Weekly Market Commentary

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Back to School for Investors

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Highlights

Investors were taught a lesson in sentiment last week that they may not soon forget as investor pessimism preceded key economic data that was better than economists' and investors' expectations.

While still reflecting an economic soft spot, last week's data provides a report card for August that argues against a return to recession.

Investors graded on a curve and gave the reports high marks just for avoiding a failed economic recovery.

With it shaping up to be a textbook September, investors should brace for the price volatility that has defined this year to continue.

School has started once again across the United States and not just for those enrolled in formal education. Investors were taught a lesson in sentiment last week that they may not soon forget.

Last week was the first time since April that the key economic data was better than economists' and investors' expectations.

- The widely watched Institute for Supply Management's Purchasing Managers Index (ISM) bounced from 55.5 to 56.3, a surprise detour from its downward path after having reached 60.4 in April.
- The employment report from the U.S. Bureau of Labor Statistics showed slightly better-than-expected gains in non-government jobs for the month (67,000) and, incorporated upward revisions to job growth in the two prior months.

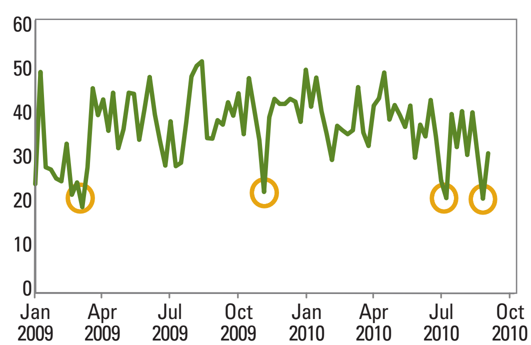
While still reflecting an economic soft spot, the data provides a report card for August that argues against a return to recession. Investors graded on a curve and gave them high marks just for avoiding a failed economic recovery. These reports triggered a 5.3% S&P 500 rally in a stock market that was used to getting only bad news.

Leading up to the release of the reports on the economy, the percentage of individual investors and Investment Newsletter writers calling themselves bullish was the lowest since the bear market bottom in March 2009, according to the American Association of Individual Investors and Investors Intelligence.

- Heading into last week, the weekly poll conducted by the American Association of Individual Investors, reflected the lowest percentage of investors who are bullish, or expect gains, on U.S. stocks since the bear market bottom of March 2009. Optimism rebounded last week with the percentage of bulls rebounding from 21% to 31%. [Chart 1]
- Investors Intelligence analysis of investment newsletters determines the proportion of writers who are bullish and bearish on U.S. stocks, as well as the percentage who anticipate a correction, or 10% decline, in the market. For the week of August 25 through August 31, just before last week's rally, they revealed that the percent of bulls had dropped to 29.4%, the lowest level since March 2009 when it hit 22.2%. Also, the percent of bears was also at the highest level since March 2009. [Chart 2]

The extremely bearish sentiment had resulted in investors crowded on one side of the market as their selling had taken stocks down near the lows of the year. Sellers became exhausted as sentiment reached the lows. The

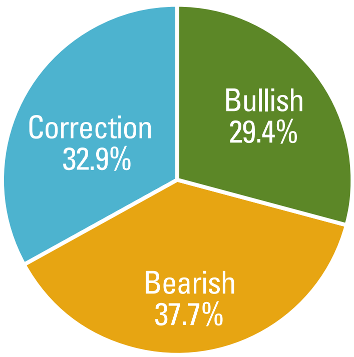
1 Percent of Individual Investors Calling Themselves Bullish
American Association of Individual Investors Percent Bullish



Source: LPL Financial, Bloomberg 09/03/2010

2 Investment Newsletter Writers Most Bearish Since March 2009

Investors Intelligence Analysis for Week of Aug. 25-31



Source: LPL Financial, Bloomberg 09/03/2010

reprieve from selling combined with better-than-expected economic data fueled a stock market rebound on light trading volume.

However, the 5.3% gain in the first three trading days of September may be short-lived, if we study our history. More than half of the time since 1950 the month of September has resulted in losses for the S&P 500 Index. This has taken place despite gains, on average, in the first three trading days of the month when the key economic data was released. In fact, when the first three trading days of September resulted in gains for the stock market, those gains were followed by losses over the rest of the month 60% of the time.

We believe volatility remains the golden rule for the markets. The stock market is likely to give back last week's gains before regaining them in a late year rally. Several factors pose a risk to the market's gains:

- The extreme pessimism that acted as a coiled spring for the markets ahead of the release of the better than expected economic data has already faded and there are no key economic reports due out this week.
- Last week's gains were on less-than-average trading volume reflecting both the late summer lull and a lack of conviction among buyers.
- Stock market weakness tends to dominate in September, even when the month starts out with gains.
- The third quarter pre-announcement season, where business leaders often take down their expectations for earnings, is getting underway.
- Given last week's better economic reports, the Federal Reserve meeting on September 21 is more likely to disappoint investors looking for the Fed to announce additional stimulus actions to combat the economic softness.

With it shaping up to be a textbook September, investors should brace for the price volatility that has defined this year to continue. While we believe losses will be recouped by a late-year rally, in the meantime, we give high marks to yield-producing investments, including High-Yield Bonds, which offer investors a return while waiting out the price 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.

Past performance is guarantee of future results.

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.

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.

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.