Weekly Market Commentary

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Ending On A High Note

Jeffrey Kleintop, CFA
Chief Market Strategist
LPL Financial

Highlights

The year 2010 is ending on a high note for investors. The economy has shown signs of reaccelerating from the summer soft spot, the S&P 500 has made new two-year highs, and the President signed into law an extension of all of the tax cuts.

Investor confidence is also on a high note. Investors are now the most bullish they have been since 2004. History tells us that when there are too many bulls the market may be due for a pullback.

Recent years have seen extremes one way or the other. We see a "middle-of-the-road" 2011 that offers investors modest single-digit gains for stocks, low- to mid-single-digit gains for bonds, and an economy in the United States that muddles along at a 2.5 to 3% pace.

The year 2010 is ending on a high note for investors. The economy has shown signs of reaccelerating from the summer soft spot, the S&P 500 has made new two-year highs returning to the level that preceded the September 2008 failure of Lehman Brothers, and the President signed into law an extension of all of the Bush tax cuts for two years along with payroll tax cuts and expanded jobless benefits.

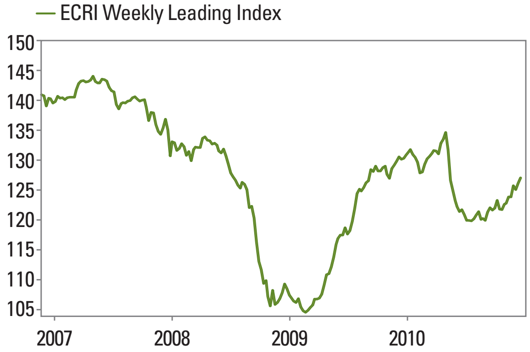
This past summer's "double-dip" fears among investors have faded. The double-dippers pointed to the sharp decline in the leading economic indicators during the summer as a sign that another recession was on the way and stocks were headed much lower. However, we often referred to the slowdown as just a "one-and-a-half dip" typical of a recovery. Regular readers of the Weekly Market Commentary will recall that we predicted the slowdown in the leading economic indicators and market pullback that began at the end of April (*When Leading Indicators Peak* - April 5, 2010) and the subsequent rebound in those indicators (*Time for Quiet Reflection* - July 6, 2010) and the stock market, as the S&P 500 made its low for the year at the beginning of July.

The stock market, measured by the S&P 500, has climbed all the way back to the levels that preceded the event that triggered the financial crisis: the failure of Lehman Brothers in September 2008. At a two-year high, the S&P 500 is now less than 20% below its October 9, 2007 peak of 1565—the all-time high.

However, investor confidence is also on a high note, sounding an ominous tone. History tells us that when there are too many bulls the market may be due for a pullback. Investors are now the most bullish they have been since 2004. According to the widely watched American Association of Individual Investors, the percentage of investors who are bullish on U.S. equities increased to 63.3% last week from 50.2% percent the previous week. Those bearish on the stock market fell to just 16.4% — the lowest percentage since 2005. Bullish readings often correspond to near-term market peaks. The last time the percentage of bulls was 55% or higher it was October 2007, when the market peaked. The recent stock market surge may be due for a pause or modest profit taking.

Looking out to 2011, we see no stormy skies or bright sunshine for 2011; instead, we have a more "middle-of-the-road" forecast, composed of a mix of clouds and sun. Recent years have seen extremes one way or the other. We see a 2011 that offers investors modest single-digit gains for stocks, low- to mid-single-digit gains for bonds, and an economy in the United States that muddles along at a 2.5 to 3% pace.

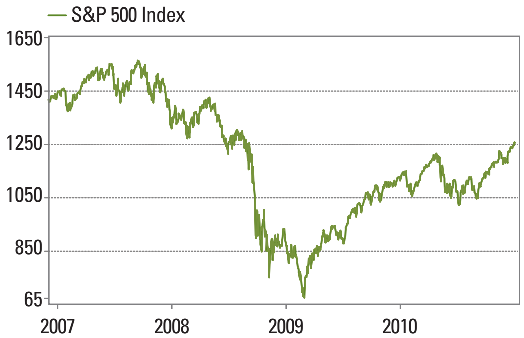
1 Leading Economic Indicators Rebounding from 2010's Summer Soft Spot



Source: LPL Financial, Haver Analytics 12/23/10

S&P 500 is an unmanaged index and cannot be invested into directly.

2 Stock Market Has Rebounded to Pre-Crisis Levels



Source: LPL Financial, Bloomberg data 12/23/10

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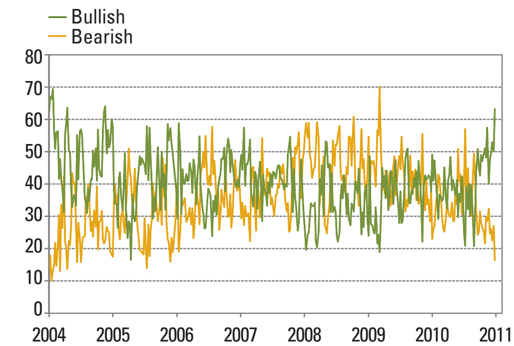
3 Investor Confidence Is High



Source: LPL Financial, Bloomberg data 12/23/10

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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.

Stock investing may involve risk including loss of principal.

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The American Association of Individual Investors (AAII) is a nonprofit organization with about 150,000 members whose purpose is to educate individual investors regarding stock market portfolios, financial planning, and retirement accounts. AAII assists individuals in becoming effective managers of their own assets through programs of education, information and research. The organization markets itself as an unbiased source of investment information because of its not-for-profit status.

Leading Indicator: An economic indicator that changes before the economy has changed. Examples of leading indicators include production workweek, building permits, unemployment insurance claims, money supply, inventory changes, and stock prices. The Fed watches many of these indicators as it decides what to do about interest rates.