



Weekly Market Commentary

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Highlights

Watching the stock market lately has been like watching a very long tennis match with a lot of back and forth with little progress.

While some data has pointed to a successful transition from recovery to sustained growth, other data has tilted toward renewed weakness and a double-dip recession, keeping investors on the edge of their seats as they react to every data point served up.

In the match featuring sustained growth against a double-dip recession, we give the advantage to growth.

Advantage Growth

Watching the stock market lately has been like watching a very long tennis match. In the month of June, the S&P 500 has had nine up days and 10 down days ending up relatively unchanged. That is a lot of back and forth with little progress. This makes it fitting that last week's Wimbledon first-round main draw match featuring John Isner against Nicolas Mahut lasted 11 hours over the course of three days and ending as the longest match in tennis history.

While match point would frequently arrive and one player seemed to be poised for victory, the opposing player would battle back and tilt the match in the other direction. This is much like the market and economic data last week. While some data has pointed to a successful transition from recovery to sustained growth, other data has tilted toward renewed weakness and a double-dip recession, keeping investors on the edge of their seats as they react to every data point served up.

Double-Dip Drop Shots

- Although up about 20% from a year ago, last week's data on existing home sales for May were very weak and new home sales were the lowest on record, as the new home buyer tax credit expired, (according to the National Association of Realtors).
- The Durable Goods Orders report also reflected a decline in May, even though this measure of business spending reflected an annualized growth rate of 29% over the past three months.

Sustained Growth Ground Strokes

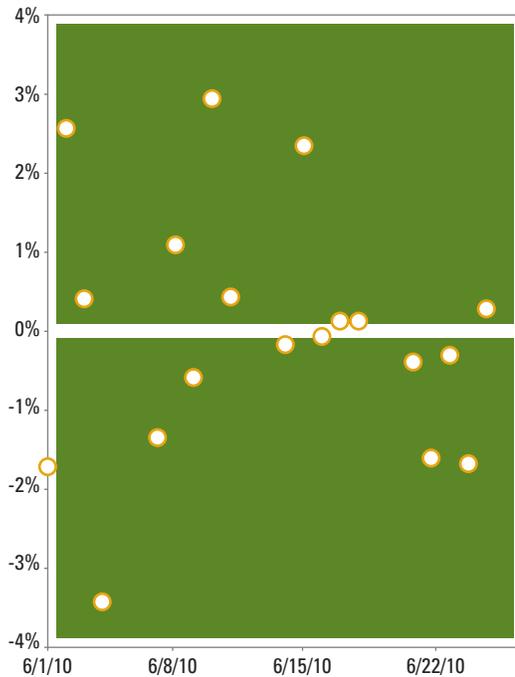
- First time filings for unemployment benefits declined last week.
- The total of railroad traffic in the U.S. posted a solid gain last week.
- Key measures of stress in the financial system, such as the TED spread, steadily improved during the past week.

In the match featuring growth against a double-dip, we give the advantage to growth while the markets seem to be betting the other way. As we highlighted in the commentary last week, we believe we are in a soft spot similar to those that mark every successful transition from recovery to sustainable growth. We do not believe a double-dip, or return to recession, is likely in the United States. Growth possesses the advantage through a greater momentum evident in the fundamentals and may ultimately win



1 A Long Tennis Match

○ S&P 500 Daily Percent Change During June



Source: LPL Financial, Bloomberg 6/28/10

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

out, but it is a long match and is unlikely to be resolved soon. This is likely to contribute to continued volatility, especially this week as a lot of important economic data is reported.

The Federal Reserve (Fed) gave the advantage to growth in the statement issued from the Federal Open Market Committee meeting last week, yet they also acknowledged the challenges to growth and that growth would likely be moderate. They noted that “the economic recovery is proceeding and that the labor market is improving gradually.” The Fed also noted the European debt problems that have unfolded since the last meeting by adding the sentence: “Financial conditions have become less supportive of economic growth on balance, largely reflecting developments abroad.” But was quick to state that: “Nonetheless, the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery is likely to be moderate for a time.”

An ace for growth may come in the form of earnings reports to be served in the second half of July. The commitment to growth evident in the strong pace of spending by businesses on average during the quarter and the rising private-sector employment numbers, suggest corporate leaders may reflect this improving outlook in their guidance that accompanies second quarter earnings reports. We expect this news to be taken positively by the markets allowing stocks to rebound within this year’s range.

IMPORTANT DISCLOSURES

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Stock investing involves 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.

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