



Weekly Market Commentary



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Catalysts on the Horizon

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Highlights

We continue to believe a late-year rally for stocks will fulfill our long held outlook for modest single-digit gains on the year for the S&P 500.

Unfortunately, all of the potential catalysts are a month or more away while the economic data continues to disappoint.

In the meantime, we continue to find yield-producing investments attractive, including High-Yield Bonds, which offer investors a return while waiting out the volatility in the stock market.

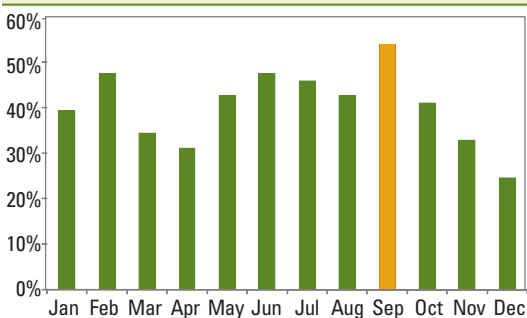
The stock market posted solid gains on Friday August 27, but still closed lower for the third week in a row. Economic data was generally disappointing, especially housing. This week brings the most important data of the month, including the Institute for Supply Management (ISM) gauge of conditions in the manufacturing sector and the employment report. Outside of consumer spending, the majority of these indicators are likely to show sequential declines.

We continue to believe a late-year rally for stocks will fulfill our long-held outlook for modest single-digit gains on the year for the S&P 500. However, over the next month or two, the risk that the soft spot lingers and pulls the market back to the lows of the year is significant. Seasonal factors also favor caution given the historically weak performance in September and October. Since 1950, the month of September has more often led to a decline than a gain in the S&P 500 index. However, November and December have provided some of the best returns of the year, on average. [Charts 1 and 2]

There are a number of potential catalysts for a fourth quarter rally:

- **At the Federal Reserve (Fed) Meeting on September 21, the Fed may announce additional stimulus measures to stimulate growth.** On Friday of last week, in his speech from the Fed's Jackson Hole symposium, Fed chairman Ben Bernanke seemed to pave the way for another round of monetary stimulus. Although he noted that the Fed needs to see more evidence of a slowing economy or further disinflation to act. Friday's profit warning from a large Technology company is potentially significant in tilting the Fed towards easing should it be followed by a number of other companies in the coming weeks. The unemployment rate ticking up in the August employment report due to be released this Friday would move the Fed in the direction of more stimulus, as well. It may be unlikely the Fed will move as soon as a few weeks from now, there will be plenty of data released before the September 21 FOMC meeting that could show further softening of the economy, raising investor expectations for Fed action.
- **Positive pre-election policy discussions in Washington as incumbents seek to alter the tide of the popular vote — often termed an "October surprise".** In the weeks ahead of the November 2 mid-term elections, incumbents in Washington may take positive stances on issues that are market friendly. Incumbents are in trouble according to state and regional polling data. In seeking to turn the tide of voter

1 Percentage of Months with Price Declines in the S&P 500 Index Since 1950

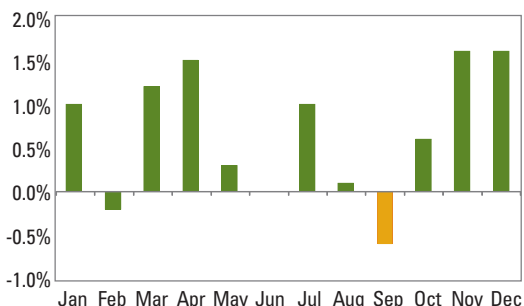


Source: LPL Financial, Bloomberg 8/27/10

The S&P 500 is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.



2 Average Price Change for the S&P 500 Index by Month Since 1950



Source: LPL Financial, Bloomberg 8/27/10

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Mid-Term Election Stock Performance S&P 500

Mid-Term Election Year	Fourth Quarter Price Performance
2006	6.2%
2002	7.9%
1998	20.9%
1994	-0.7%
1990	7.9%
1986	4.7%
1982	16.8%
1978	-6.3%
1974	7.9%
1970	9.4%
1966	4.9%
1962	12.1%
1958	10.3%
1954	11.4%
1950	5.0%
Average	7.9%

Source: LPL Financial, Bloomberg

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3 S&P 500 Index Performance the 2003–04 and 2009–10 Recoveries



Source: LPL Financial, Bloomberg 08/27/10

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sentiment they may talk about tax cuts or other issues favorable to stock market investors.

- **Post-election clarity in Washington may begin to emerge.** The balance of power is likely to shift between political parties following the elections. This may lead to more of a political balance in Washington and slow the pace of legislative change resulting in the “gridlock” the market has historically favored.
- **Following the election, the potential for tax cut extensions may become more visible.** Based on comments in recent weeks, the party consensus among congressional Democrats on taxes seems to be eroding with some members increasingly in favor of extending the Bush tax cuts. After the election, it is possible PAYGO rules that require budget offsets to any tax cuts are waived allowing the extension of many, if not all, of the Bush tax cuts into 2011.
- **The fourth quarter of mid-term election years is almost always favorable for stocks.** The market’s reaction to mid-term elections, as uncertainty fades, has almost always been positive, with fourth quarter gains averaging 8% in mid-term election years. So far, the stock market performance in 2010 has tracked the typical pattern for U.S. stocks in mid-term election years, albeit with a bit more than the usual volatility.
- **If history is any guide, the disappointingly soft economic data over the past few months may soon begin to firm.** Looking back over the past 60 years, about one year after the start of every recovery a soft spot emerges. Some closely watched indicators of growth are likely to be near the bottom of their typical soft spot-driven decline and poised for a rebound. As the data begins to firm later this year, the typical pattern of recovery may continue to unfold as it did in the post-recession recovery years of 2003 and 2004 when a late year rally in 2004 resulted in gains for the year. [Chart 3]

Unfortunately, all of these potential catalysts are a month or more away while the economic data continues to disappoint.

The volatility that has defined this year is likely to continue with ongoing losses to be recouped by a late-year rally. In the meantime, we continue to find yield-producing investments attractive, including High-Yield Bonds, which offer investors a return while waiting out the volatility in the stock market.



IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance reference is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

The ISM index is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders, and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys.

High-Yield/Junk Bonds are not investment-grade securities, involve substantial risks, and generally should be part of the diversified portfolio of sophisticated investors.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise, are subject to availability, and change in price.

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