

Weekly Commentary September 13, 2011

The Markets

The past weekend, we all took time out to remember the tragic events of September 11 and to honor the 3,000 people whose lives were taken that day. In St. Louis, there was a public display of American flags. Each flag was tagged with a picture, name tag and story of one of the individual's who lost his or her life. There were similar tributes across the country.

Remembering that tragic day, fearing another attack as the anniversary approached and worrying about other concerns combined to help further dampen investors' mood. The result was a holiday-shortened week that did little to turn around September's fortunes, which have not treated stock investors kindly so far. Concerns about Europe overshadowed news from the president and the Federal Reserve as stocks bounced around and lost ground again. Added to the previous Thursday's and Friday's market action, last Tuesday's decline made it the worst three-day monthly start for the Dow Jones Industrial Average (DJIA) in history. With fears that Germany is clashing with other countries over how to solve the region's debt crisis, markets were heavily pressured last Friday, and 10-year Treasury yields fell to a 60-year low. For the week, the DJIA lost 2.21%, while the S&P 500 declined 1.68%.

Many investors were hoping that Fed Chairman Ben Bernanke would use a speech last Thursday to lay out specific steps that the Fed may take to spur on the slow-growing economy. Instead, he essentially repeated his Jackson Hole, Wyo., speech from two weeks ago. He said he sees increasing risk to the U.S. economic outlook and that central bank members will discuss tools that could be used to bolster growth at their next meeting. The Fed's beige book release revealed that the stock market volatility in August and increased economic uncertainty led many to downgrade or become more cautious about their near-term outlooks. Five districts reported slight economic expansion while the other seven said activity was flat or "sluggish" at best.

A weekend article in *Barron's* opined that a quantitative easing, part three (QE3) program could help get the U.S. economy back on track. Of the several possible choices the fed has in front of it, the probable alternative will be to sell short-maturity U.S. Treasuries and use the proceeds to buy longer-term issues. The article went on to say that this alternative would avoid adding to the Fed's huge balance sheet while being an effective way to re-energize the economy. The author said that worries about expanding the Fed's balance sheet make an exact replica of QE1 and QE2, which strictly involved the Fed purchasing Treasury securities, virtually impossible. We believe the Fed will make strong statements that it is leaning toward action at its meeting next week. Lengthening of maturities in its portfolio will be one of the options at the top of the list, in our opinion.

The president's new jobs package announced last Thursday got mixed reviews, but the overwhelming response was that Congress would not act in a timely fashion and political opposition would dampen the effectiveness. We agree that this is the most likely probability. Many economists sounded off in the weekend newspapers. Some thought the plan would go a long way toward stabilizing confidence and be an immediate boost to consumer spending if the payroll-tax cut is extended, which is a huge fiscal restraint that's scheduled to kick in next year. One notable economist disagreed, saying that the plan would not boost consumer spending because it doesn't address falling home prices. While Congress determines the plan's ultimate fate, we believe it creates yet another uncertainty, and we know investors typically don't like uncertainty.

The market's erratic behavior has not changed in the past several weeks; therefore, our bottom line is unchanged. We expect more volatility and believe the market will still be especially vulnerable to headlines. It continues to be an emotional market, as evidenced by the dramatic up and down swings.

Index Performance Statistics – September 13

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	11105.85	44.73	0.40	-4.07	5.50
NASDAQ	2532.15	37.06	1.49	-4.55	10.59
S&P 500	1172.87	10.60	0.97	-6.74	4.62

Source: Bloomberg

*Price return — does not include dividends

China Willing to Buy Bonds From Crisis Nations

China is willing to buy bonds from nations involved in the sovereign debt crisis, National Development and Reform Commission Vice Chairman Zhang Xiaoqiang said in an interview with the media in Dalian yesterday. China is willing to offer assistance, Zhang said without elaborating, adding that Premier Wen Jiabao made similar remarks earlier, according to a transcript distributed on the planning agency's website yesterday evening. Caijing magazine attended the briefing and published an article earlier.

Wen, speaking at the World Economic Forum in Dalian yesterday, signaled that that developed nations should cut deficits and open markets rather than rely on China to bail out the world economy. China can best contribute to the global economic recovery by ensuring steady growth at home, he said. "Countries must first put their own houses in order," Wen said. "Developed countries must take responsible fiscal and monetary policies. What is most important now is to prevent the further spread of the sovereign debt crisis in Europe."

China is actively allocating foreign reserves via commercial banks to support domestic companies going abroad, Zhang said, without elaborating, according to the transcript. China will also use foreign reserves to secure important commodities or find resource assets overseas, he said. The nation wants countries including the U.S. to become more open to investment by Chinese companies, which will create local jobs, Zhang said. China aims to complete and publish foreign-investment guidelines for industry this year, he said. A double-dip recession abroad is "avoidable" if the global community increases coordination and efforts and adopt "appropriate" measures, Zhang said. If the U.S. introduces a third round of quantitative easing, this will further increase the global inflation pressure, Zhang said. China's full-year consumer price index may rise by "a bit more than 4 percent" this year, he said.

Last Week

Bulls did their best to do their patriotic duty this week. Following the initial stumble after the Labor Day weekend, stocks rallied Wednesday to halt the dour start to September after Germany's high court ruled against complaints of the government providing aid to Greece. Investors were also optimistic that President Obama's proposed job plan would give a lift to the economy. The party was almost cut short as the Fed tried to throw cold water on the rally with Chairman Bernanke's speech on Thursday failing to provide details of the central bank's intentions to bolster growth. Despite best efforts by the bulls couldn't hold their ground. Concerns about Greece heading into this weekend's G-7 meeting in France and speculation Congress won't pass the president's \$447 billion American Jobs Act sent the S&P 500 back into negative territory for the week.

Action over in bond land was also volatile. Concerns over the Euro-zone sent the yields lower during Tuesday's trade. Investor uncertainty sent the benchmark 10-year note to an all-time low of 1.91% during Tuesday's trade. At the long end of the curve, the yield on the 30-year bond fell to its lowest level since January 2009 amid speculation the Fed may begin buying longer dated maturities in an attempt to support the economy. Bonds gave back the early gains in anticipation of Obama's jobs plan to spur economic activity to offset the Fed's lack of clarity on intentions. With uncertainty about the economy and the Fed's intentions, it will be interesting to see next week's auctions of \$66 billion in 3-, 10- and 30-year government paper.

The economic debate played out in the commodity pits as well. With the dour employment report and Europe's financial crisis still weighing heavy on investors, gold shot up to a record 1921.15/oz during Tuesday's session. However, the gain proved short lived as the yellow metal reversed course after Switzerland's central bank imposed a ceiling on its currency and optimism over Obama's job plan. Over in the energy patch, crude oil was set for a third straight weekly advance. In addition to speculation the president's plan would create more jobs, investors showed concern of supply disruptions from Tropical Storm Nate. In the currency markets, the euro slumped to six month low against the dollar and yen as the tale of Europe's sovereign debt woes continues wag the global markets.

With the market remaining volatile, investors will be on the lookout for further warning signs in the week ahead. As bulls and bears come together for the tenth anniversary of the September 11 attack, G-7 leaders meet in France in an attempt to calm investor fears over Europe's financial crisis. There will also be plenty of data to chew through. Wednesday's retail sales numbers are expected to show modest spending by consumers. There will also be a bevy of updates on business activity. Regional readings from New York and Philadelphia are expected to remain dour. Also of interest will be Thursday's releases of the August industrial production and capacity utilization figures. Projections for consumer and producer prices are expected to show tame inflation. With the September FOMC meeting quickly approaching, it's unlikely that speeches by Fed head Bernanke and regional presidents Fisher, Bullard and Tarullo will provide clues as to which tools the central bank may use to spur the economy.

Weekly Focus – Think about it

“Let me remind you that credit is the lifeblood of business, the lifeblood of prices and jobs.”
~ Herbert Hoover

Best Regards,

Jim, Aaron & Angela
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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.
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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 9/13/11
- * China Willing to Buy Bonds: Joshua Fellman, Bloomberg 9/14/11
- * Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 9/9/11.
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