



# Weekly Market Commentary



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## Who Turned Down the Volume?

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#### Highlights

March saw the lightest month for trading since December 1999 as the trend of declining trading volume that began at the start of 2010 has continued.

Those wishing for more volume should be careful what they wish for since a rebound in trading volume may come with the return of volatility, rather than the steady gains we have seen since last summer.

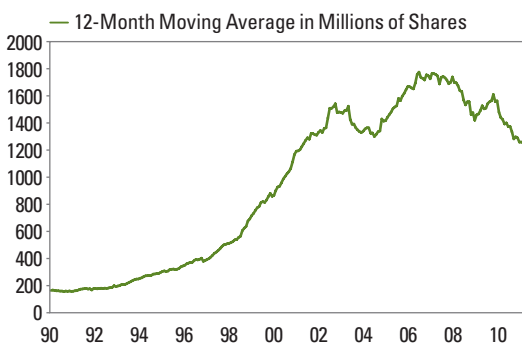
U.S. stocks, measured by the S&P 500 Index, posted a solid first quarter total return of 5.9%. It was the strongest first quarter since 1998. Those gains were delivered on light trading volume. Actually, to say trading volume was light is an understatement. March 2011 was the lightest month for trading since December 1999. The trend of declining trading volume that began at the start of 2010 has continued.

While trading was quiet, the backdrop during the first quarter of 2011 was anything but dull. It included events commonly thought to provoke defensive action by investors, such as: oil rising above \$100, violent conflicts in North Africa and the Middle East, earthquakes, tsunamis, and nuclear accidents. On the positive side, buyers were not inspired by the strongest private sector job creation since the recovery began along with rising earnings expectations. But, in a way, this good news may have depressed volumes. According to data from the Investment Company Institute, domestic stock funds experienced outflows in most of the months over the past four years. But, in general, investors seem to have halted their selling so far this year as the confidence in the economic outlook has improved. For the quarter, there were relatively few sellers or buyers.

Headlines, over the past year, warning about the perils of low trading volume have become more prevalent. They make the case that a stock market that is rising on low trading volume reflects a fragile condition suggesting a lack of conviction by buyers that is likely to be easily and quickly reversed. However, there is no consistent evidence to show that this has been the case in the past. In fact, markets often advance on low volume, as the stock market has done for over a year now.

We do not find the current low volume market environment worrisome. Those wishing for more volume should be careful what they wish for since a rebound in trading volume may come with the return of volatility rather than further steady gains. Along with trading volume, stock market volatility has been unusually low recently. For example, the 27% gain in the S&P 500 since August 2010 has been remarkably steady with an average daily price change of 0.53%, which is only one-third of the 10-year average daily price change. Over the past three years, trading volume has been linked to volatility. When the VIX index—which is a market estimate of future stock market volatility—falls, trading volume has come down along with it. The opposite has also been true: rising trading volume tends to accompany higher stock market volatility.

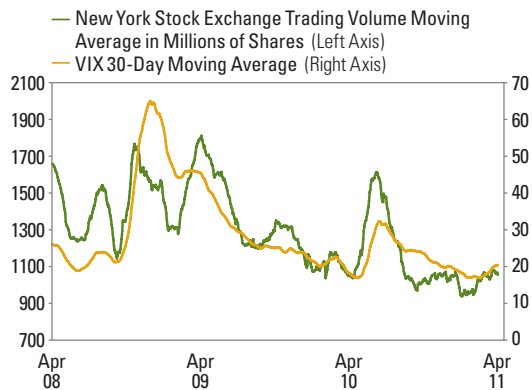
#### 1 New York Stock Exchange Trading Volume



Source: LPL Financial, Bloomberg Data 04/01/11



## 2 Trading Volume Linked to Volatility



Source: LPL Financial, Bloomberg Data 04/01/11

Trading volume has been light in the bond market as well, with the exception of Treasuries. In general, bond market returns in the first quarter were flat with the Barclays Capital Aggregate Bond Index up a mere 0.4%. But it has not been quiet everywhere. The commodities futures markets have seen volumes way up as investors pursue rising prices, especially in areas like precious metals. The Commodities market, measured by the Thomson Reuters/Jefferies Commodity Research Bureau Excess Return Index, rose 8.0% during the first quarter.

### 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.

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The VIX is a measure of the volatility implied in the prices of options contracts for the S&P 500. It is a market-based estimate of future volatility. When sentiment reaches one extreme or the other, the market typically reverses course. While this is not necessarily predictive it does measure the current degree of fear present in the stock market.

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.

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

The Commodity Research Bureau (CRB) Index is an index that measures the overall direction of commodity sectors. The CRB was designed to isolate and reveal the directional movement of prices in overall commodity trades.

This Barclays Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

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