

Market Commentary

January 26, 2010, 11:00 EST
DJIA 10,217.12

Alfred E. Goldman, Chief Market Strategist

Really Big Doings

Our Weekly Market Commentary last week was titled “Short Week, Big Doings.” We got the short week right, but should have titled the report “Really Big Doings.” The GOP victory in the Massachusetts Senate race was a major surprise to most and created a degree of gridlock in Washington that is usually popular among investors. So what did the stock market do? In only three sessions, the DJIA collapsed 5.1%, the biggest selloff since last March. The big questions are what happened and where do we go from here? Most assumed that President Obama would sit back and see if any adjustments should be made to achieve his health care and financial controls proposals. Instead, the president came out bashing banks and proposing severe restrictions on their ability to take risk. Yes the banking and financial system need some changes, but the timing and vehemence of the president’s proposals surprised most. That was one of the “big doings” of the week.

Another “biggie” was a report that China is taking steps to cool down its economy. This conjured up fears that other countries would follow China, and world trade is critical to our own economic recovery. But hold on, more pretty surprising “biggies” also hit investors. The nomination of Fed Chairman Bernanke for another term became more questionable. In a nutshell, there was major political confusion in Washington that hit a stock market that was stretched out and “cruising for a bruising.” We did advise short-term caution in our Commentary last week based admittedly on, hopefully, an educated gut feeling. OK, that’s history. What should investors do now?

The political environment in Washington will probably stay confused for quite some time. Whether President Obama moves somewhat to the middle is unknowable but, no matter what one’s party affiliation, the market would like it. Meanwhile, the real mover of the stock market, the economy, continues to show signs of further growth, albeit modest. The December leading economic indicators index increased 1.1%, the ninth consecutive monthly increase. The December core producer price index was unchanged from November. For the past 12 months, the core PPI increased only 0.9%. The economy is going the way the bulls want and the outlook for corporate earnings in 2010 remains positive. The overall market is selling at a very reasonable 13.6 times a popular estimate of \$80.00 a share for the S&P 500 this year. We look at last week as a normal time-out and not a top-out for the stock market. Thus investors are advised to do some partial buying into pullbacks. Oh yes, one more “biggie” this week – the President’s State of the Union speech Wednesday, Jan 27. We are borrowing a quote from President Harry S. Truman for all politicians – “It is amazing what you can accomplish if you do not care who gets the credit.” We hope for some bipartisanship in Washington. The people and investors would love it.

Questions? Please contact your Wells Fargo Advisors Financial Advisor

Al Goldman is a paid consultant with Spherion. The views expressed in this report reflect Mr. Goldman's personal views and they may or may not reflect the views of the Wells Fargo Advisors, or its affiliates.

Additional information available upon request. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee as to its accuracy or completeness. The material is published solely for informational purposes and is not an offer to buy or sell or solicitation of an offer to buy or sell any security or investment product. Opinions and estimates are as of a certain date and subject to change without notice. You should be aware that investments can fluctuate in price, value and/or income, and you may get back less than you invested. **Past performance is no guarantee of future results.** CAR 0110-3778.

Investment and Insurance Products: ▶NOT FDIC Insured ▶NO Bank Guarantee ▶MAY Lose Value

Wells Fargo Advisors, LLC, Member SIPC, is a registered broker-dealer and a separate non-bank affiliate of Wells Fargo & Company. ©2009 Wells Fargo Advisors, LLC. All rights reserved.