



Weekly Commentary May 10, 2010

The Markets

Last week in our Market Commentary we stated that because most were in a “what, me worry?” complacent mood, we were in a “yes, me worry” mood about the short-term outlook for the stock market. Our major worry was that the market had experienced only a mild correction of its 16% rally in only 10 weeks. Well, folks, a lot changed last week and so did our advice for investors. Last Thursday, the market experienced some panic selling and a trading glitch that dropped the DJIA 1,010 points for a few minutes before a recovery. In just four days, the DJIA dropped 771 points -- down 7.4% from its April 26 closing high. Trading volume expanded sharply, and three weeks of correction culminated with some pretty serious bloodletting.

As we went from a sit-on-your-hands advice to do partial buying, we were asked the obvious question – can the market go lower? Of course, the answer is “yes,” and we do anticipate some backing and filling by the market over the very short-term. Meanwhile, the economic news remains generally good. April nonfarm payrolls released last Friday jumped 290,000 following a 230,000 increase in March. Yes, the unemployment rate rose to 9.9%, but that was due to the fact that more people were looking for jobs, which is a positive. The Institute for Supply Management (ISM) April manufacturing index increased to 60.4. A reading above 50 indicates expansion. Greece remains a problem, but our recovering economy should be able to weather the European Union storm.

We fully realize that last week’s very volatile and sharp market decline has raised the fear level of investors. Yes, it would be very uncomfortable to buy stocks at this time. And, yes, often the best time to buy stocks is when you are very uncomfortable buying stocks. That is because it takes a big drop to increase fears, but the drop also increases value. OK, so how can investors control normal fears? Our advice is to step back, relax, perhaps listen to a Frank Sinatra recording, and look at the big picture. What we see in the big picture is a bull market being fueled by moderate gross domestic product (GDP) growth, very little inflation and very low interest rates that the Fed has said will stay low. Also, there’s a reasonable price/earnings multiple of about 14.7 times 2010 earnings estimated for the S&P 500. Sure, there are lots of things to worry about, but the time to really get nervous is when there appears to be little to worry about. Last week’s market drop will bring the bears out of their caves. Don’t listen to the gloom-and-doomers. Instead, listen to Sinatra singing “Come Fly With Me” and focus on the big picture.

Index Performance Statistics – May 10

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	10785.14	404.71	3.90	3.42	28.11
NASDAQ	2374.67	109.03	4.81	4.65	37.17
S&P 500	1159.73	48.85	4.40	4.00	27.55

Source: Bloomberg

*Price return — does not include dividends

BP to Try Again to Control Oil Leak as Hearings Start

BP Plc will make another attempt to control its leaking oil well in the Gulf of Mexico within a week by putting a smaller containment dome over it, Chief Executive Officer Tony Hayward said. Hearings start today in Washington and Louisiana on the explosion and sinking of the Deepwater Horizon drilling rig, which caused the leak. BP, based in London, and contractors Transocean Ltd. and Halliburton Co. will give conflicting accounts of responsibility for causing the blast, according to testimony prepared for a Senate committee. BP has been trying to halt the estimated 5,000-barrel-a-day oil leak from its Macondo well since the April 20 blast on the rig resulted in the death of 11 crew members. BP, which leased the rig from Transocean, said yesterday it has spent \$350 million so far to stop the spill and clean it up.

“This is the largest, most comprehensive spill response mounted in the history of the United States or the oil and gas industry by probably two orders of magnitude,” Hayward said in Houston yesterday. The implications from the leak for the oil industry may be “pretty severe,” he said. The company is confronting “quite a few unknowns” in its efforts to stanch the flow of oil, Hayward said at a press conference. A first bid to use a containment device to capture oil near the seafloor and pipe it to a ship failed on May 8 when the structure became clogged.

Last Week

Dark days remain at the corner of Broad and Wall with the bears out in full force this week. Markets extended their slide from the April 23 high as concerns persisted over the debt crisis in Europe. Specifically, investors’ fears were heightened by increased speculation that both Spain and Portugal may join the cast of the Greek tragedy. Additional worries that weighed on stocks were whether China’s additional lending curbs may be too aggressive to slow its economy, Australia’s proposed “super tax” on mining profits, the attempted terrorist attack in Times Square and the oil spill in the Gulf of Mexico. An apparent breakdown in trading systems on Thursday only added to the anxiety as the Dow Jones Industrial Average plummeted 998 points during the session – its largest intraday decline since 1987. Even the better-than-expected non-farm payroll number could not stem the decline. As a result, the S&P 500 index was down by 6.5% for the week at midsession on Friday.

Only time will be able to tell us whether the recent retreat will manifest into something more ominous. One way for the bulls to regain control of the market would be for investors to see steps

toward a resolution of the European debt crisis. Another would be if the upcoming data continues to show that the U.S economic recovery remains on track. Therefore, next week's releases for retail sales, industrial production and consumer sentiment due out on Friday morning will be important. The Fed will try to do its part to sing a bullish tune with scheduled speeches by Fed Presidents Kocherlakota, Plosser, Kohn, Lockhart and Bullard. With the flight to safety into Treasuries, it will be interesting to see the demand for the \$80 billion in 3-year, 10-year and 30-year government paper auctioned at mid-week.

With Europe grabbing all the headlines this week, investors may have missed that the overall tone to first-quarter earnings season remained positive. Of the 414 companies in the S&P 500 index that have released results, 78% have beat Wall Street consensus estimates, according to Thomson Reuters. Although the earnings calendar winds down, it will be an important week for the consumer discretionary sector, particularly the retailers. In addition to the monthly retail sales numbers there are scheduled profit reports from Dillard's, Kohl's, JC Penney, Macy's, Nordstrom and Urban Outfitters. Earnings from Cisco Systems after Wednesday's close will garner attention in the tech sector. Other potentially market-moving earning reports scheduled next week include Walt Disney, Tyson Foods, MBIA, Ambac, Electronic Arts, Activision Blizzard and Whole Foods.

Weekly Focus – Think about it

“Your best teacher is your last mistake”
~ Ralph Nader

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.

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- * Past performance does not guarantee future results.
- * The Markets prepared by Al Goldman, Chief Market Strategist, Wells Fargo Advisors 5/11/10.
- * BP to Try Again: cited by Jessica Resnick-Ault and Jim Polson - Bloomberg 5/11/10
- * Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 5/7/10.
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