



Weekly Commentary April 5, 2011

The Markets

The stock market rose for the second straight week and closed with the best first quarter since 1998. Not only did the quarter finish solid, but it was a continuation of the smooth sailing for the major averages from last summer's lows as they closed near their February highs. Other averages, notably popular measures of mid- and small-cap stocks, have surpassed or are near eclipsing their 2007 highs. There are several global worries for investors, but at this point, the economic fundamentals and the steady, slow recovery are trumping the many adversities. Right now, stock prices are rising because economic growth continues and corporate profits are reaching record highs. Last week, there was more encouraging economic news and evidence the U.S. economy is slowly gathering some momentum, most notable in manufacturing and on the jobs front.

Threats to the stock market have not vanished. In coming weeks, more issues will be surfacing on investors' radars. Persistently high oil prices, which have now reached 2-1/2-year highs on little news, may at some unknowable time impact consumers' attitudes and likely their spending. The result, in our opinion, will be less enthusiasm for stocks. Earnings season for the first quarter will soon be in full swing, and the Advisory Services Group's Equity Strategy team has pointed out that profit margins and bottom-line results comparisons will be increasingly difficult in 2011. Of course, guidance for the balance of the year will be very important and a potential stumbling block for equities. Short interest on stocks has now reached a five-year low. Congressional bickering will continue over budgets, and there is still a threat of a government shutdown this Friday.

Failing European banks and the sovereign debt crisis, the turmoil in the Middle East/North Africa, and ongoing fall-out from the tragedy in Japan still loom over the stock market. Then there is the Federal Reserve (Fed). If anything is clear about its intentions at the end of the quantitative easing (QE2) program scheduled for June, it is that there is not a consensus among policymakers for the preferred course of action. The big questions are when will investors react to the possible end of Fed stimulus in its current form and will they believe the economy can stand on its own two feet without this crutch. We believe the uncertainty will cause volatility for the stock market until the Fed's intentions are made clear. In the meantime, seasonality is working in the market's favor through the end of April, which is the end of the year's historically strongest six months.

Last week, we commented that as the sell off escalated in February, volume rose. Since the start of the rally in mid-March, volume has been languishing. The market does not always accommodate and thus forces one to be flexible. Can the market rise without increased volume? Sure it can, but more participation would lead to more durability. We don't see a runaway to the upside, but the bull market is acting more like it wants to go higher.

Index Performance Statistics – April 5

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	12393.90	-6.13	-0.05	7.05	12.98
NASDAQ	2791.19	2.00	0.07	5.21	14.54
S&P 500	1332.63	-0.24	-0.02	5.96	12.04

Source: Bloomberg

*Price return — does not include dividends

Bernanke Faces Possible Fed Split on Maintaining Stimulus

Federal Reserve Chairman Ben S. Bernanke may have to overcome divisions among policy makers should he seek to maintain record stimulus past June, minutes of the Fed's March 15 meeting indicate. A "few" among the central bank's 17 governors and regional bank presidents said tighter credit may be warranted this year, while a "few others noted that exceptional policy accommodation could be appropriate beyond 2011," the Federal Open Market Committee said in the minutes, released yesterday in Washington.

Stocks and Treasuries fell on speculation the Fed may start to tighten policy sooner than previously forecast after it completes its \$600 billion bond-purchase program in June. A mixed bag of economic indicators, including higher food and energy prices and a slowing expansion in service industries, make Bernanke's job tougher, said Keith Hembre, a former Fed researcher. "You've got lower-than-desired growth and the potential for higher-than-desired inflation here, and it definitely complicates the picture from a policy standpoint," said Hembre, chief economist and investment strategist in Minneapolis at Nuveen Asset Management, which oversees about \$197 billion. Several FOMC members "indicated, in light of recent developments, that the risks to their forecasts of inflation had shifted somewhat to the upside," the minutes said.

Last Week

Wall Street let out a collective Bronx cheer as the Bombers and bulls stepped up to the plate this week. The market continued to rebound from the March 16 correction low as investors were encouraged by the personal consumption and ADP jobs reports. Investment banking activity remained brisk as three IPOs came to market while the M&A front saw eBAY (EBAY \$31.04) agreed to buy GSI Commerce (GSIC \$29.26) for \$2.4 billion and Valeant Pharmaceuticals (VRX \$49.81) launch a \$5.7 billion hostile takeover bid for Cephalon (CEPH \$75.78). These events partially offset the Murderer's Row lineup consisting of Japan's nuclear crisis, tensions in the Middle East/North Africa, and Euro zone debt woes. Heading into Friday's employment report, the S&P 500 index was up 0.9% for the week. The rally since March 16 trimmed the monthly loss to a modest 0.1% and spurred the index to a 5.4% gain for in the first quarter.

Next week's lineup of economic releases will be limited to updates on the service sector, mortgage applications, consumer credit and wholesale inventories. However, the Fed will fill the void of the light data calendar on Tuesday with the release of its Federal Open Market Committee (FOMC) meeting minutes from March. Investors will look for insight into the Fed's outlook for the economy as well as its stimulus measures within the scheduled speeches by Chairman Bernanke as well as regional presidents Lockhart, Plosser, and Kocherlakota at its scheduled financial markets confab in Stone Mountain, Ga.

For sports fans, the start of April means the start of the baseball season. For market enthusiasts, it means earnings season is right around the corner. Currently, consensus projections call for the index earnings to grow 13% from the same period last year, according to Thomson Reuters. Alcoa (AA \$17.66) will throw out the first pitch of the season after the close on April 11, followed by two-thirds of S&P 500 index companies reporting results in the subsequent four weeks. Providing investors a warm-up going into earnings season will be releases next week by Monsanto (MON \$72.26), Constellation Brands (STZ \$20.28), Bed Bath & Beyond (BBBY \$48.27), Pep Boys (PBY \$12.71), Pier 1 Imports (PIR \$10.15) and Ruby Tuesday (RT \$13.11).

Weekly Focus – Think about it

“Why pay a dollar for a bookmark? Why not use the dollar for a bookmark?”
~ Steven Spielberg

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.
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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 4/5/11.
- * Bernanke Faces Possible Fed Split: Scott Lanman & Josh Zumbrun Bloomberg 4/5/11
- * Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 4/1/11.
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