Weekly Market Commentary

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Buy in June and Stay Tuned

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Highlights

- "Sell in May and go away" only works about one-third of the time. With a pullback having already taken place, we find little value in this old adage.
- We believe investors should "buy in June and stay tuned" this year.
- Staying tuned to the conditions in the economy and markets will be important to investment decision making in the coming months as the economy transitions from a recovery to sustainable growth.

The old adage of "sell in May and go away" has been repeated so many times we are still often asked if this is a sound investing strategy. We do not find sound reasoning behind this maxim. Instead, we believe investors should "buy in June and stay tuned" this year.

We expressed caution in mid-April, given our outlook for a pullback in the stock market. However, now that the pullback that began on April 23 has occurred, we have spent most of May calming fears of another stock market plunge and, in general, we believe this is a good opportunity to buy stocks rather than sell. Unfortunately, investors cannot simply buy now and go away since the headwinds for the economy and markets are increasing during the second half of the year. Investors must stay tuned to the transitioning conditions for economic and profit growth warranting a tactical approach to portfolio management.

The reasoning behind "sell in May and go away" stems from the historical evidence that stock market returns, on average, are weaker over the six months from May through October, by about 2%. However, returns during this period have been positive about two-thirds of the time in the post-WWII period. This means one should only "sell in May and go away" one-third of the time. We believe 2010 warrants a different strategy.

Sell In May and Go Away Historical Performance
S&P 500 Price Performance Since 1946

	May 31-Nov 30	Nov 30-May 31
Average	2.8%	5.2%
% Negative	35%	32%
Volatility	9.5%	11.5%
Worst Period	-20.6%	-36.0%

Source: LPL Financial, Bloomberg 05/28/10
The S&P 500 is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.

Staying tuned to the conditions in the economy and markets will be important to investment decision making in the coming months as the economy transitions from a recovery to an environment of sustainable growth. These economic transitions are often uneven as the drivers of growth shift from government policy to private businesses while the leading indicators of economic activity peak and momentum begins to slow.

We believe the market is due for a rebound, as we stated last week in our commentary, entitled: *Ten Reasons for a Rebound*. However, the rebound is likely to be followed by more volatility as headwinds arise in the second half of the year, for several reasons:

- As the Fed signals coming rate hikes.
- China's economy begins to respond to the efforts to slow the pace of growth.
- Policy stimulus fades in the United States leaving behind the drag of a huge federal budget deficit.
- Europe's growth and solvency problems continue.
- As economic indicators peak in the United States during the second quarter, economic momentum begins to slow.

Investors must stay tuned this summer to find attractive opportunities when presented and successfully take profits when necessary. We will be watching the LPL Financial Current Conditions Index closely for the impact of these headwinds on economic and market conditions.

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