Weekly Market Commentary

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Best Bull Market Ever…Now What?

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Highlights

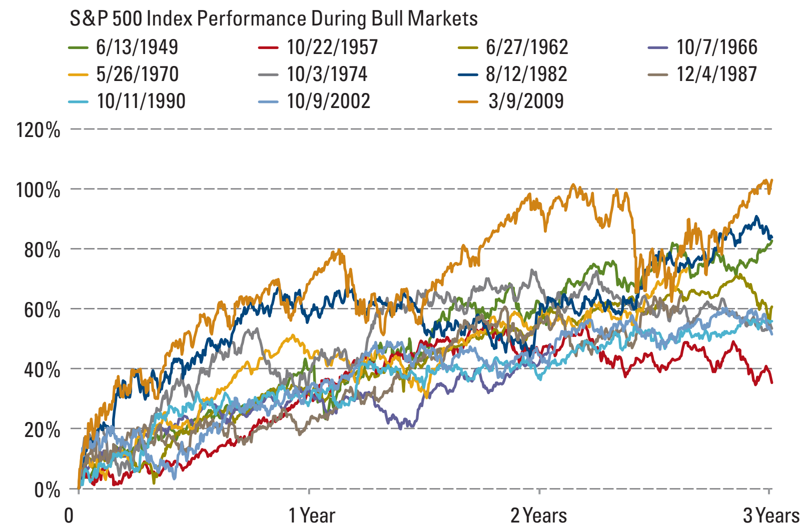
The three-year anniversary of the bull market took place on Friday, March 9. This has been the strongest bull market since WWII.

The average return in year four of prior bull markets was 12.9%, close to our 8–12%* return expectation for 2012.

While the stock market faces significant challenges ahead, we expect another year of gains for stocks. But that gain may be accompanied by the return of volatility.

The three-year anniversary of the bull market took place on Friday, March 9. In the three years since March 9, 2009, the S&P 500 index is up 103% (with a 116% total return including dividends). This has been the strongest bull market since WWII [Chart 1].

1 S&P 500 Bull Markets Since WWII



Source: LPL Financial, Bloomberg data 03/09/12

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

So, after doubling in three years what is next for the bull? More gains, when using history as a guide. The average return in year four of bull markets was 12.7% (six of the 10 post-WWII bull markets lasted that long). While a slightly different time period, this historical average for year four (March 9, 2012–March 9, 2013) is very close to our 8–12%* return expectation for stocks in calendar year 2012. Interestingly, only one bull market ended in year four. That was in February 1966, and the S&P 500 renewed its advance eight months later, recouping the losses after about a year. The average bull market lasted 58 months, just short of five years.

While corporate earnings have been a key driver of stocks, the return of economic growth and the confidence in the durability of that growth have also been important. The bull market has been rising as recession fears have

*LPL Financial Research provided this range based on our earnings per share growth estimate for 2012, and a modest expansion in the price-to-earnings ratio.

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S&P 500 Bull Markets

Begin	End	After 1 Year	After 2 Years	After 3 Years	After 4 Years	After 5 Years	Duration (Months)
6/13/49	8/2/56	42.1%	59.0%	79.9%	75.8%	110.9%	86
10/22/57	12/12/61	31.0%	43.7%	36.8%	75.7%	-	50
6/27/62	2/9/66	31.3%	54.9%	57.9%	-	-	43
10/7/66	11/29/68	32.9%	41.7%	-	-	-	26
5/26/70	1/11/73	43.7%	59.7%	-	-	-	32
10/3/74	11/28/80	38.1%	67.3%	55.3%	64.7%	76.0%	74
8/12/82	8/25/87	58.3%	61.5%	83.2%	137.6%	224.5%	60
12/4/87	7/16/90	21.4%	56.9%	-	-	-	31
10/11/90	3/24/00	29.1%	45.4%	71.1%	77.9%	127.3%	113
10/9/02	10/9/07	36.2%	44.5%	54.0%	73.9%	101.5%	60
3/9/09	current	68.6%	95.1%	103.1%	?	?	?
Average		39.3%	57.2%	67.7%	84.3%	128.0%	58

Source: LPL Financial, Bloomberg data 03/09/12

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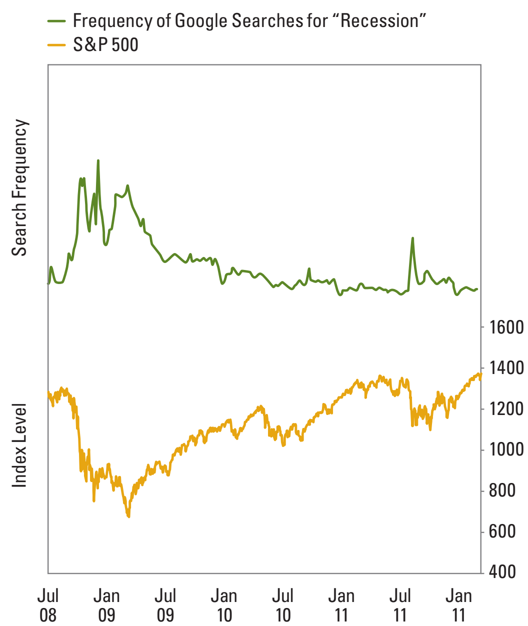
2 "Recession" Fades and Stocks Surge



Source: LPL Financial, Google Trends, Bloomberg data 03/09/12

faded. In fact, the path of the S&P 500 and the Google search trends for the word recession are a nearly perfect mirror image of each other, as you can see in Chart 2.

While the stock market faces significant challenges ahead, we expect another year of gains for stocks. But that gain may be accompanied by the return of volatility. Already stocks have surged 9% this year (through Friday, March 9, 2012), within the range of our 8–12%* return forecast. In the near term, we believe a modest pullback may be in store for the stock market driven by a combination of factors:

- **The Worst Earnings Season in Years** – Earnings have mattered a lot for the stock market. Since the end of 2008, S&P 500 companies' earnings are up about 50%, and the S&P 500 is up about 50%. That one-to-one relationship is no coincidence. With such a heavy reliance on earnings growth, stocks are vulnerable to declines with earnings growth now appearing to stall. Earnings growth in the first quarter of 2012 will likely be flat on a year-over-year basis, the worst showing in a year.
- **High Economic Expectations** – The economic surprise index is near prior peaks, suggesting the bar of expectations is high and economic data is much less likely to surprise to the upside and risks disappointing the market. Rising gasoline prices and relatively flat incomes, along with slowing global growth, raise the risks.
- **Central Banks Stimulus Ending** – The Federal Reserve (Fed) and the European Central Bank (ECB) policy actions are coming to an end. The ECB has completed their refinancing operations and the Fed's Operation Twist is set to end in June of this year — the end of the Fed's former programs QE1 and QE2 prompted market sell-offs in the past two years.

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- **The Budget Bombshell –** The prospects for divided government in 2013 have increased given the latest Senate race polling data. This is critical to the economic outlook. The 2013 budget is already going to have the biggest impact of any budget in decades even if no action is taken in Washington. The fiscal headwind comprised of both tax increases and spending cuts under current policy totals over $500 billion, or 3.5% of GDP. The 2013 budget changes, primarily consisting of tax increases, are already in the law and would need to be changed to mitigate or restructure them to be less of an economic drag; if not a return to recession may be looming in 2013.
- **The Greece Fire –** The risk of a grease fire is that it is hard to put out and spreads easily. The market welcomed this week's news of an orderly default for Greece's private debt holders (finding it much more attractive than the alternative). However, Greece is still feeling the heat with new bonds trading at 20%, and Portugal stands next in line for a second bailout and a debt restructuring. Portuguese 10-year bonds are trading at about 50 cents on the dollar, reflecting the significant likelihood of default risk having spread beyond Greece. A deepening recession in Europe also raises the risks to investors beyond Europe's borders as demand weakens, affecting both U.S. and emerging market suppliers.

This week kicks off year four of the bull market. Year four will challenge the S&P 500 to take the crown once again as the best performing bull market given the strong performance of the bull market of the mid-1980s, yet there are potential positives that could drive such strong gains. Most notably, stock market valuations are below average. Each point that the price-to-earnings ratio rises (or falls) is about a 7% gain (or loss) for the market. A rise in this ratio in 2012 as the above challenges are overcome could result in powerful gains and sustain the best bull market in history for yet another year. ■

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.

The Standard & Poor's 500 Index is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.

The Citigroup Economic Surprise Index is an objective and quantitative measure of economic news. It is defined as weighted historical standard deviations of data surprises (actual releases vs. Bloomberg survey median). A positive reading of the Economic Surprise Index suggests that economic releases have on balance beaten consensus. The index is calculated daily in a rolling three-month window.

The P/E ratio (price-to-earnings ratio) is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher P/E ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower P/E ratio.

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

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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