



# Weekly Market Commentary



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## Look Who's Buying and Selling

### Jeffrey Kleintop, CFA

Chief Market Strategist  
LPL Financial

#### Highlights

At the heart of it, all markets come down to buyers and sellers.

U.S. stocks are being purchased by foreigners and corporations while notable selling is coming from individuals and insiders, or top executives, of companies.

We believe the forces of selling will win out over the buying power in the coming months.

We devote this commentary each week to assessing the many reasons markets may rise or fall. But at the heart of it, all markets come down to just one thing: buyers and sellers. Taking a look at who is buying and who is selling can tell us something about the durability of the market's performance and what may lie ahead.

Presently, there are four notable trends in buying and selling in the stock market. U.S. stocks are being purchased by foreigners and corporations while selling is coming from individuals and insiders, or top executives, of companies.

#### Foreigners are Buying

Purchases of U.S. stocks by foreigners in the first quarter of 2012 shows that demand by foreigners has rebounded from the uncharacteristic selling that took place in the second half of last year. Net purchases of U.S. stocks by foreigners in the first quarter totaled about \$10 billion, according to the U.S. Treasury.

#### Companies Are Buying Back Shares

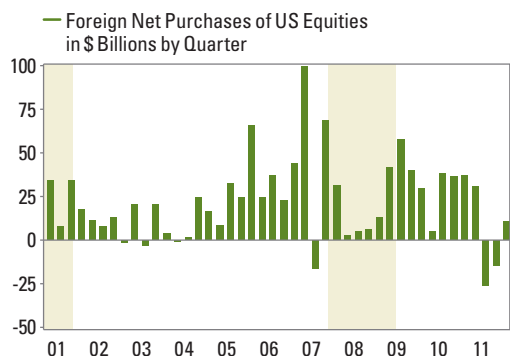
After taking advantage of the market rebound in 2009, corporations issued shares in 2010. However, since then they have returned to near record levels of net share repurchases.

Corporations have become net buyers of shares as rising cash flow and wide profit margins compel them to shrink their share count to boost earnings-per-share as revenue growth slows.

#### Individual Investors are Selling

Individual investors have been net sellers, measured by the flows of mutual funds that invest in U.S. stocks. They have been selling for 12 straight months. During the past 12 months, investors in these funds have sold more than they did during 2008. Individual investors as a group wield far more buying power and influence over the marketplace. When individual investors make up their minds, they can be a powerful and durable force in the markets.

#### 1 Foreigners Demand for U.S. Stocks Rebounding

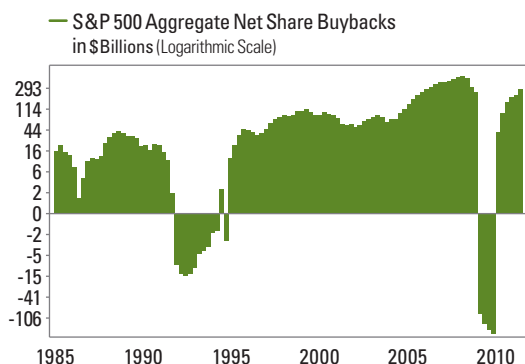


Source: U.S. Treasury, Haver Analytics 05/11/12

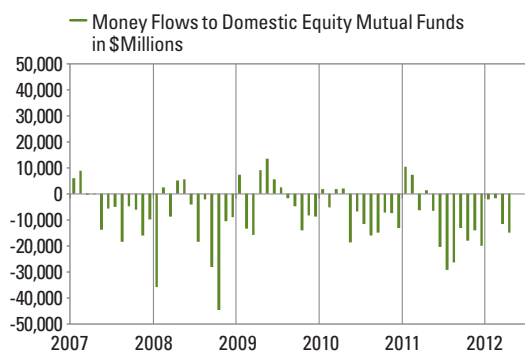
(Shaded areas indicate recession)



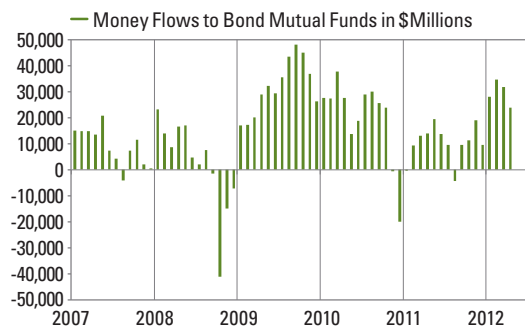
## 2 Corporations are Buying Back Shares



## 3 Individual Investors Continue to Sell



## 4 Investors Have Been Favoring Bonds



## Insiders are Selling

Selling by insiders, or top executives, of companies has been well above average. As of the latest week, according to data tracked by Argus Research of the number of shares insiders have sold and those that they have bought on the NYSE, the sell-to-buy ratio was 7.1-to-1.0. This is a historically high level of insider selling.

Should this data be seen as an important signal by those “in the know” of impending doom for corporate America? History offers a very different interpretation. Corporate insiders were buying in 2007 at the peak, and they were selling in 2009 as stocks were bottoming. Back in August of 2007, around the peak of the stock market, insiders at Financial companies were doing the most buying in 12 years. At the time, this trend was interpreted by some as a buy signal for Financials just before the companies in this sector fell more than 80%. Given this track record, we do not interpret the insider selling as a signal of impending losses. This fact does not suggest that they are acting on any inside information that would benefit an individual investor and instead may be selling in response to a three year bull market that doubled the value of the overall stock market.

## Projecting the Trends

We expect foreigners and companies to continue to be net buyers while insiders remain sellers in the coming quarters. Fuel for a new bull market would most likely have to come from individual investors. One of the trends powering bond prices higher, and yields lower, is the strong demand from individuals as they continue to shift their investments from stocks to bonds.

The potential for money to flow into the stock market and lift stocks is significant. However, individual investors must first become disillusioned with bonds. Since bonds have offered returns over the past thirty years that are competitive with stocks and provided much lower volatility, many are reallocating their portfolios toward bonds as they seek to provide for a comfortable retirement. It may take a period of rising interest rates from near historic lows to demonstrate the potential for losses and volatility that bond investors in the late 1960s and throughout the 1970s experienced to reverse the individual investor money flows back to stocks. ■



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Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise and bonds are subject to availability and change in price.

Investing in specialty market and sectors carry additional risks such as economic, political or regulatory developments that may affect many or all issuers in that sector.

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