Weekly Commentary
July 26, 2010

The Markets

Investors are frustrated as market action remains unpredictable and they've had to endure three months of extreme volatility. Over the last few weeks, many notable firms and individuals have reversed positions on everything from the stock market to the euro to U.S. Treasury securities. These investors have approached the market from the fundamental and technical side and neither one has held the key. Like running on a treadmill, the only thing investors have to show for their work is a whole lot of movement, but not a lot of forward progress. We still find ourselves within the range of the "flash splash" and at close to levels we first hit in this cycle in October of last year. The S&P 500 index has been as high as 1220 and as low as 1011 but we find ourselves right back in the middle.

Last week was encouraging as we began to see some signs of approaching our destination. Second quarter earnings were encouraging as we had plenty of good reports and enough revenue growth to help allay the prior week's fears. We also had a mildly positive slate of economic data including Consumer Price Index (CPI), University of Michigan Confidence, Initial and Continuing claims and Housing Starts and Existing Home Sales numbers. These releases dovetail with our outlook that growth is likely to be tepid but that inflation is benign and that rates and policy will stay supportive. On the policy front, we also heard from Federal Reserve Chairman Ben Bernanke who spooked the markets by saying the economic outlook remains "unusually uncertain." However, he also reaffirmed the Fed's commitment should the economy need it, which we took as a positive. Sometimes an extended cooling off period is necessary to prepare for the next run. Equities' 80% move off the bottom may require an extended cooling off period before the market is ready for its next run.

We continue to believe that our destination, when we finally get there, will include another leg higher for equities. In the near-term, we believe the gyrations will continue as the market digests the enormous amount of earnings reports and economic reports due over the next few weeks. We continue to believe that sluggish growth, continued uncertainties over the macro outlook, and low investor participation will keep volatility elevated through the summer and into the fall. Once we get more clarity on the market's concerns, as well as mid-term elections and possible tax policy changes, we believe the fundamentals will reassert themselves. Stocks continue to trade at levels we find attractive, but we believe patience is important as the volatility could create better opportunities.

Index Performance Statistics – July 26

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	10525.43	100.81	0.97	0.93	15.56
NASDAQ	2296.43	26.96	1.19	1.20	16.70
S&P 500	1115.01	12.35	1.12	-0.01	13.52

Source: Bloomberg
**Price return — does not include dividends*

Audit: U.S. Can't Account for $8.7 Billion in Iraqi Cash

The U.S. Defense Department is unable to properly account for over 95 percent of $9.1 billion in Iraqi oil money tapped by the U.S. for rebuilding the war ravaged nation, according to an audit released Tuesday.

The report by the U.S. Special Investigator for Iraq Reconstruction offers a compelling look at continued laxness in how such funds are being spent in a country where people complain basic services like electricity and clean water are sharply lacking seven years after the U.S.-led invasion that toppled Saddam Hussein.

The audit found that shoddy record keeping by the Defense Department left the Pentagon unable to fully account for $8.7 billion it withdrew between 2004 and 2007 from a special fund set up by the U.N. Security Council. Of that amount, Pentagon "could not provide documentation to substantiate how it spent $2.6 billion." The funds are separate from the $53 billion allocated by Congress for rebuilding Iraq. The report comes at a critical time for Iraq.

Last Week

An apple a day keeps the bears away. Stocks gained this week as investors felt good about the positive second-quarter profit reports by Apple (AAPL $259.27), Goldman Sachs (GS $146.55), Halliburton (HAL $30.30), Harley Davidson (HOG $27.90), AT&T (T $25.51) and United Postal Service (UPS $63.15). The strength of earnings was enough to offset continued disappointing housing data and Fed Chairman Bernanke's prognosis that the economic outlook is "unusually uncertain" without providing any remedies to stimulate growth. As stocks sold off, bondland saw the 2-year Treasury trade at a record low, while the yield of the long bond descended to 3.68%. Just as it seemed stocks were DOA at the end of the week, economic data out of Europe on manufacturing and services and retail sales surprisingly showed signs of life ahead of the results of the stress test for the region's banks. Barring any relapses like last Friday, the S&P 500 index was on pace to end the week in positive territory to bump July's performance to 6.2% for the month.

Despite the improved performance during July, market sentiment readings suggest investors' outlook remains grim. This week's American Association of Individual Investors poll showed the bearish camp of retail investors rose to 45% from 37.8% whereas the number of bulls declined to 32.2% from 39.4%. The Institutional Investor poll of licensed professionals was more measured with the percentage of bulls and bears both at 35.6%. These contrarian indicators aren't a cure-all for market performance; they can be helpful in diagnosing a rally higher.

Early results for earnings season show most corporations are in good health. Currently, the run rate of companies in the S&P 500 index reporting better-than-expected reported second-quarter earnings stands at 85%, according to Bloomberg. In addition, the index has seen 69% of companies beat topline estimates with sales increasing an average 9.2% for those that have released results. The peak of earnings season continues next week with scheduled releases by 139 companies in the S&P 500 as well as four Dow Jones Industrial Average constituents. After digesting reports of big banks this week, it will be interesting to see how investors handle an intake of earnings in the energy patch with scheduled releases by British Petroleum (BP $36.23) , ConocoPhillips (COP $53.27), Sunoco (SUN $33.55) and Noble Energy (NBL $67.78). Other scheduled appointments on the earnings front include tallies by Boeing (BA $66.60), Aflac (AFL($49.85), Temple Inland (TIN $21.92), Kellogg (K $50.60), U.S.Steel (X $46.72), Bungee (BG $53.95), Diana Shipping (DSX $13.16), WellPoint (WLP $52.46), Dominion Resources (D $42.22), Ball Corp (BLL $55.85) Barrick Gold (ABX $42.23) and Visa (V $74.46).

Along with the deluge of earnings releases, investors will closely observe next week’s data for improvement in the economy’s vital signs. Of particular interest will be Friday's release of the first look at second-quarter GDP, which is projected to show the economy grew 2.5%. After the initial cautious assessment by Fed head Bernanke, there will be interest in Wednesday's Beige Book release for any revelations. Given the weakness in housing, expectations are low for both Monday’s New Home Sales and Tuesday’s Case/Shiller reports. Other test results on the economy worth monitoring include updates on consumer confidence and sentiment, and durable goods. Another indication of how investors view the current environment will be how well the auctions of 2-, 5- and 7-year Treasury notes, totaling $104 billion, are received next week.

Weekly Focus – Think about it

“Energy and persistence conquer all things.”
~ Benjamin Franklin

Best Regards,

Jim, Aaron & Angela
Kennedy Financial Services

* 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 e consider 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 7/27/10.

*Audi: U.S. Can't Account for: cited by Sinan Salaheddin, Tarek El-Tablawy, Associated Press 7/27/10

* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 7/23/10.

* 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.