



Weekly Commentary May 28, 2010

The Markets

The month of May is usually very pleasant weather-wise, but it also is part of an old market bromide: Sell in May and go away. No question, historically May to October has not been as good a period for the stock market as November to April. But, life in the stock market isn't that simple as there are many up and down cycles in both periods as well as individual stocks doing their own thing. Well, the month of May this year was bad for the stock market, and we are pleased to see May go away. Folks who did sell in May and went away had a declining market to sell into, and now they have to figure out when to come back. In our experience, some investors who go away in May don't come back and miss out on the longer-term growth prospects of the U.S. economy and selected stocks.

The real question is what the bad stock market in May means for the rest of 2010. First, why the market drop in May? As we stated last week in our Market Commentary, we believe the problem was the 80% market advance in the prior 14 months. A rally of that size creates a negative supply/demand ratio for stocks, and it takes time to restore the liquid-demand side of the equation. We are actually impressed that the market hasn't been even weaker relative to some valid excuses to stimulate more aggressive selling. The oil spill is a tragedy that will affect the economy of the Gulf Coast and many people in the area for years. North Korea continues to threaten war with South Korea. (Yes, they have often said this, but it still is a cloud over the world and the stock market.)

We don't need to review once again all the other domestic and international problems that could have caused a May massacre in the stock market. OK, so why hasn't the market collapsed, and why are we still bullish? Most critical is the fact that the economy continues to expand, albeit at a moderate rate. The ability of the economy to recover despite the debt crisis in the EU says a great deal about the resiliency of our economy. We believe steps taken by the EU and the International Monetary Fund will be successful in solving their problems. However, the EU problems do reduce our economic growth prospects somewhat. This plus the 80% rally already on the table, is one of the reasons that we believe the market will be bouncing up and down for several more months. We expect continued volatility near term that will create buying opportunities during pullbacks. Good-bye, May, you won't be missed by us bulls. However, the correction in May has increased fear and reduced glee, which is bullish. Folks, maybe the month of May wasn't all bad.

Index Performance Statistics – May 28

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	10136.63	-122.36	-1.19	-2.79	19.25
NASDAQ	2257.04	-20.64	-0.91	-0.53	27.21
S&P 500	1089.41	-13.65	-1.24	-2.30	18.52

Source: Bloomberg

*Price return — does not include dividends

BP Effort Turns to Capturing Oil, No plugging Before August

BP Plc has given up trying to plug its leaking well in the Gulf of Mexico any sooner than August, laying out a series of steps to pipe the oil to the surface and ship it ashore for refining, said Thad Allen, the U.S. government's national commander for the incident. Undersea robots began sawing away damaged pipe today, preparing for the first of those attempts, Allen said today at a press conference in New Orleans. The new strategy, which is subject to disruption by tropical storms and hurricanes, will continue until relief wells being drilled can plug the damaged well from the bottom, he said. That will happen no earlier than August. BP on May 30 said its "top kill" attempt to plug the well with mud and rubber scrap had failed.

BP will try to install a snug-fitting "top cap" over the gusher within 24 hours to 48 hours once the robots complete severing the pipe. To get a good seal, BP needs a clean cut at the top of the blowout preventer, a five-story stack of valves that failed to prevent an April 20 blowout that killed 11 people and started the spill, Allen said. Should the jet of oil and gas drive the cap aside, another cap designed to let more oil escape will be tried, Allen said.

"We're talking about containing the well," Allen said. "We don't want to restrict the pressure or flow down that well bore because I don't think we know the condition of it after the top kill."

Last Week

June cannot come soon enough as the market heads for its worst monthly performance since February 2009. Volatility ruled this week as investor fears over Europe's debt woes and China slowing its growth combined with renewed tensions between North and South Korea. These events led to a retreat from risk assets. On Wednesday, the bulls attempted to breathe life back into an oversold market, only to see it stall on speculation that China's sovereign fund may pare back European investments. Resuscitation efforts were rewarded the following day after China said it remained committed to investing in the region. As a result, the S&P 500 index was up 1.4% on the week as of Thursday's close. Going into the last day of trading for the month, the index was down 7.04% for May.

The flight-to-safety trade was also evident over in bond-land. Treasuries rallied as stocks fell early in the week, pushing the yield on the 10-year as low as 3.06% with the 30-year briefly dipping below 4%. In addition, the Treasury sold \$113 billion in 2-, 5-, and 7-year notes in solid auctions. While government paper showed strength, corporate bond spreads widened with the decline in equities and a quiet new issue market. As stocks rallied later in the week, spreads tightened up as buyers came back to the market and new issues came alive with several large issuances coming to market.

With first-quarter earnings season on the books, the economic data will need to show continued signs of life if the bulls are to get back on top. Of particular importance in the week ahead will be Friday's employment reports. Due to the addition of temporary census workers, non-farm payrolls are projected to show 503,000 jobs were created in May. Expectations for the unemployment rate calls for a modest decline to 9.8% from 9.9% in the prior month. On the housing front, investors will look for pending home sales to build off of the momentum of this week's better-than-expected new home sales report. Updates on construction spending, vehicle sales, consumer confidence, and manufacturing will hopefully provide further evidence of improving economic conditions. Investors' sonar will also be fixed on the G-20 summit in South Korea for torpedoes that could sink the market. On the Fed front, presidents Plosser, Evans, Lockhart, Rosengren, and Hoenig will speak on the role of central banks, the financial crisis and the economy.

Weekly Focus – Think about it

“Wealth can only be accumulated by the earnings of industry and the savings of frugality.”
~ John Tyler

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 6/1/10.
- *BP Effort Turns to Capturing Oils: cited by Jim Polson - Bloomberg 6/1/10
- * Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 5/28/10.
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