Weekly Commentary
August 2, 2010

The Markets

The grind in stocks continued last week as news dominated investors' psyches. The week started on the upside as investors reacted to more encouraging earnings news and spillover from the positive results from the European bank stress tests. The tone quickly changed as reports on consumer confidence and durable goods disappointed. In addition, the Federal Reserve's beige book report revealed a somewhat more downbeat assessment of the economy. The kicker for news was St. Louis Fed President Bullard's comments that the United States faces an increased risk of deflation. With this news backdrop, the strong July performance for stocks, and the major stock market averages being turned back at their June resistance levels, investors had every reason to do some profit taking. However, the S&P 500's net change for the week was virtually zero. It again underlined the lack of conviction among buyers and sellers.

We caution that we must all get used to the summer grind because not much change is anticipated for several more weeks. One foreseeable event that could shake up the market and challenge the outer bounds of the trading ranges may be when midterm election talk escalates to an even higher level. Another event that could have a great impact is if momentum builds in Congress to extend the tax cuts scheduled for expiration at year-end 2010. While we believe this would be greeted as a positive surprise by investors, we expect that Congress and the White House will move slowly in the decision-making process.

Some interesting data was released last week that shed light on the bigger picture. The *American Association of Individual Investors*, a nonprofit organization dedicatedto educateindividual investors, revealed bullish sentiment reached 40% last week vs. 21% in the first week of July. The percentage of bears dropped to 33%, down from 57% in early July. It was noted in a *CBS MarketWatch* story that the early-July sentiment readings reached the highest level of *investor* pessimism since March 2009. The "meat" of the story discusses that the real question is, "What pessimistic *investors* are we talking about?"

The article cited a study completed in June by Fidelity Investments that showed active, experienced traders are more bullish, see current market volatility as an opportunity and 40% of this group polled plan to reduce cash levels during the next six months. Retail investors are not as optimistic. The study showed more than 80% of general investors said the market would need to "stabilize" at least six months before they'd feel comfortable adding to their stock positions.

We were intrigued by the study because it presents further evidence supporting our long-term stance on the stock market. While we did not originate the characterization, we agree that the 13-month advance to the April 2010 highs was a "Rodney Dangerfield" rally. The lift lacked respect as there were many non-believers. This was a positive because it helped keep excesses in check and the stock market didn't experience its first correction (10% or greater decline) until 13 months into the rally. Even following the S&P 500's 16% decline from the April highs, investors "bought the dip" leaving the S&P 500 about 9% below the April high as of this writing. Many individual investors seemed to have sworn off stocks and this is one reason why cash levels remain historically high. As stated several times, many investors are still shell-shocked from the 2007-2008 financial crises and do not want to lose money in stocks again. Instead, *the Investment Company Institute,* an industry trade group, estimates that U.S. corporate and government-bond mutual funds saw net inflows of approximately $20 billion during the first three weeks in July while U.S. stock funds saw a net outflow of nearly $9 billion.

Events such as May 6 when the DJIA rapidly dropped more than 1,000 points before recovering 650 points reinforced to individual investors the notion that Wall Street is controlled by large institutions and highly-sophisticated computerized trading. While we think these beliefs are a little extreme, perception is reality right now and explains part of the reason why the major stock market averages have been locked in wide trading ranges for 3-½ months. Simply stated, investors' confidence is low and hence the volatile market action is the result. The stock market will work through this, but we expect that time will be the best way to build confidence.

Index Performance Statistics – August 2

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	10674.38	208.44	1.99	2.36	14.94
NASDAQ	2295.36	40.66	1.80	1.16	14.28
S&P 500	1125.86	24.26	2.20	0.96	12.29

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

Private Sector Jobs Rise for 6th Straight Month

Two employment reports released early Wednesday gave a mixed picture two days ahead of the government's monthly figures. Private-sector employers added jobs for the sixth month in a row in July, according to a report by payroll processing firm Automatic Data Processing (ADP). ADP said private-sector employers added 42,000 jobs to their payrolls in June, following an upwardly revised 19,000 increase in June.

Economists polled by Briefing.com had expected the report to show the private sector added 25,000 jobs in July. In a separate report, planned job cuts rose for a third straight month in July, fueled by continued weakness in the government and non-profit sector, according to outplacement firm Challenger, Gray & Christmas Inc. Employers announced plans to eliminate 41,676 jobs last month, Challenger said. That was up 6% from June, when job cuts rose to 39,358.

Last Week

The bulls didn't get what they wanted as the market ended July on a dour note. Early gains in stocks came as generally positive second-quarter earnings tallies and housing data that pushed the S&P 500 index back near break-even for the year. However, hopes for greener pastures were dashed following disappointing economic data throughout the week. Readings of consumer confidence and durable goods came in below projections, and the Fed's Beige Book revealed that some areas of the economy slowed. Stocks extended their losses following Friday's release of second-quarter GDP, which showed the economy grew at a slower pace than expected. As of Friday's open, the S&P 500 index was down on the week to pare back the market's advance during the month to 6.5%.

Next week's busy economic calendar will likely test the sustainability of July's advance. Of particular importance will be Friday's employment report. Current consensus estimates call for the July non-farm payroll to show 60,000 jobs were lost, while the unemployment rate ticks up slightly to 9.6% from 9.5% in June. On the housing front, investors will look for Tuesday's release of July pending home sales to build off this week's better-than-expected Case/Shiller and new home sales reports. In addition, investors will look for encouraging signs from scheduled updates on personal spending and income, construction spending, vehicle sales, consumer confidence and manufacturing.

While the economic data has been a drag, the overall tone of second-quarter earnings has remained positive. Of the 313 companies in the S&P 500 index reporting to date, 77% have beaten analysts' bottom-line expectations, according to Bloomberg. Also encouraging has been results on the top-line with 66% of companies coming in ahead of estimates. If the results remain on track, the index is poised for a 34% year-over-year growth in profits.

Looking out to next week's earnings releases, the energy patch will be well represented with Anadarko Petroleum (APC $49.95), Marathon Oil (MRO $33.36), Forest Oil (FST $28.95), and El Paso (EP $12.36) due to report. Along with the pending home sales report, the bulls keep an eye out for affirmative tallies from home builders Pulte Homes (PHM $8.80), DR Horton (DHI $10.88), and Beazer Homes (BZH $4.26). Other companies on the docket include Humana (HUM $46.17), Parker-Hannifin (PH $61.56), Pfizer (PFE $15.09), Procter & Gamble (PG $61.67), Clorox (CLX $64.90), Dean Foods (DF $11.48), Kraft Foods (KFT $29.11), American Tower (AMT $45.53), Dow Chemical (DOW $27.27), MasterCard (MA $208.37), Time Warner (TWX $31.26), Emerson (EMR $49.78), Allstate (ALL $28.25) and CF Industries (CF $81.00).

Weekly Focus – Think about it

"When people lack jobs, opportunity, and ownership of property they have little or no stake in their communities."
~ Jack Kemp

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 8/3/10.

* Private Sector Jobs: cited by Blake Ellis & Annalyn Censky, CNNMoney.com 8/4/10

* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 7/30/10.

* 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.