Weekly Commentary
November 8, 2011

The Markets

A review of the previous ten times that the stock market rallied sharply in a single month provides some insight on what might be happening today. In particular, the previous strong rallies usually occurred at the end of a recession or economic slowdown, not ahead of a recession. If fact, only one time out of ten did the U.S. economy fall into a recession within a year after a 10% or greater single-month rally in the U.S. stock market. This would suggest that the risk of recession today is probably not as great as many investors feared in August and September.

Looking back, the previous strong rallies were frequently reversals in the market's trend, with the S&P 500 often declining in the months ahead of a strong single-month rally, and then rising in the months after a strong single-month rally. Specifically, in the six months ahead of the ten previous strong single-month rallies, the S&P 500declined an average 7.7% and advanced an average 11.4% in the six months after a 10% or greater single-month advance. Of course, past performance does not guarantee similar results, and the market's actual performance varied from these averages. In fact, two out of the ten times the stock market was lower six months after the10% or greater single-month advance. Nevertheless, the strong advance in the U.S. stock market last month could be a sign that investor sentiment is starting to turn positive after deteriorating for much of the past six months.

Only time will tell if the October rally was a significant reversal in the market trend; but market action so far is encouraging. For example, several weeks ago we said that it would be important to see how the stock market behaved when there was negative news again. In addition, last week we noted that the stock market was vulnerable to a pull back because the stock market was overbought after the strong October advance. Fortunately, the market held up well last week after Greece threatened to hold a referendum on the latest proposal by European leaders to deal with their sovereign debt crisis. The stock market dropped sharply after the call for the referendum, but stabilized when the Greek government found that there was sufficient support for the European proposals, and a referendum was therefore not needed.

U.S. economic news has also been supportive for the stock market after the strong October rally. The latest purchasing manager's surveys show manufacturing and service sector activity is still expanding. In addition, October nonfarm payrolls increased a net 80,000 additional workers, and the previous month's payrolls figures were revised upward to show that 158,000 more workers were added to payrolls than were cut from payrolls during September. This was a substantial improvement over the 103,000 net increase originally reported a month ago.
The global economy still faces many problems and investor sentiment remains fragile, even after the strong October rally. Investors could still be disappointed by the outcome of the European debt crisis or the Super Committee negotiations over the U.S. debt and deficit. However, this comparison of previous strong single-month rallies suggests investors should not get too bearish after the strong October advance.

In summary, the stock market advance during October was one of the strongest single-month rallies in the past fifty years. History suggests that this type of market action may signal a significant change in investor sentiment. Of course, past performance does not guarantee similar results. Nevertheless, nine out of the ten times that the stock market rallied 10% or more in a single month, the U.S. economy was near the end of a recession or economic slowdown, not heading into a recession. The strong stock market rally in October suggests investors' fears of recession maybe diminishing.

Index Performance Statistics –November 8

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	12170.18	101.79	0.84	5.12	7.26
NASDAQ	2727.49	32.24	1.20	2.81	6.42
S&P 500	1275.92	14.80	1.17	1.45	5.15

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

Italian Yields Top 7% as LCH Raises Margin, Berlusconi Offers to Resign

Italian bonds slumped, driving two- five-, 10- and 30-year yields to euro-era records, after LCH Clearnet SA raised the deposit it demands for trading the nation's securities. Two-year note yields rose above 10-year rates, with five- year debt climbing above 7.5 percent as Prime Minister Silvio Berlusconi's offer to resign left his weakened government struggling to implement austerity measures to reduce borrowing costs. German 10-year bunds outperformed all their regional peers as the drop in Italian bonds boosted demand for the safest fixed-income assets. The euro sank and U.S. Treasuries jumped.

The LCH change for Italy "is a big deal in that it highlights the deterioration of its credit quality," said Eric Wand, a fixed-income strategist at Lloyds Bank Corporate Markets in London. "The more pressing issue still remains the political backdrop. The market would love a technocrat government to get the reforms through. If we go down the election route we've probably got three months of inaction."

The yield on Italy's five-year notes jumped 82 basis points, or 0.82 percentage point, to 7.70 percent at 11:56 a.m. London time. The 4.75 percent securities due in September 2016 dropped 2.995, or 29.95 euros per 1,000-euro ($1,363) face amount, to 88.81. Germany's 10-year bund yield dropped six basis points to 1.74 percent, with the two-year note yield one basis point lower at 0.39 percent. The extra yield investors demand to hold 10- year Italian debt instead of bunds reached 5.75 percentage points, also a euro-lifetime high.

Last Week

The bulls' journey took a detour at the start of November. Stocks slipped on fears the wheels were falling off Europe's plan to stem its debt crisis. Greek Prime Minister Papandreou attempted to throw a wrench in the bailout efforts with a call for a referendum vote on the new deal. The region's leaders called his bluff by threatening to cut off aid until the troubled nation decided whether it wanted to remain in the euro zone. MF Global's bankruptcy on bad sovereign debt bets brought back memories of Bear Stearns' collapse.

Moves by central banks were met with mixed reactions. The European Central Bank provided a boost to markets by unexpectedly cutting its benchmark rate to combat signs of a mild recession down the road. However, investors appeared disappointed the Fed didn't provide more stimulus measures following this week's FOMC meeting. Positive economic releases got lost in the news flowing out of the euro zone. Friday's job's report was encouraging as the unemployment rate ticked down to a six-month low and more jobs were created in October. With uncertainty surrounding Europe's ability to get out from its mountain of debt, the S&P 500 was on pace to snap its five-week winning streak.

It was a bumpy road over in bondland. Treasuries bounced up and down to the news coming out of Europe. As a result, the yield on the benchmark 10-year note went from 2.11% at the start of the week to below 2.0% before moving back up to 2.07% as of Thursday's close. With the soap opera continuing to play out across the pond, it will be interesting how next week's auctions of $72 billion in 3-, 10-, and 30-year government paper play out.

Uncertainty out of Europe will make it hard for the bulls to regain traction. Next week's data calendar will be relatively light. That will leave it up to the Fed to provide some encouragement on the economy. Along with comments from Chairman Bernanke on Wednesday, we will hear from regional presidents Rosengren, Kocherlakota, Plosser and Evans throughout the week.

On the earnings front, the overall picture remains positive. Since the start of reporting season back in October, 427 of the companies in the S&P 500 index released results. Of that number 69.1% have exceeded analyst expectations, according to Bloomberg. Although third-quarter earnings are winding down, the notable releases on next week's calendar include Cisco (CSCO $18.17), Macy's (M $31.47), General Motors (GM $24.03) and Disney (DIS $35.03).

Weekly Focus – Think about it

"The only currency I value is the coin of the spirit. That's very important in my life."
~ Kinky Friedman

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 Gary Thayer, Chief Macro Strategist, Wells Fargo 11/7/11

* Italian Yields Top 7%: Paul Dobson, Bloomberg 11/9/11

* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 11/4/11.

* 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.