



## Weekly Commentary June 7, 2010

### The Markets

The stock market went into a deep swoon last Friday, June 4, as the DJIA dropped 323 points, and the advance/decline ratio was about 9/1 negative on issues traded. Yes, that was a bad day. One big reason for the sell-off was the very disappointing report that only 41,000 of the nonfarm jobs created in May were from the private sector while 411,000 were due to temporary census hiring. Also, fear grew that Hungary is nearing a debt crisis. In a nervous market, investors panicked a bit, and buyers went on strike. OK, no fun last Friday for us bulls. But our advice since late April when the big rally ended has been to expect the market to be higher by year-end but in a step-ladder fashion. We said to expect near-term volatility that will create buying opportunities during pullbacks. The 80%, 14-month advance created the problem. What we as investors have to do is adjust to a tired market that needs to improve its supply/demand ratio for stocks.

So what to do? Rather than going into a state of depression about the market, use a pullback like last Friday as a buying opportunity. The churning market that we predicted means just that – an up-and-down affair – not just up, up and away. Thus, investors should buy selectively when the market is hit and they feel uncomfortable buying and not chase stocks after a rally when it feels comfortable buying. The stock market is adjusting to both the 80% rally and indications that the global economy could face two to three years of sub-potential growth due to the recent worldwide recession. Most professional investors know this already, and that's why the S&P 500 is selling at about 13.5 times estimated earnings for 2010. And the outlook is for another jump in earnings in 2011.

The international news remains negative, and our own oil spill is a very serious problem. The latest domestic terrorist news also is scary as two men were arrested at JFK Airport this past Saturday and charged with plotting attacks on American troops in Somalia. No question, we live in very troubled times, but the stock market is controlled long term by the outlook for the U.S. economy, and that remains positive. April factory orders increased 1.2% after rising 1.7% in March, and first-quarter productivity increased at a 2.8% annual rate. The Institute for Supply Management (ISM) May manufacturing index did dip to 59.7 from 60.4 in April, the best since 2004. (A reading above 50 indicates that more purchasing managers see their business expanding than see it contracting.) People, being human, handle the upside moves of a churning market well, but they forget that is only half of the deal. Controlling human emotions is not easy, but it is one of the keys to successful investing in stocks for the long term.

## Index Performance Statistics – June 7

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	9816.49	-115.48	-1.16	-5.86	12.00
NASDAQ	2173.90	-45.27	-2.04	-4.20	17.99
S&P 500	1050.47	-14.41	-1.35	-5.80	11.85

Source: Bloomberg

\*Price return — does not include dividends

### Bernanke: Recovery Continues but ‘Won’t Feel Terrific’

Federal Reserve Chairman Ben Bernanke says he expects a continuing economic recovery - "but it won't feel terrific." In an interview at a forum late Monday in Washington, Bernanke dodged a question about whether he fears a double-dip recession, saying "nobody knows with any certainty." "But there seems to be a good bit of momentum in consumer spending and investment, so my best guess is that we'll have a continued recovery," Bernanke told veteran TV journalist Sam Donaldson. "The reason it won't feel terrific is because it's not going to be fast enough to put back 8 million people who lost their jobs within a few years. It's going to take a while."

He warned the unemployment rate will remain high "for a while," explaining, "that means that a lot of people are going to be under financial stress." In an unusually wide-ranging interview with Donaldson at the Woodrow Wilson International Center for Scholars in Washington, the Fed chairman spoke with a little more candor than usual, Bernanke said he couldn't predict when the Fed would raise interest rates next. But he said it depends on the state of the economy, unemployment rates and inflation trends.

### Last Week

Market action was choppy to start the summer as stocks ebbed and flowed with the news that hit the tape. Bears caught the first wave of June on China's lower-than-expected PMI report and renewed tensions in the Middle East. On Wednesday, the bulls paddled back into the surf after receiving positive housing, manufacturing and auto sales reports. Investors also dipped their toes back into energy stocks on speculation the market had discounted the risk from the Gulf of Mexico oil spill. Heading into Friday's employment report, the S&P 500 index posted its first back-to-back positive days since April. However, the lower-than-expected non-farm payroll number and renewed European credit concerns spurred by Hungary washed away the gains by Friday morning.

It was also a wild ride for bond-land as investors weighed on the economic and international news. Treasuries rallied early in the week as investors sought safe haven assets. While government paper showed signs of strength, the new-issue corporate market was nearly non-existent as European banks and volatility in credit spreads kept issuers on the sidelines. As stocks rallied later in the week, spreads tightened as buyers came back to the market. However, the pickup in issuance was overshadowed by Fitch's downgrade of BP due to the escalating liabilities in the Gulf of Mexico.

If the market is to recover from the wipe out in May, investors will likely want to see the tide is starting to turn in Europe. They will also look for signs that the economic picture continues to improve. Next week's calendar has several releases that could get the bulls stoked. Of particular interest will be updates on consumer credit and confidence, wholesale inventories, the trade deficit, and advanced retail sales. In addition to Wednesday's release of the Beige Book, there will be plenty of Fed speak including its "Big Kahuna" Ben Bernanke who will do an interview on ABC and discuss employment trends in Richmond.

## **Weekly Focus – Think about it**

"The most efficient labor-saving device is still money."  
~ Franklin P. Jones

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.
- \* Bloomberg is the source for any reference to the performance of an index between two specific periods.
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- \* The Markets prepared by Al Goldman, Chief Market Strategist, Wells Fargo Advisors 6/8/10.
- \*Bernanke: Recovery Continues: cited by Jennifer Liberto - CNNMoney.com 6/8/10
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