



# Weekly Market Commentary



November 14, 2011

## The Best Year-End Strategy May be to Invest by the Book

**Jeffrey Kleintop, CFA**

Chief Market Strategist  
LPL Financial

### Highlights

All of the time-worn stock market trading axioms based on the calendar actually were worth following this year, including the “January effect,” “sell in May and go away” and October the “bear killer” month.

This textbook pattern of calendar-driven performance by the stock market may mean that the best year-end strategy is to invest by the book as a “Santa Claus rally” unfolds in December.

It has been a textbook year. That is, if your textbook is the Stock Trader’s Almanac. The old stock market chestnut “sell in May and go away” proved to be good advice this year. But that was not the only old adage of Wall Street traders that worked in 2011 — they all worked.

This has been the year of the stock market cliché in that all of the time-worn axioms based on the calendar actually were worth following this year:

- The “January effect” (the market tends to rise in January attributed to individual investors putting money to work after taking tax losses in December) worked this year as the S&P 500 posted a 2.3% gain in January. The “January barometer” (stock gains in January often lead to a gain for the year) and the overlapping “first five days” indicator (stocks rising during the first five days of the year indicate a high probability for a gain for the year) have both proven accurate, so far.
- “Sell in May and go away” (suggests investors sell and avoid the summer months) worked with stocks peaking for the year on April 29.
- October, the “bear killer” month (stock market downturns famously end and reverse in the month of October), ended the 19% peak-to-trough stock market decline with stocks bottoming for the year on October 3.

If this “year of the market axiom” pattern continues, what comes next? Perhaps a “Santa Claus rally” is in store for December. Markets must still move past the uncertainty of November that includes key policy events:

- Government transitions in Europe.
- Action by Congress to avoid a government shutdown.
- The Super Committee proposals to find \$1.5 trillion in deficit reduction measures.

But then a year-end “Santa Claus rally” may cap off a volatile year of modest single-digit returns for stock market investors.

What may be the trigger for the textbook year-end rise in the market known as a “Santa Claus rally?”

- A rebound in investor sentiment as Europe takes long overdue actions to avoid a financial crisis.
- Improvement in the job market as foreshadowed by the recent decline in initial jobless claims below the 400,000 level in recent weeks.

### 1 The Year of the Cliché



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

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



- The holiday shopping season surprises by exceeding retail sales estimates, as it did last year.

This textbook pattern of calendar-driven performance by the stock market may mean that the best year-end strategy is to invest by the book.

---

#### 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 economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

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.

This research material has been prepared by LPL Financial.

The LPL Financial family of affiliated companies includes LPL Financial and UVEST Financial Services Group, Inc., each of which is a member of FINRA/SIPC.

To the extent you are receiving investment advice from a separately registered independent investment advisor, please note that LPL Financial is not an affiliate of and makes no representation with respect to such entity.

Not FDIC or NCUA/NCUSIF Insured | No Bank or Credit Union Guarantee | May Lose Value | Not Guaranteed by any Government Agency | Not a Bank/Credit Union Deposit