several important economic events. Recent comments by the Fed would imply they will keep interest rates unchanged following Wednesday's conclusion of the Federal Open Market Committee (FOMC) meeting. That said, the market will likely react to any incremental economic insight revealed in its rate decision statement. As the Fed discusses the economic outlook, the release of the Case/Shiller Home Price index could provide additional signs that the housing market may be improving, in light of this week's rise in existing home sales, the first in four months. In addition, we could see an uptick in the weekly Mortgage Bankers Association Mortgage Application survey, as the government subsidies are set to expire at the end of the month. Bulls could erupt with cheers if the initial report on first-quarter GDP on Friday shows the economy grew faster than the consensus estimate calling for 3.4% annualized growth. Along with the data, the Treasury plans to auction off a combined record $128 billion of two-, five- and seven-year government paper throughout the week.

## Weekly Focus – Think about it

"Blessed are the young, for they shall inherit the national debt."
~ Herbert Hoover

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 4/27/10.

* Treasury May Begin Selling: cited by Rebecca Christie & Bradley Keoun - Bloomberg 4/26/10

* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 4/23/10.

* 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.