



Weekly Market Commentary

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A Test for The Markets' Momentum

Jeffrey Kleintop, CFA

Chief Market Strategist
LPL Financial

Highlights

Investor confidence is high. Last week, stocks reached new post-recession highs as investors were the most bullish in nearly four years.

The high expectations for this week's U.S. economic data leave room for disappointment.

Beyond the economic data, the markets' momentum may be tested by policy concerns as it relates to the tax cut extensions, European solvency issues, and the actions of the Federal Reserve (Fed).

While the events of this week may result in a pullback, any weakness in the markets should be viewed as a buying opportunity for those who are not fully invested.

Stocks have risen in 12 of the past 15 weeks, including last week's gains, as the S&P 500 reached the highest level in more than two years. Also, Treasury bond yields have risen nearly a full percentage point to a six-month high, from 2.39% on October 7 to 3.32% on Friday. And, the prices of some commodities, such as copper, set new all-time highs. Optimism on the economy and profits has been strong. During this week, however, the markets' momentum will be tested.

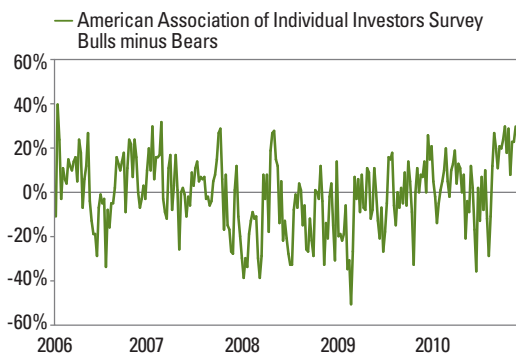
High expectations for U.S. economic data leave room for disappointment. About 85% of next week's economic data in the United States, which includes data on manufacturing, housing, retail sales, leading indicators and inflation, is expected to accelerate versus the prior month, setting the bar fairly high for market expectations.

In the first week of December, investors were willing to dismiss the much weaker-than-expected November employment report as an outlier and the November ISM index that was weaker than the prior month as just a brief pause. But if this week's data is also mixed and confirms the uneven pattern of growth in the economy, it may shake investor confidence.

Investor confidence is high. Last week, as stocks reached new post-recession highs, investors were the most bullish in nearly four years. According to the American Association of Individual Investors survey, the percentage of bulls exceeded the percentage of bears by over 30% for the first time since February 2007.

Beyond the economic data, the markets' momentum may be tested by policy concerns as it relates to the tax cut extensions, European solvency issues, and the actions of the Federal Reserve (Fed).

1 Investors Most Bullish Since February 2007



Source: LPL Financial, Bloomberg data 12/13/10

- Investors may "sell the news" of the passage of the tax cut extension having already bought the rumor of passage earlier this month. Votes in the Senate and House are likely to take place this week. A compromise that results in a much larger impact on the deficit (and more potent economic stimulus) that could further bolster investor confidence is unlikely at this stage.
- The return of solvency questions surrounding a number of European nations may weigh on markets. The fiscal crash diet in Greece, Ireland and other troubled European nations is highly unpopular. Local protests are taking place daily. On Wednesday, December 15, there is a European Union-wide labor strike planned. In addition, Greece votes on its 2011



budget this week, which is likely to refocus attention on how little Greek government has done to shore up its fiscal imbalances.

- The Fed has faced political pressure on all sides since the last meeting on November 3 to do more, to do less, and to do nothing at all. Legislation was even introduced to change the Fed's mandate. Debate surrounding the effectiveness of the Fed's actions (given the recent rise in yields and the dollar) and how limited future actions to aid economic growth may be may dominate the headlines around the next Fed meeting on Tuesday, December 14. Investors may be disappointed by a status quo response from the Fed.

While the events of this week may result in a pullback, any weakness in the markets should be viewed as a buying opportunity for those who are not fully invested. While volatility can be expected, we believe 2011 will deliver modest, single-digit gains for stocks and bonds accompanied by trend-like economic growth.

For more insights on our outlook, please see our recently published *2011 Outlook*.

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.

International and emerging market investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

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

Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of a fund shares is not guaranteed and will fluctuate.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

Stock investing may involve risk including loss of principal.

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.

American Association of Individual Investors (AAII) is a nonprofit organization that arms individual investors with the education and tools they need to build wealth. From stock investing to financial planning and retirement funding, AAIL covers all your needs.

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