Weekly Commentary
July 6, 2010

The Markets

The topic of a double-dip economic recession is now a hot topic.Another new term introduced to the investing masses last week was the “Death Cross”. It refers to the relationship between an index and its 50- and 200-day moving averages. The “death” occurs when a downward sloping 50-day moving average crosses below its 200-day moving average. This is considered a negative signal by many as it portends lower stock prices ahead. Another term thrown around was a head-and-shoulders (no, not the shampoo) top that is forming in the major indexes. As the fear scenario went this past week, the triple whammy of slowing Asian growth, the Euro debt crisis and slowing United States economic growth are combining with the technical condition of the stock market and the result will be a double-dip recession.

Fears about slowing Asian growth were revived after a Chinese Leading Economic Index was revised lower. We believe this report was an aberration and not consistent with other Chinese economic reports that are indicating a slowdown in their economy to a more sustainable long-term pace. The Group of 20 nation’s meeting ended June 27 with European nations committed to long-term deficit reduction and strong austerity measures. The stock market treated these commitments as if they were something new. In fact, European governments – such as Spain, Portugal, and the United Kingdom – imposed multi-year budget tightening months ago and accelerated the pace of reform in the spring, in response to the Greek crisis and far ahead of the G-20 meeting. In the U.S., one of the biggest fears last week was that the sharp falloff in June consumer confidence was a signal of rapidly slowing U.S. growth.

Importantly, as discussed in our January and June 2010 Outlook reports, we have been anticipating a slowdown in the U.S. economy as the year progressed. Our economy is in much better shape now than when it entered the recession in 2008. Some of the conditions noted by our Economics and Equity Strategy team include that the economy is expanding, manufacturing is in a widespread upturn, capital spending has resumed, job creation is occurring, corporate profits are rising and leading economic indicators are growing, albeit at a slower pace.

Index Performance Statistics – July 6

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	9743.62	57.14	0.59	-6.56	19.35
NASDAQ	2093.88	2.09	0.10	-7.72	19.91
S&P 500	1028.06	5.48	0.54	-7.81	16.69

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

Credit Card Delinquencies Fall to 8-year Low

Americans are not as far behind on their bills as a year ago. The number of consumers behind on their credit card payments fell to an eight-year low in the first quarter of 2010, the American Bankers Association said Wednesday. Overall, delinquencies across a wide-range of consumer debt categories have also fallen. High unemployment and plummeting home values during the financial meltdown appear to have spurred consumers to shore up their finances and banks to limit their lending, resulting in fewer Americans being late with payments, the industry group said.

About 3.88% of bank credit card accounts were past due by 30 days or more in the first quarter of the year -- the first time since 2002 that the rate has fallen below 4%, the ABA said Wednesday. And ABA's composite ratio, which tracks delinquencies across eight key categories, fell to 2.98% from 3.19% the previous quarter -- a sign of modest improvement in the U.S. economy, the group said. "Consumers are doing a much better job managing their finances, building their savings and spending and borrowing less," ABA Chief Economist James Chessen said.

Last Week

Bombs were bursting in mid-air as the bulls limped into the Fourth of July weekend. Markets were lower across the nation for a second straight week as increased volatility and global debt concerns sent investors running for defensive investments. Adding fuel to the bear's fire was weak manufacturing data out of China and lackluster consumer confidence, jobless claims and housing reports. Moody's threats to downgrade Spain's credit rating kept the fireworks in sovereign debt burning. These negative headlines outweighed the G-20's decision to pursue higher capital requirements for banks and a commitment to reduce global debt. Heading into Friday's session, the S&P 500 index was down 4.4%.

With equity markets having little room for celebration, bondland caught quite the bid.Treasurys rallied to the lowest yields seen in 14 months as investors flocked to safe-haven investments. Leading up to the holiday weekend, the new issuance market was relatively quiet. The yield curve continued to flatten with the 2- to 10-year spreads narrowing to the 230 basis points range from its recent high of 283 basis points on April 2, 2010 (100 basis points = 1%). The 10-year started the week yielding 3.10% but the selloff in equity markets pushed the yield down to 2.90% heading into Friday's nonfarm payrolls.

If the bulls are going to claw back, they will have to join hand to hand to overcome the negative news that is roiling markets. In particular, they will likely need a tailwind of better-than-expected economic news accompanied by a strong second-quarter earnings season. Over the next four weeks, 69% of the companies in the S&P 500 report their Q2 earnings and these companies make up 75% of the index by market cap. The estimated earnings growth rate for the S&P 500 for Q2 2010 is 27%. The Materials, Energy and Information Technology sectors are expecting the highest growth rates for the quarter.* With that said, Alcoa (AA) is scheduled to officially kick off the earnings season on July 12, after the bell. On the economic front, data will be light with mortgage applications, wholesale inventories and ISM services all hitting the tape. The markets will also get economic comments from Minneapolis Fed President Kocherlakota and Treasury Undersecretary Brainard.

Weekly Focus – Think about it

"Once a new technology rolls over you, if you're not part of the steamroller, you're part of the road."
~ Stewart Brand

Best Regards,

Jim, Aaron & Angela
Kennedy Financial Services

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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 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 7/6/10.

*Credit Card Delinquencies: cited by Annalyn Censky – 7/7/10

* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 7/2/10.

* 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.