



Weekly Market Commentary

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Jeffrey Kleintop, CFA

Chief Market Strategist
LPL Financial

Highlights

Many factors are vying for investors' attention. One way to look at the balance of factors driving the markets is to create a balance sheet.

The more balanced current environment for growth than experienced over the past two years suggests that the economic expansion is self-sustaining, but moderate.

The Market's Balance Sheet

Our outlook for the year is based on many counterbalancing forces keeping the markets on a path of moderate growth accompanied by the return of volatility. Our outlook is that the pace of gains will slow into the high single-digits for U.S. stocks this year after a powerful 2009 and 2010—and a solid gain of 7% so far in 2011—that have returned the S&P 500 to within 15% of its all-time peak.

As the economy transitions from recovery to modest, sustainable growth it results in uneven data points creating uncertainty and driving volatility. Many factors are vying for investors' attention. One way to look at the balance of factors driving the markets is to create a balance sheet.

A balance sheet, one of the first things a student in finance learns to create, is a financial statement that summarizes a corporation's assets, liabilities, and overall net worth—called shareholders equity. Investors examine the balance sheets of corporations for signs pointing to future growth or possible problems when making investment decisions. We can apply the same logic to the stock market as a whole providing a more balanced picture than focusing on individual risks or opportunities.

Stock Market Balance Sheet

Assets	Liabilities
Employment is increasing at a rate of over 200,000 net new jobs per month this year, the strongest pace since before the financial crisis.	Central banks in both emerging and developed economies are raising interest rates to fight rising inflation.
Corporate earnings continue to rise at a double-digit pace as they near all-time highs and analysts are upwardly revising estimates.	Home prices are falling again; the price of existing homes in the United States declined 6% over the past year.
Businesses are now increasing their spending and driving growth after a decade of under-investing.	Intensifying European debt problems and Japan's recession are contributing to slower global growth.
Business confidence is up; the Conference Board's CEO survey found the most bullish outlook by CEOs since 2004.	Consumer confidence is well off the financial crisis and recession lows of 2009, but has only rebounded to levels in line with prior recession low points.



Stock Market Balance Sheet (continued)

Assets	Liabilities
<p>Financing conditions for the consumer and business are improving rapidly; banks have lowered lending standards and junk bond yields are the lowest in history.</p>	<p>Ever-present terror threats heightened by turmoil in the Middle East and North Africa are keeping oil prices elevated and have the potential to disrupt oil supplies further boosting already high prices at the pump.</p>
<p>The declining US dollar is boosting earnings and making U.S. products more competitive globally.</p>	<p>The battle over the U.S. debt ceiling combined with state budget challenges may result in less fiscal stimulus.</p>
<p>Inflation is likely near its peak in China — wholesale food prices have declined 10% from the recent peak — and in other nations, suggesting rate hikes may soon abate.</p>	<p>The Federal Reserve (Fed) is near the end of providing economic stimulus through its quantitative easing (QE2) Treasury purchase program.</p>
<p>U.S. businesses have plenty of cash to spend on hiring, capital, dividends, and Mergers and Acquisitions (M&A).</p>	<p>Consumer income growth adjusted for inflation has been falling in recent months as deflation has taken place.</p>
<p>LPL Financial Current Conditions Index indicates an environment fostering growth in the economy and markets.</p>	
<p>Stock market valuations remain favorable and below long-term averages.</p>	
<p>Individual and institutional investors have plenty of cash on the sidelines to fuel gains — money market fund assets currently remain elevated and the Fed-tracked average pension fund stock weighting is close to a record low.*</p>	

The relatively long list of significant assets and liabilities for the market results in a net “shareholders equity” of +3. This illustrates the more balanced environment for growth than experienced over the past two years. The bottom line is that the economic expansion is self-sustaining, but moderate.

*Money market fund assets are measured by The Investment Company Institute (ICI) a national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). Members of ICI manage total assets of \$11.18 trillion and serve nearly 90 million shareholders.



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.

Stock investing may involve risk including loss of principal.

Quantitative Easing is a government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.

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