

Weekly Commentary

June 28, 2010



The Markets

As the second half of 2010 approaches, we believe there may be several parts of the economy and stock market that may not fit together as well. First, the stock market can continue to advance following its sharp rise since March 2009, but we believe probabilities are low that much upside progress will be made. The “honeymoon” stage of this bull market -- the dynamic 80% rally from the depressed lows -- is now winding down, in our opinion. Investors are nervous and fatigued as the euphoric, sharp rise has become the controlling factor in the stock market. The result has been sharp swings in the market since the April 2010 highs; the news from Europe to China to the Gulf of Mexico has served to intensify the swings.

One major positive has been the ability of the stock market to overcome a number of obstacles during the first half of this year. Any one of these obstacles had the ability to derail the bull market, but only resulted in benign pullbacks. This underlines the fact that in strong bull markets, momentum is not easily broken and the “buy the dip” investor mindset is still alive. The market remains resilient and should continue to prevent a sustained decline (greater than the 20% area) during the second half of the year, provided that we don’t experience any negative surprises.

Many individual investors remain skeptical and have not returned to the equity market since the bull market inception in 2009. Rapid swings in momentum and investor sentiment have now become the norm and not the exception. Investors remain hypersensitive to another meltdown (similar to the United States in 2007-2008) and the potential negative implications for the recovering worldwide economy. The jittery environment underlines our expectation for a range-bound U.S. equity market for the next several months, possibly to the end of the year. Historically, seasonality is working against equities as the May to October period has traditionally been the weakest six months of the year. Another headwind is the historical tendency for stocks to behave sluggishly as investors begin to discount a new cycle of U.S. Federal Reserve interest rate hikes.

We expect investor anticipation of Fed hikes to begin later this year. Furthermore, there is added short-term uncertainty surrounding the economy’s growth rate now that the temporary, massive U.S. government support plans have been removed.

Index Performance Statistics – June 28

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	10138.52	-5.29	-0.05	-2.78	18.87
NASDAQ	2220.65	-2.83	-0.13	-2.14	20.42
S&P 500	1074.57	-2.19	-0.20	-3.63	15.89

Source: Bloomberg

*Price return — does not include dividends

U.S. Consumer Confidence Crumbled in June

Americans, worried about jobs and the sluggish economic recovery, are having a relapse in confidence, causing a widely watched index to tumble in June and raising concerns about consumer spending in the critical months ahead. The Conference Board, a private research group based in New York, said Tuesday that its Consumer Confidence Index dropped almost 10 points to 52.9, down from the revised 62.7 in May. Economists surveyed by Thomson Reuters had been expecting the reading to dip slightly to 62.8. June's reading marked the biggest drop since February, when the index fell 10 points. The index had risen for three straight months since then.

Both components of the index — one that measures how consumers feel now about the economy, the other that assesses their outlook over the next six months — dropped. The Present Situation Index decreased to 25.5 in June from 29.8 in May. The Expectations Index declined to 71.2 from 84.6. "Increasing uncertainty and apprehension about the future state of the economy and labor market, no doubt a result of the recent slowdown in job growth, are the primary reasons for the sharp reversal in confidence," said Lynn Franco, director of the Conference Board Consumer Research Center, in a statement. "Until the pace of job growth picks up, consumer confidence is not likely to pick up."

The index had been recovering fitfully since hitting an all-time low of 25.3 in February 2009. Still, the reading was far below what's considered healthy. A reading above 90 indicates the economy is on solid footing; above 100 signals strong growth. Economists watch the number closely because consumer spending including health care and other major items, accounts for about 70 percent of U.S. economic activity.

Last Week

The market's poor start to summer left the bulls singing the blues. After two weeks of gains, stocks suffered a setback as the European debt debacle, financial reform and a punk housing market left investors to wonder about the recovery. These concerns outweighed the positives including China's decision to loosen its peg against the dollar and durable goods increasing for the third time in four months. Heading into Friday's session, the S&P 500 index experienced a four-day slide of 3.76% for the week to push its performance back into the red for the month and year-to-date.

It'll be busy next week for the market before traders hit the Hamptons for the July 4 holiday. The G-20 summit in Toronto over the weekend will likely set the tone at the start of the week. On the housing front, expectations for the Tuesday's Case/Shiller and Thursday's pending home sale data are not likely to be high following this week's disappointing new and existing home sales reports. Also of interest will be updates on personal spending and income, manufacturing, and vehicle sales. However, the focal point of investors will likely be Friday's employment report. The current consensus estimates has the June non-farm payrolls declining 110,000 while the unemployment rate ticks up to 9.8%.

Next week also marks the end to the second quarter. That means the unofficial start to earnings season is two weeks away with Alcoa scheduled to report after the close on July 12. Consensus estimates suggests 27% year-over-year increase in earnings for the S&P 500 index, according to Thomson Reuters. At the sector level, materials are expected to show the highest growth rate while utilities are expected to see a decline in earnings from the same period a year ago. If bottom-line blues by Walgreens, Nike, and Bed Bath & Beyond this week were any indication, the bar may be set a little too high by analysts. Unfortunately we won't get much clarity next week, with only a handful of companies set to report. The short list of company reports of interest includes General Mills, Monsanto, Barnes & Noble, Constellation Brands, Apollo Group, and Smith & Wesson.

Weekly Focus – Think about it

“A market is never saturated with a good product, but it is very quickly saturated with a bad one.”
~ Henry Ford

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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- * You cannot invest directly in an index.

* Past performance does not guarantee future results.

* The Markets prepared by Scott Marcouiller, Chief Technical Market Strategist, Wells Fargo Advisors 6/29/10.

*U.S. Consumer Confidence: cited by Associated Press – 6/29/10

* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 6/25/10.

* 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.