

Weekly Commentary

April 5, 2010



The Markets

In life, the old bromide “what you don’t know won’t hurt you” is certainly true. The opposing theory would be that “what you do know can hurt you.” In the stock market, however, it is what you don’t know that can hurt you, which is difficult for many to adjust to. What is known today is already priced into the stock market – the current news is already discounted, so it shouldn’t have any additional effect. It is what you don’t know that influences the stock market. Based on the mood of investors, the unknowable future can be looked at with positive or negative eyes. We remain in a bull market, and thus the future is being seen as holding positive developments. But because what you don’t know can hurt you, unexpected negatives can knock the market down. The question is, how does one handle future unknowables? The best guide, in our opinion, is to respect trends that are in place.

The latest employment data provided a trend we can respect. Last Friday, it was reported that 162,000 jobs were created in March -- the biggest increase in employment in three years. Yes, 48,000 jobs came from temporary hiring for the 2010 Census takers, which will continue for a couple of months. Also, there was a rebound from weather-related work stoppages in February. However, the trend is your friend, and the trend in the job market appears to be up. Meanwhile, the Institute for Supply Management March manufacturing index increased to 59.6 from 56.5 in February, showing expansion across the nation. A Bloomberg News survey showed that economists believe gross domestic product (GDP) grew 2.8% in the first quarter of this year. This is another trend that causes us to be positive about the economic outlook.

There are tons of things we know today that are very negative and are the topic of conversation whenever folks get together. Everyone knows the problems: the extreme divisiveness in Washington and among the American people, the belief by many that the economy is not improving, a lack of confidence in all our political leaders, an international scene that seems to deteriorate daily, a skyrocketing federal deficit. Yes, the list can go on, but the point is everybody is aware of these problems, and thus they are already discounted by the stock market. The negative mood among most Americans is understandable but is also a positive for the stock market. An under-believed stock market is a healthy stock market. Most people “know” that many things today are bad – that’s already in the market. Trouble for the market comes when most “know” things today are great because that’s how market bubbles are created.

Index Performance Statistics – April 5

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	10973.55	46.48	0.43	5.23	37.58
NASDAQ	2429.53	26.95	1.12	7.07	51.21
S&P 500	1187.44	9.34	0.79	6.49	42.13

Source: Bloomberg

*Price return — does not include dividends

Treasury Yield Rise Slowed as Currency Reserves Grow

The fastest growth in global currency reserves since the credit crisis is blunting a rise in Treasury yields even as concern increases about record U.S. borrowing to finance an unprecedented budget deficit. Worldwide reserve assets climbed 18 percent to \$7.8 trillion in the 12 months ended in March, the biggest increase since the collapse of Bear Stearns Cos. in March 2008, according to data compiled by Bloomberg. Bank of America Corp. and Royal Bank of Scotland Group Plc forecast that growth in reserves, led by Asian nations, will sustain demand as Greece's fiscal woes raise concern about the risk of holding sovereign debt and corporate bonds offer the slimmest yield premiums over Treasuries since November 2007.

The Obama administration is counting on foreign investors, who own half of the outstanding \$7.4 trillion in marketable Treasury debt, to continue buying while the Federal Reserve begins a shift in monetary policy. Former Fed Chairman Alan Greenspan and Pacific Investment Management Co.'s Bill Gross have said that yields will rise, lifting borrowing costs and reducing demand for Treasuries, as the U.S. borrows record amounts to support an economy emerging from the worst contraction since the 1930s. "If you go into Treasuries you'll be winning because of the rising dollar, even if yields rise," said Christoph Kind, head of asset allocation at Frankfurt Trust in Frankfurt, which manages about \$20 billion. "There was a lot of speculation about Asia diversifying away from the dollar, but I think there is a bit of frustration from what happened to the euro after the Greek crisis."

Last Week

The bulls extended their hitting streak as stocks advanced in the final week of the first quarter. Driving the offense were positive economic reports and earnings forecasts. Specifically, investors were encouraged the Case/Shiller housing data showed a sequential increase in home prices while consumer sentiment improved from the prior month. In addition, toolmaker Danaher lifted its earnings expectations and Apple generated excitement with the upcoming release of the iPad and possible launch of an iPhone that will work on Verizon's network. The bulls also were successful in avoiding being hit by sovereign debt fears. As a result, the S&P 500 finished up by 5.88 percent for the month of March.

With three days to mull over the data, expect Friday's job figures to set the tone when trading resumes on Monday. The market could experience a pullback particularly if Wednesday's Automatic Data Processing (ADP) employment reading foreshadowed a potentially disappointing jobs report. Also, watch out for potential curveballs next week from the housing and consumer-credit reports as well as the minutes from the March Federal Open Market Committee (FOMC) meeting. The New York Yankees and Boston Red Sox renew their rivalry on Sunday to start the baseball season. Similarly, the bulls and bears will prepare for the opening day of first-quarter earnings season on April 12 with scheduled profit tallies by Family Dollar, Monsanto, Bed, Bath & Beyond, WD-40 and Constellation Brands.

Weekly Focus – Think about it

“Happiness is a positive cash flow.”

~ Fred Adler

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.
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- * The Markets prepared by Al Goldman, Chief Market Strategist, Wells Fargo Advisors 4/6/10.
- * Treasury Yields Rise: cited by Daniel Kruger & Matthew Brown Bloomberg 4/6/10
- * Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 3/29/10.
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