Weekly Commentary
May 3, 2010

The Markets

Alfred E. Neuman, that character from *Mad* magazine, made the expression, "What, me worry?" famous, and it seems to describe the current stock market environment very well. For the past 13 months, the stock market has chosen not to worry about problems and uncertainties both here and abroad. Of course, that is what a bull market does, and we have made that observation many times. However, in our April 20 Market Commentary, we stated that "the market had probably started a moderate correction." Since then, the market has churned around but also was hit hard in several sessions. The main thing we were worried about was the fact the market had risen 16% in only 10 weeks without a correction. It is tough for a bull to flash an amber light, but we believed the risk/reward ratio for new purchases of stock was not positive.

Adding to our worries now are the low level of cash held by mutual funds, the economic impact and very disruptive nature of the terrible oil spill in the Gulf of Mexico, Goldman Sachs, and now the Times Square incident. Also, the European Union has a big mess on its hands with Greece's and Portugal's financial problems. Yes, these are small economies, but if the problems linger long enough, it could affect all the EU nations and thus our exports. On the positive side, their problems could bring money back into the United States. Our biggest short-term worry is that the market itself has been acting tired-to-down for two weeks. Corrections are normal, and so far this one has acted as if it is simply a normal pause-to-refresh in a bull market. The fact that most institutional investors have had a "What, me worry?" attitude is one of the reasons we still have some short-term worries.

Those folks who are not at all worried have some good fundamental reasons to be complacent. First-quarter inflation-adjusted gross domestic product increased at a 3.2% annual rate. This was the third consecutive quarter of growth since the recession ended (we believe) last summer. Unfortunately, much of the increase has been from inventory adjustment as final sales are still weak. Some time ago, we predicted that the labor market would start to improve this spring, and it appears to be happening. April nonfarm payrolls due Friday, May 7, are expected to increase by 180,000 net new jobs following a 162,000 increase in March. These are solid fundamental reasons not to worry. However, we remain short-term cautious. Despite the good GDP report last week and the report that personal consumption rose 3.6% in the first quarter, the market came under profit-taking pressure. The economic news is good, but market action was only fair-to-bad last week. That is why we alter "What, me worry?" to "Yes, me worry" about the short-term. Although sitting on our hands is not comfortable for us bulls, it remains our advice. We will happily get back on the buy side as soon as stock market action says we should. Yes, we share a first name and middle initial with Alfred E. Neuman, but our mood is different.

Index Performance Statistics – May 3

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	11151.83	143.22	1.30	6.94	32.34
NASDAQ	2498.74	37.55	1.53	10.12	41.69
S&P 500	1202.26	15.57	1.31	7.82	32.52

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

Euro Hits One-Year Low on Debt Woes

The euro traded below $1.31 for the first time since April 2009 on concerns a 110 billion euro ($144 billion) rescue package for Greece will fail to contain the regions debt crisis.

The common currency fell against most of its peers after European Union spokesman Amadeu Altafaj said aid to Greece might not be approved by all governments this month, when the nation must refinance over 8 billion euros in debt.

“The market is concerned about whether the plan will go off track and that’s weighing on the euro” said Aroop Chatterjee, a currency strategist at Barclays PC in New York. “It’s wondering whether parliamentary approval will come through and there are some questions in regard to reform within Greece.”

Last Week

Stocks got off to a rocky start this week as the overdraft from Greece produced more bad karma for global markets. Standard & Poor's downgrade of Greek bonds to junk status and the lowering of the paper from Portugal and Spain sent stocks both here and abroad into the red. But the bull became an excitable boy, backed by positive economic data and earnings tallies from Caterpillar, Whirlpool, Fortune Brands and Viacom. Bond vigilantes were left looking for the next best thing, after Bernanke & Co. held interest rates steady and maintained their dovish stance, saying more evidence of sustained job gains is needed before changing their “extended period” stance. Heading into the weekend, the Greece issues were looking up, as the International Monetary Fund, the European Union and the European Central Bank sought to strike up the band and come to an agreement on an austerity package in exchange for a bailout loan. Despite the 1 percent loss for the week, heading into Friday afternoon, the S&P 500 was still looking to register its third consecutive monthly gain.

On the earnings front, investors will hope to see the positive tallies play it all night long in the week ahead, although the bar is now set higher the deeper we wade into reporting season. Through Thursday, 324 S&P 500 companies have reported first quarter earnings—77.8 percent have beat estimates, 9 percent have reported in-line and 13.3 percent missed consensus. Next week brings bottom lines from Clorox, MasterCard, Pfizer, CVS Caremark, Kraft, Sara Lee, Archer Daniels, and Sysco. In addition to the media focus on the BP Plc oil spill in the Gulf of Mexico, it will be another big week in the energy patch. Headliners include Transocean, Chesapeake Energy, Anadarko Petroleum, Marathon Oil, Spectra Energy, Murphy Oil, Devon Energy, and Frontier Oil - - all scheduled to report earnings.

On the economic front, next week's calendar may yield more signs that we're moving down the path into economic recovery. Of particular importance, April's employment report will be released Friday with consensus calling for an increase of 180,000 jobs and an unemployment rate of 9.7 percent. Leading up to the employment report, we will get monthly updates on personal spending and income, manufacturing, housing, vehicle sales, and productivity.

Currently, the Advisory Services Group (ASG) at Wells Fargo Advisors sees the market vulnerable to turbulence and a pullback. If this is indeed trouble waiting to happen, ASG would view it as a chance to add to equity positions in cyclical areas of the market in advance of the next leg up it anticipates happening sometime next year. To become more cyclical, the Equity Strategy team recommends investors overweight the industrial and material sectors. It also recommends an overweight to the telecom services sector, as it should benefit from an increase in demand for bandwidth to support new applications. For international exposure, ASG views Brazil, Mexico and India as attractive countries in emerging markets. In the developed world, the countries they see as attractive include Australia and Canada.

ASG's Fixed Income Strategy team continues to advise investors to diversify across sectors and credits and be slightly short of duration targets. With taxable securities, it carries a bias toward the senior debt of investment-grade corporations. Also, ASG is overweighting municipal securities in the tax-exempt arena of the bond market. For this recommendation, they advise investors to focus on essential revenue and general obligation securities that are single-A rated or higher to avoid the heartache.

Weekly Focus – Think about it

"If you made money – you invested, if you lost money – you speculated."
~ Anonymous

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 5/4/10

* Euro Hits One-Year Low on Debt Woes: cited by Ben Levisohn and Bo Nielsen - Bloomberg 5/4/10

* Last Week cited from - Bryan Piskorowski and Mike Robben, Business Development 4/30/10

* 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.