



Weekly Market Commentary

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April Fool's Data

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Highlights

This Friday, April 1, the most important economic data in a month will be released and could turn unwary investors into April Fools.

On that day the ISM will be reported for the month of March and is expected to decline to 61 from the February reading of 61.4, signaling that the index has peaked.

If so, stock market performance is likely to be modest and volatile going forward.

This Friday, April 1, the most important economic data in a month will be released and could turn unwary investors into April Fools. While all eyes will be focused on the employment report to see if the U.S. economy can string together two consecutive months of healthy job gains, we will be intensely focused on the release of the Institute for Supply Management Purchasing Managers Index (ISM) at 10am ET that day.

The ISM is one of the best leading indicators for the economy and markets. The Institute for Supply Management is a group that represents purchasing managers at U.S. corporations. They survey them each month and publish the results in the form of an index. Purchasing managers are at the front of the line when it comes to activity in manufacturing. Manufacturing companies need supplies to produce products and purchasing managers order these supplies. When demand starts to pick up for manufactured goods, these managers need to order more supplies. Conversely, when demand pulls back, they respond by trimming their orders.

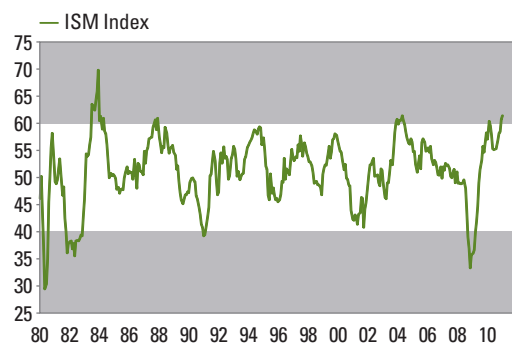
Although manufacturing businesses make up only about 40% of S&P 500 company earnings, demand for manufactured goods has been a timely barometer of business activity of all types. This index is published at the beginning of each month offering one of the earliest signals as to how the economy and outlook for business is faring each month.

The long history of the ISM shows us how effective it has been in signaling each recession and recovery. While the ISM has given a consistent signal when the recession is ending, it has also signaled when the recovery momentum peaks and the economy begins to transition to a new stage. Looking back at the ISM over the past 35 years we can see that there have been a number of peaks and troughs that led the direction of economic and profit growth. The index has typically troughed around 30-40 and peaked around 60 [Chart 1].

On Friday, April 1, the ISM will be reported for the month of March and is expected to decline to 61 from the February reading of 61.4. However, a key question for investors is: has it peaked? If so, stock market performance is likely to be modest and volatile going forward.

The S&P 500 has tended to perform well during the year leading up to the peak in the ISM. Over the past 35 years, the S&P 500 was up 18% in the 12 months prior to the peak in the ISM. However, once reaching the peak,

1 Looking Back at the ISM Index



Source: LPL Financial, Bloomberg Data 03/25/11



returns were flat and volatile. Over the six months following the peak, stocks were up only 1%, on average. It is interesting to note that the S&P 500 was up and very close to averaging 17% in the 12 months before the February 2011 ISM was released on March 1, 2011. Since the release of that February 2011 ISM Index, the S&P 500 is down about -1% suggesting a weak start to what could be a soft period for stock market returns.

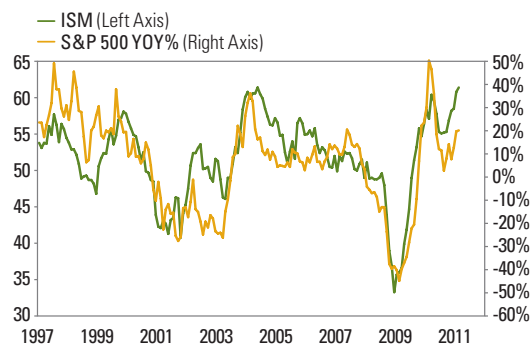
The ISM Index and S&P 500 Price Changes

| ISM Peak | S&P 500 Price Change | | |
|----------------|------------------------------|----------------------------|-----------------------------|
| | 12 Months Before Peak in ISM | 6 Months After Peak in ISM | 12 Months After Peak in ISM |
| Feb. 1976 | 22.2% | 3.2% | 0.1% |
| Jul. 1978 | 1.85% | -0.7% | 3.1% |
| Nov. 1980 | 32.4% | -5.6% | -10.1% |
| Dec. 1983 | 17.3% | -7.1% | 1.4% |
| Oct. 1987 | 3.2% | 3.8% | 10.8% |
| Oct. 1994 | 1.0% | 9.0% | 23.1% |
| Jul. 1997 | 49.1% | 2.7% | 17.4% |
| Nov. 1999 | 19.4% | 2.3% | -5.3% |
| May 2004 | 16.3% | 4.7% | 6.3% |
| Average | 18.1% | 1.3% | 5.2% |

Source: LPL Financial, Bloomberg data 03/25/11

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

2 ISM Index Level and S&P 500 Year-Over-Year Performance



Source: LPL Financial, Bloomberg Data 03/18/11

How closely the performance of the stock market and the ISM track each other can best be seen in the nearby chart [Chart 2]. With momentum in the ISM at or near a peak, stock market performance is likely to soften on a year-over-year basis. Consistent with this relationship between the ISM and the S&P 500, we adhere to our forecast of a high single-digit gain for the S&P 500 in 2011.

The LPL Financial Current Conditions Index (CCI) appears to be confirming a peak in economic momentum as the economy transitions from a rapid recovery to a slower pace of sustainable growth. The CCI has receded from highs and the growth momentum in the index has stalled. With leading indicators, such as the ISM, at or near a peak, stock market price momentum may begin to fade.

It would be (April) foolish to expect the powerful pace gains over the past two years to continue, as the S&P 500 nearly doubled from the low of March 2009. While stocks should be considered as a component of a diversified portfolio, other asset classes such as high-yield bonds and commodities asset classes may offer better prospects in the near future. The added diversification from these asset classes can help to buffer volatility in the stock market and potentially boost portfolio performance. This is important as we enter the stage of the business cycle signaled by the ISM index during which we expect the pace of economic momentum to slow along with overall market performance.



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 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.

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.

There is no guarantee that a diversified portfolio will enhance overall returns or out perform a non-diversified portfolio. Diversification does not ensure against market risk.

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.

High-Yield/Junk Bonds are not investment-grade securities, involve substantial risks, and generally should be part of the diversified portfolio of sophisticated investors.

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

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