



Weekly Commentary June 14, 2010

The Markets

Most investors know that the stock market is almost always “looking ahead.” The fancy word market strategists use for this is “discounting.” What this means is that it is not the present news that controls the stock market but how investors perceive the future and then how they adjust stock prices to fit that perception. In other words, the future, usually out nine months to a year, becomes “discounted” by stock prices today. Last week provided a clear example of this phenomenon. The Commerce Department reported on Friday that retail sales fell 1.2% in May from April. Thus, Americans reduced spending on everything from cars to clothing, which could mean that consumers are becoming concerned again about high unemployment. Of course, if so, the outlook for the economy would be hurt. So what did the stock market do last week? The DJIA had its best weekly advance since February, up 2.8%.

On the surface, one might ask, “Is the market crazy?” Well, we admit that market action can look kind of nutty sometimes, and it also can do some pretty crazy things in the face of current good or bad shocks. But overall, market action makes sense when you remember the “discounting” phenomenon. Despite the drop in retail sales, the market, by rising, is saying that it believes that out there in the future the trend in sales will again be strong. We agree with this conclusion based on an economy that is still recovering, albeit moderately, and a labor market that is showing some improvement. The mood about the future was also helped by the fact that Europe’s central bank officials were receiving a positive reception to their interest rate decision.

Discounting is a fact of life in the stock market that has been, is, and, we believe, will always be what the stock market does, and this is a good thing. If the present ruled, all we would have to do is get the news and react. Of course, so would everyone else, and there would be only buyers or sellers and, thus, a one-sided market, which would mean no market at all if today’s news controlled everyone’s investment decisions. Looking out nine months to a year, or discounting, creates a market place as each of us has different opinions about the future. This is based on both fundamental trends, and to keep it exciting but somewhat unpredictable, it is also based on the personality of investors. Some err on the optimistic side looking ahead and some on the pessimistic side. That’s why life in the stock market isn’t easy for the short term, but over the long term, the facts usually do win out. Right now we are in a very volatile stock market. For the past 15 sessions, the S&P 500 has bounced between 1,050 and 1,100, and we have been in a correcting market for eight weeks. If one is an optimist, he or she should use corrections as an opportunity to do some selected buying. If one is a pessimist about the future, he or she should sell some stocks so we bulls can buy them at what appears to be good values.

Index Performance Statistics – June 14

| Index | Close | Day Change | Day % Change | % YTD Change | 52 Wk % Change |
|---------|----------|------------|--------------|--------------|----------------|
| DJIA | 10190.89 | -20.18 | -0.20 | -2.27 | 18.33 |
| NASDAQ | 2243.96 | 0.36 | 0.02 | -1.11 | 23.54 |
| S&P 500 | 1089.63 | -1.97 | -0.18 | -2.28 | 17.96 |

Source: Bloomberg

*Price return — does not include dividends

Obama Vows to Restore Gulf Environment, Economy After Spill

President Barack Obama promised residents and businesses along the Gulf of Mexico he'll make sure BP Plc pays for the losses from the biggest oil spill in U.S. history and that the region will be restored. White House Press Secretary Robert Gibbs said today that the government has "the legal authority" to make BP place the money needed for recovery and relief from the oil spill into an independently administered fund.

The president, making his fourth visit to the gulf coast since the April 20 explosion aboard the Deepwater Horizon drilling rig triggered the spill, said the government and BP are in "preliminary" talks about setting up a mechanism to pay claims of damage from the spill "justly, fairly, promptly." "It's going to take time for things to return to normal," Obama said after getting a briefing from federal and local officials and touring a staging facility in Theodore, Alabama. "But I promise you this: things are going to return to normal."

The president will end his two-day gulf coast trip later today and be back in Washington to make a televised Oval Office speech about the oil spill at 8 p.m. Washington time. The spill has closed as much as 37 percent of the Gulf of Mexico to fishing, cut offshore drilling in the nation by half and polluted 140 miles (225 kilometers) of shoreline from Louisiana to Florida.

Last Week

Sick and tired of the market correction, the bull staged a rally this week. Stocks ended the week on a positive note as economic news abroad suggested the global recovery remains on track. Specifically, China's exports in May rose to a six-year high, Japan's first quarter GDP increased at a 5% annualized rate, Australia added workers for a third consecutive month and the European Central Bank revised its growth projections higher. This helped the S&P 500 index gain 2.1% on the week as of Friday morning.

As stocks gained, bonds retreated. Treasury auctions were well-bid as the three-year came in at 1.22%, the 10-year at 3.24%, and 30-year at 4.18%. The new-issue corporate calendar was light as European sovereign risks continue to put a damper on U.S. corporate credit. In the secondary market, bonds of British Petroleum were very active and traded in a wide range as investors reacted to the news that hit the tape.

Although the market rallied this week, the impact of the European credit crisis, China's attempt to slow its growth and the oil spill continues to cause concerns the global recovery falters. Looking ahead to next week, there are several reports that could help change that perception. After the first negative reading in 13 months, Thursday's release of the leading indicators report is expected to show a rebound with a 0.4% increase in May. Other data points of interest on the calendar include updates on manufacturing, housing and inflation. With the Federal Open Market Committee (FOMC) meeting right around the corner, speeches by Fed Chairman Bernanke and presidents Bullard and Plosser will be monitored for clues on the economy. Reports by Best Buy, FedEx, Discover Financial and Kroger next week could provide insight into how second-quarter earnings season will fare when it begins in mid-July.

Weekly Focus – Think about it

"The only way to predict the future is to have power to shape the future."
~ Eric Hoffer

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.
- * This commentary should not be considered 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 6/15/10.
- *Obama Vows to Restore: cited by Hans Nichols & Kate Andersen Brower - CNNMoney.com 6/15/10
- * Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 6/11/10.
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