Weekly Market Commentary

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Economic Soft Spot May Soon Firm Up

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Highlights

If history is any guide, the disappointingly soft economic data over the past few months may soon begin to firm.

Looking back over the past 60 years, about one year after the start of every recovery a soft spot emerges.

Some closely watched indicators of growth are likely to be near the bottom of their typical soft spot-driven decline and poised for a rebound.

As the data begins to firm in the coming months, the stock market may mount a fourth quarter rally achieving the modest single-digit returns we have forecast for 2010.

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Looking back over the past 60 years, about one year after the start of every recovery a soft spot emerges. These soft spots were not signs that the recovery was going to fail. In fact, in every case the recovery was successful and a multi-year period of economic growth followed. Some of the most current indicators of economic activity include the Institute for Supply Management Purchasing Managers Index (ISM), initial claims for unemployment benefits, consumer confidence, and the stock market. Around the time of these prior soft spots:

- The ISM consistently fell back to about the break-even level of 50. In August, the ISM was reported at 55.5, on its way down from the recent peak of 60.4. This index remains above 50 and is unlikely to have completed the full decline associated with the soft spot.
- The weekly number of first-time filings for unemployment benefits rose by 49,000. As of last week, jobless claims are up 73,000 from the low earlier this year, exceeding the typical rise by a potentially worrisome margin. However, on July 22 President Obama signed into law a measure restoring unemployment benefits to 2.5 million people. Since the passage of the law in mid-July initial claims for unemployment benefits have been on the rise. The extension of benefits at the end of July may be prompting Americans, whose assistance ran out, to file new claims causing the number of initial claims to rise rather than being driven by a new rising trend in layoffs. Supporting this notion is the fact that planned job cuts at U.S. corporations tracked by Challenger, Gray & Christmas Inc. have been falling.
- Consumer confidence declined by 13 points. The Conference Board reported that in July consumer confidence had declined 12.3 points from the recent high in May. The shaken confidence of consumers may begin to stabilize now that the typical soft spot decline has taken place. Daily and weekly measures of consumer confidence are showing an improving trend in August.
- The S&P 500 fell about 7% below its 200-day moving average. As of July 2, the S&P 500 had fallen 7.7% below the 200-day moving average. This is in line with the typical soft spot decline and suggests stocks may have already experienced the low point for the year. As of Friday, the index had recovered to 4% below the 200-day moving average.

Economic and Market Performance Around Recovery Soft Spots

Recovery Began	Soft Spot Started	ISM Decline		Claims Rise in 000s*	Consumer Confidence Decline*	S&P 500 Max Below 200 Day
		Peak	Trough			
Oct 1949	Jul 1950	77.5	59.2			-3.1%
May 1954	Mar 1955	69.5	44.2			
Apr 1958	May 1959	68.2	48.3			-3.3%
Feb 1961	Dec 1961	64.2	49.5			-22.5%
Nov 1970	Feb 1971	54.8	51.2	43.8	2.0	-8.8%
Mar 1975	Feb 1976	61.5	51.7	64.3	13.9	-3.4%
Nov 1982	Dec 1983	69.9	47.1	85.0	2.9	-7.4%
Mar 1991	Sep 1991	54.9	46.8	36.7	33.8	-1.6%
Apr 2003	May 2004	61.4	51.0	13.5	13.1	-3.9%
Average		**64.7**	**49.9**	**48.7**	**13.1**	**-6.8%**
Current	May 2010	60.4	55.5	73.0	12.3	-7.7%

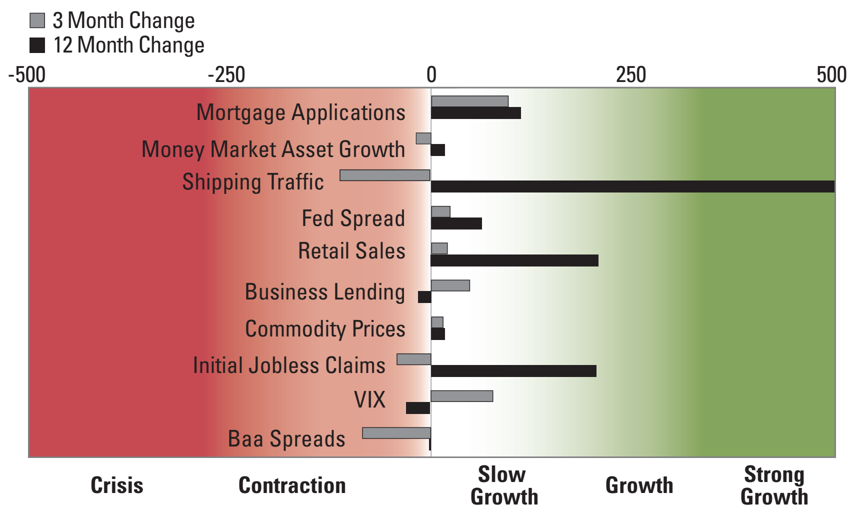
Source: LPL Financial, Bloomberg 8/20/10
**data begins in late 1960's*

The economic soft spot is likely to continue to unfold over the remainder of the quarter; however, some closely watched indicators of growth are likely to be near the bottom of their typical soft spot-driven decline and poised for a rebound. Notably, the weakness in the stock market, the labor market, and consumer confidence may have bottomed suggesting fears of a double-dip recession are overblown catching pessimistic investors by surprise.

Supporting our outlook is the LPL Financial Current Conditions Index (CCI), a weekly measure of the conditions that we believe are most relevant to growth in the markets and economy. Although the CCI shows us that growth momentum has stalled over the past three months, the vast majority of the ten CCI components point to an environment of growth.

As the data begins to firm, the stock market may mount a fourth quarter rally achieving the modest single-digit returns we have forecasted for 2010.

LPL Financial Research Current Conditions Index Components



Source: LPL Financial 8/18/10

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.

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.

Challenger, Gray & Christmas is the oldest executive outplacement firm in the United States. The firm conducts regular surveys and issues reports on the state of the economy, employment, job seeking, layoffs, and executive compensation.

For more information on the Current Conditions Index (CCI) Components, please see the weekly publication published each Wednesday.