



Weekly Commentary July 19, 2010

The Markets

Stocks have covered a significant amount of ground since the May 6, 2010 “flash splash” lows, but have not made much progress. Between the May 6 intraday low to the July 16 intraday high, the Dow Jones Industrial Average fluctuated more than 6,200 points, yet the net move on a closing basis was just 440 points. Last week’s stock-market action was a microcosm of what investors have faced for the past 10 weeks. Last week, Monday and Tuesday started promisingly, building on the gains from the July 2 lows after positive outlooks from two blue-chip companies (an aluminum and semiconductor producer). By mid-week, however, June retail sales came in light and the Federal Open Market Committee (FOMC) expressed a little more worry about the economy. Thursday brought two disappointing manufacturing surveys, adding to the evidence of the moderating U.S. economy. The clunker was reported Friday as two high-profile companies predicted moderating revenue (we have been commenting that future guidance would be the most important factor in this quarter’s earnings) and the sharp shortfall in the mid-July University of Michigan consumer-confidence survey (reported 66.5 v. late June’s 76.0).

Barron’s reported that a drop of this magnitude has occurred only six times in the 32 years that the survey has existed. We stated early last week that the equal potential for positive and negative news days would keep volatility high. We also questioned the durability of the market’s advance because of the light volume and the quick swing from a short-term oversold to overbought condition. Additional roadblocks were the major averages rallied back near the resistance of their 200-day moving averages and up to the down-trending lines drawn from the April highs.

The glass-is-half-empty attitude that could be taken away from the market action is that the May 6 gyrations have had more of an impact on individual investors than the financial media have discussed. In addition, the uneven earnings guidance reports and additional indications of moderating U.S. economic growth that are surfacing are more signals of a coming abrupt slowing, and possibly a double-dip recession.

The glass-is-half-full attitude, which is our outlook, is the U.S. economy and stock market are slowing or moderating after their prior sharp trajectory from the bottom in early 2009. This is normal and we believe it cannot be overstated that the 13-month 80% advance is controlling stocks now. In our opinion, fears are overblown about our economy and problems around the world -- this is being magnified by the daily barrage of news flow. Corrections or consolidations in stocks follow big advances. We have to live with what the stock market gives us. Right now, that is rapid swings in momentum and sentiment. This will likely continue through the second half of 2010, in our opinion. Some investors believe that the 2007-2008 financial crisis will repeat itself. Once investors believe this won’t occur, they will likely be more comfortable buying stocks.

Index Performance Statistics – July 19

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	10154.43	56.53	0.56	-2.62	14.76
NASDAQ	2198.23	19.18	0.88	-3.13	15.13
S&P 500	1071.25	6.37	0.60	-3.93	12.63

Source: Bloomberg

*Price return — does not include dividends

Pay Up: BP to Face Huge Oil-Spill Fines

BP has already pledged \$20 billion to assist those affected by the oil spill. But that's not all they'll have to fork over. CNNMoney reports that BP could pay up to \$18 billion more in government fines. The company may have to pay up to \$4,300 for every gallon spilled in the Gulf due to violating the Clean Water Act, as long as officials deem they were negligent during the time of the spill.

The problem? Nobody knows exactly how much oil has spilled. Estimates have ranged from 1,000 each day to 60,000 each day. If the bigger estimate is true, then BP will pay big. Ultimately, though, it's unlikely that the amount will add up to \$18 billion, due to the extent politics will play.

Last Week

The bulls had to navigate through some choppy waters this week. Initially it appeared like smooth sailing due to a good start to second-quarter earnings. Stocks rallied following positive tallies from bellwethers such as Alcoa (AA \$10.84), Intel (INTC \$21.51) and JP Morgan Chase (JPM \$40.46). A warm reception by investors to the debt auctions by Greece, Portugal and Spain suggested the stormy seas in Europe could be dying down. Also encouraging was the ability of the market to absorb the \$69 billion of 3-, 10- and 30-year U.S. Treasury paper auctioned off this week. The Fed's cautious tone in the June FOMC meeting minutes as well as disappointing manufacturing and retail figures raised concerns about the recovery. However, the bulls righted the ship heading into Thursday's close as word was leaked that Goldman Sachs (GS \$145.22) had reached a settlement with the SEC and that BP (BP \$38.92) said it temporarily stopped the oil flow from the well in the Gulf of Mexico. As a result, the S&P 500 remained on course to post its second consecutive weekly gain.

Although the economy remains afloat, it still is in need of repair. In particular, next week consensus expectations are for the June housing starts to decline 3% month-over-month and for existing homes sales to fall 8.1%. Also of interest will be the release of the leading indicators index with the consensus calling for a decline of 0.30% in June versus the 0.40% increase in May. After this week's release of the FOMC meeting minutes revealed a more cautious Fed, investors will look for clarification from its captain when Chairman Bernanke testifies before Congress next week on Capitol Hill.

Second-quarter earnings season gets into full swing next week. In particular, investors will focus on the armada of banks scheduled to report. If the market is to regain its sea legs, investors will want to hear positive outlooks from the captains of Goldman Sachs (GS \$145.22), Morgan Stanley (MS \$25.59), US Bancorp (USB \$24.40), Capital One (COF \$43.26), Northern Trust (NTRS \$49.73), BB&T (BBT \$27.69), SunTrust (STI \$25.19) and PNC Financial (PNC \$60.88). Along with the financials, investors will look to see if Apple (AAPL \$251.21), Qualcomm (QCOM \$36.86), Microsoft (MSFT \$25.51), SanDisk (SNDK \$43.93), eBay (EBAY \$21.02), Seagate Tech (STX \$14.75), and Yahoo! (YHOO \$15.34) are sailing with the winds at their backs. Other notable companies due to drop anchor in New York next week include Halliburton (HAL \$28.10), Johnson & Johnson (JNJ \$60.26), Coca-Cola (KO \$52.85), Gilead Sciences (GILD \$34.89), Freeport-McMoRan (FCX \$63.17), Mosaic (MOS \$43.25), Pepsi (PEP \$63.16), Harley-Davidson (HOG \$25.01), Illinois Tool (ITW \$43.97), Abbott Labs (ABT \$48.02), United Parcel Service (UPS \$61.34), 3M (MMM \$83.06), AT&T (T \$25.00), and Caterpillar (CAT \$66.07).

Weekly Focus – Think about it

“The man who won’t loan money isn’t going to have many friends – or need them.”
~ Wilt Chamberlain

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 Scott Marcouiller, Chief Technical Market Strategist, Wells Fargo Advisors 7/20/10.

* Pay Up: BP to Face: cited by Megan Friedman, Time News Feed – 7/20/10

* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 7/16/10.

* 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.