



## Weekly Commentary August 23, 2011

### The Markets

After two tumultuous weeks, the stock market was relatively quiet last week, but that didn't help much to calm investors' fears – especially given the 400-point dive the Dow Jones Industrial Average (DJIA) took on Thursday. Investors again sought safety as yields on the 10-year Treasury note briefly dropped below 2% for the first time in five decades. Gold soared to more new records. Investors continue to focus on the negative U.S. economic reports and Europe's debt problems. There is a feeling that policymakers are running out of options and have no magic wands to wave. This is intensifying worries about the U.S. economy falling into recession again. The result for last week was the fourth straight decline for the major averages, with the DJIA dropping 5.2% on Thursday and Friday alone. In terms of magnitude, it was the worst four week streak since March 2009.

A weekend article in *The Wall Street Journal* presented the findings of an online survey Decision Research conducted between Aug. 9 and Aug. 15 to gauge how the latest financial upheaval has affected American investors. Asked about how angry they felt "about the financial challenges facing our country now," 59% said they were "moderately" or "very" angry, and 52% said they were moderately or very fearful. The survey also compared feelings now to March 2009, when the stock market bottomed and the financial world itself seemed about to end, and found that investors' mood is at least as bad now as it was then.

Even institutional investors are feeling pretty gloomy these days. Reuters reported the results of a survey of 176 global fund managers with total assets of \$551 billion. The survey was polled between Aug. 5 and 11, around the time that world stocks posted their biggest weekly loss since November 2008. The findings showed that these managers had slashed their equity holdings and boosted cash levels to their highest levels since March 2009. The positive from these findings is that they underline the pessimism in the marketplace right now, and historically such extremes have been coincident with major stock market bottoms. As we stated two weeks ago, we unfortunately can never know the exact timing or level of the bottom, but at least these sentiment surveys imply that some of the elements may be falling into place.

The first revision to the second quarter gross domestic product (GDP) will highlight this week's economic data. Expectations are for a softer than previously reported growth rate. Our Advisory Services Group's Macro Strategy team continues to place the probability of a recession at 25%. That is up from close to 0% earlier in 2011 when the economy was stronger. There is also great anticipation over Federal Reserve Chairman Ben Bernanke's speech at the end of the week in Jackson Hole, Wyo. It was one year ago at the same event that the chairman foreshadowed the beginning of the quantitative easing, part two (QEII) program that led to a big stock rally that ran through February of this year. While the Fed may withhold announcement of immediate new initiatives, investors are hopeful that Bernanke will lay the groundwork for initiatives to support the economy if needed.

We believe that some climactic selling has been seen, but the market's message after last week's action is it may have to undergo more to reach a final bottom. As of this writing, the major averages are retesting the lows of the week of August 8. While the worst of the selling is likely behind us, this does not preclude the averages from violating those lows. Whether they do or not, we believe that, given the extent of the decline and the negatives already factored into the market, this is an advantageous time for investors to be adding to positions.

## Index Performance Statistics – August 23

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	11176.79	322.11	2.97	-3.46	11.32
NASDAQ	2446.06	100.68	4.29	-7.80	15.18
S&P 500	1162.35	38.53	3.43	-7.58	10.50

Source: Bloomberg

\*Price return — does not include dividends

## Gold Tumbles Most Since December 2008

Gold plunged in New York, heading for the biggest drop in 18 months, on speculation that financial markets may be stabilizing, eroding the appeal of the precious metal a haven. Bullion has tumbled more than 5 percent in two days, erasing gains in the past two weeks that sent the metal up as much as 16 percent since Aug. 5 to a record \$1,917.90 an ounce yesterday. On Aug. 16, Wells Fargo & Co. said climbing speculative demand from investors had pushed the market into a “bubble that is poised to burst.”

U.S. equities climbed today after a Commerce Department report showed orders for U.S. durable goods climbed more than forecast in July as a surge in demand for aircraft and autos eclipsed a decrease in business equipment. Federal Reserve Chairman Ben S. Bernanke and other central bankers meet this week in Jackson Hole, Wyoming, to address the U.S. recovery.

“This is liquidation from a crowded trade,” Adam Klopfenstein, a senior market strategist at MF Global Holdings Ltd. in Chicago, said in a telephone interview. “Investors are paring down positions in gold on expectations Bernanke will do something to boost equity prices.”

Gold futures for December delivery plunged \$76.10, or 4.1 percent, to \$1,785.20 an ounce at 10:58 a.m. on the Comex in New York. A close at that level would be the biggest loss since Feb. 4, 2010.

“This is just pure panic selling,” Frank McGhee, the head dealer at Integrated Brokerage Services in Chicago, said in a telephone interview. Before today, gold's 14-day relative strength had been above 70 since Aug. 8, a signal to technical traders that prices are poised to fall.

Before today, gold gained 31 percent this year as burgeoning global debt crises and turmoil in equity markets boosted the appeal of the metal as an alternative asset.

“Europe is on vacation and the sovereign-debt fears are being addressed,” Frank Lesh, a trader at FuturePath Trading, said in a telephone interview from Chicago. “The currency markets are pretty stable and not scaring anybody at the moment.”

## Last Week

Tremors of a global recession rattled the bulls this week. Just as it appeared the equity market had stabilized investors were hit with bad news out of the eurozone. The meeting between German and French leaders failed to instill confidence that a viable solution to solve the region's debt crisis would be reached. A dismal August Philly Fed reading coupled with upticks in weekly jobless claims and inflation sent stocks tumbling. Several Wall Street firms jumped on the bears' bandwagon by lowering their global growth expectations in the second half of the year. The Fed didn't help the bulls' cause with the statement from Regional Presidents that it wasn't the central bank's role to prop up stocks with policy. Tech was a wreck after bad punk earnings came out of NetApp (NTAP \$35.80) and Hewlett Packard (HPQ \$29.51). Thursday's 4.5% decline in the S&P 500 erased the week's early gains from positive earnings by retailers and Google's (GOOG \$504.43) \$12.5 bid for Motorola Mobility (MMI \$37.85). The sell-off put the index in the red by 3.23% to extend the August decline to 11.73% going into Friday's option expiration. Since the April 29 high, the index is down 16.35% and off 9.3% year-to-date.

The tumble by stocks sent investors to seek safer ground over in bond land. Treasuries continued to rally, shrugging off the recent S&P downgrade, amid fears that Europe's debt woes and soft economic data would result in another recession. As a result, the yield on the benchmark 10-year note fell to a record low of 1.9735% during Thursday's session. With investors apparently willing to accept lower rates of return, it will be worth watching demand for next week's auctions of \$99 billion in 2-, 5- and 7-year government debt.

Action in the commodity realm exhibited a split personality this week. Dour outlook on the global economy sent gold to a record high of \$1839.80 an ounce on Thursday. The surge put the yellow metal on pace for its longest weekly winning streak since April 2007. Weakness was seen in the energy patch as crude oil slipped lower for a fourth consecutive week as investors speculated that weaker growth in the U.S., Europe and the Pac-Rim would cause a downturn in demand.

The recent disappointing data would suggest expectations are low going into next week's economic releases. Therefore, the market could respond positively if reports for new home sales, durable goods and Thursday's weekly initial jobless claims come in ahead of expectations. Friday's second look at 2Q GDP is expected to be revised down slightly to 1.2% from 1.3% while the U of Michigan sentiment's final reading for August is projected to see an uptick to 57.5 from the previously reported 54.9. If the data disappoints it could put additional pressure on Fed head Bernanke for more economic stimuli when he kicks off the central bank's annual confab in Jackson Hole, Wyoming at the end of the week.

Headwinds for the market may get stronger with Wal-Mart's (WMT \$51.79) profit tally on Tuesday signaling the end of second-quarter earnings season. Since Alcoa (AA \$11.51) kicked things off back on July 11, results within the S&P 500 index have been generally well-received with 76% of companies in the index coming in ahead of Wall Street consensus estimates, according to Bloomberg. Earnings grew 16.3% and the top-line expanded 11.3% in the prior period compared to a year ago. At the sector level, utilities, energy and tech earnings increased the most while financials sang the bottom line blues posting the largest number of profit decreases in the quarter on a year-over-year basis. We still have some stragglers with several reports expected to grace next week's tape that could help the bulls. Big Lots (BIG \$30.13) and Tiffany (TIF \$59.21) provide updates on the opposite ends of the retail spectrum. With all the recent market volatility raising heart rates, investors may want to check out Medtronic's (MDT \$31.25) results on Tuesday. Other companies of interest due to report include consumer staples names H.J. Heinz (HNZ \$52.07), Hormel (HRL \$28.04) and Hain Celestial (HAIN \$29.36); homebuilder Toll Brothers (TOL \$15.52); and semi-cap equipment maker Applied Materials (AMAT \$10.98).

# Weekly Focus – Think about it

“To be absolutely certain about something, one must know everything or nothing about it.”  
~ Henry A. Kissinger

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.
- \* Bloomberg is the source for any reference to the performance of an index between two specific periods.
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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 8/23/11
- \* Gold Tumbles Most: Pham-Duy Nguyen, Bloomberg 8/24/11
- \* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 8/19/11.
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