YOUR FINANCIAL FUTURE

Strategies for Managing Your Assets

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Weekly Market Commentary | Week of August 31, 2009

Recent evidence suggests that positive economic figures are becoming less influential in moving the markets, which could lead to another period of consolidation, or range-bound trading, much like that which occurred from mid-May to mid-July when the S&P 500 index hovered around 900 for two months.

Social Security's Long-Range Outlook

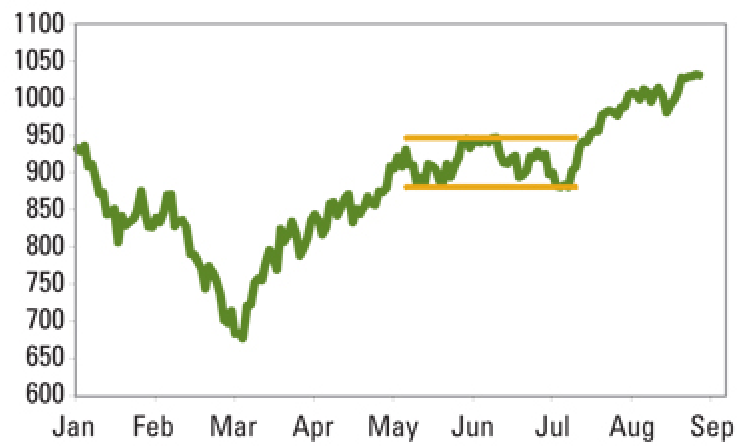
The current economic downturn is affecting many areas within the federal government, and Social Security is no exception. The latest report of the Social Security Board of Trustees, issued in May 2009, contained news that may affect beneficiaries in the years ahead.

- Positive economic data is becoming less influential in moving the markets. In fact, so much of the news of the recovery is now priced into the market that with the S&P 500 hovering around 1025, the continuing run of better-than-forecast data is having only a limited impact.
- The market appears to have become saturated with good news and is beginning to show signs of fatigue after rising 52% above the closing low of March 9, 2009.
- This low energy could lead to another period of consolidation much like that which occurred from mid-May to mid-July when the S&P 500 index hovered around 900 for two months. We believe further consolidation is likely in the weeks ahead, rather than any sharp moves.

Figure Fatigue

Recent evidence suggests that positive economic figures are becoming less influential in moving the markets, which could lead to another period of consolidation, or range-bound trading, much like that which occurred from mid-May to mid-July when the S&P 500 index hovered around 900 for two months. That period of consolidation came after a powerful rally that began in early March as market participants went from pricing in a depression to a typical recession. As the data merely confirmed the prevailing sentiment that conditions were not sliding into recession, the improving data became less potent at boosting stocks.

1 Stocks Consolidated from Mid-May to Mid-July
S&P 500 Index in 2009



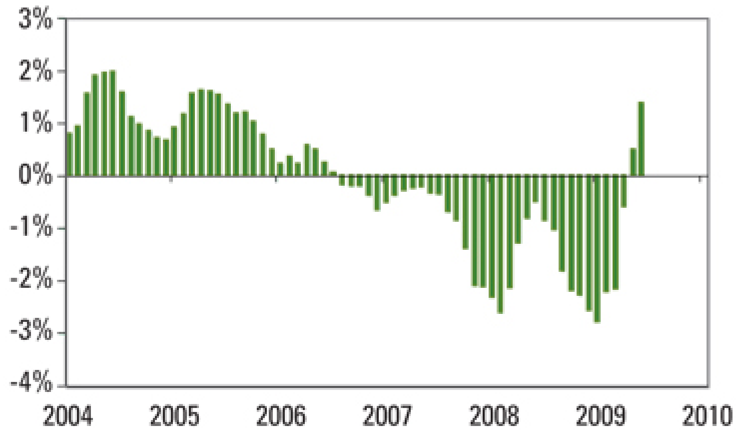
Source: LPL Financial, Bloomberg

Since mid-July, investors may have gone from pricing in a recession to a recovery as positive data increasingly revealed that the recession was over in the first half of the year. In fact, so much of the news of the recovery is now priced into the market, that with the S&P 500 hovering around 1025, the continuing run of better-than-forecast data is having only a limited impact. In the past week, this run of positive data has included:

- Manufacturing -The overall business activity index for mid-Atlantic region factories from the Federal Reserve Bank of Richmond showed growth in manufacturing rebounded to the level last reached back at the prior peak in September 2007. The report followed by just a week the Philadelphia Fed's first positive reading this year on manufacturing activity in the region.
- Home prices - The S&P/Case-Shiller 20-city home-price index gained for the second month in a row, posting by the largest month gain in four years. New home sales were reported to rise over 9% in July following a similar gain in June and putting together a string of rising sales in five out of the last six months.
- Business Spending - Orders for business equipment known as durable goods jumped in July, climbing 4.9%, exceeding forecasts and the most since July 2007. Excluding transportation gear, orders increased 0.8 percent, a third consecutive gain. While the administration's $3 billion "cash-for-clunkers" plan has revived orders associated with the rebound in auto sales, even excluding transportation-related businesses, orders were up for the third month in a row.
- Consumer Spending - The International Council of Shopping Centers reported retail sales for the week ending August 25 were up 0.6%. Consumer sentiment, measured by both the University of Michigan and the Conference board, rose in the month of August.

2 Home Prices Start to Rebound

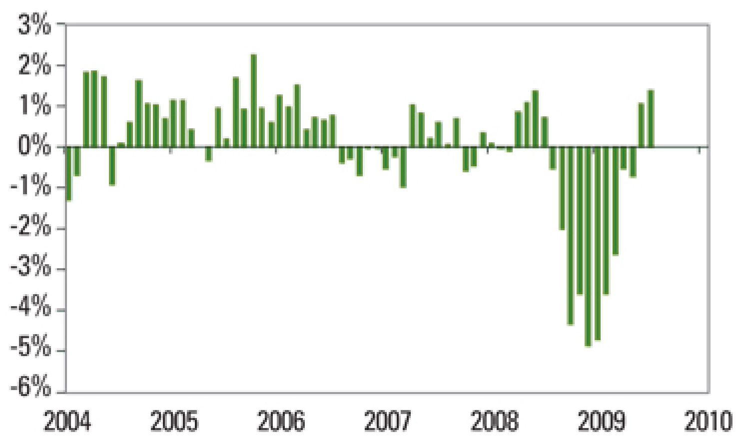
Case-Shiller Composite 20 City Home Price Index Monthly Change



Source: LPL Financial, Bloomberg

3 Business Spending on the Rebound

Monthly Change in Durable Goods Orders Ex-Transportation (3 month moving average)



Source: LPL Financial, Bloomberg

Despite this data reflecting strength in key areas of the economy and a number of companies upgrading their outlook and guidance for earnings growth, stocks were basically unchanged for the week. The market appears to have become saturated with good news and is beginning to show signs of fatigue after rising 52% above the closing low of March 9, 2009.

Many of these economic data points have been rising for two or more months now and are losing their potency to move the markets higher, as investors become increasingly desensitized to such news. In addition, the LPL Financial Current Conditions Index, which measures the real-time conditions that drive the market, has stalled out at 0.8 for the past three weeks after a long and steady rise since early March. Newsflow outside the economic data was light, and commodity prices, bond yields, and currencies were basically unchanged for the week.

The return of higher trading volumes this week will put the consolidation to the test with more buyers and sellers to influence market direction. Nonetheless, we believe further consolidation is likely in the weeks ahead, rather than any sharp moves. Although the overall trend of improving risk appetite will continue as pessimism slowly gives way to optimism for individual investors, it is already becoming evident that it may take more to drive stocks above the current range than a steady stream of data reflecting an economic recovery.

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.

Investing in international and emerging markets may entail additional risks such as currency fluctuation and political instability. Investing in small-cap stocks includes specific risks such as greater volatility and potentially less liquidity.

Stock investing involves risk including loss of principal Past performance is not a guarantee of future results.

Small-cap stocks may be subject to higher degree of risk than more established companies' securities. The illiquidity of the small-cap market may adversely affect the value of these investments.

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

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Social Security's Long-Range Outlook

It may be prudent for workers to save as much as they can afford while they are still working in the event that future retirement benefits paid by Social Security differ from those available today.

The current economic downturn is affecting many areas within the federal government, and Social Security is no exception. The latest report of the Social Security Board of Trustees, issued in May 2009, contained news that may affect beneficiaries in the years ahead.

Between 2012 and 2030, the retirement of a significant number of baby boomers is expected to cause the number of Social Security beneficiaries to rise much faster compared with the number of workers contributing payroll taxes to fund benefits. Tax revenues are expected to fall below program costs in 2016, one year sooner than anticipated in last year's report. Trust funds are expected to be depleted by 2037, four years sooner than last year's estimate. When making predictions about the future, Social Security assumed a lower level of economic activity to reflect the economic downturn.[1]

Planning for the Future

Although nothing is certain, there may be changes afoot in how the federal government funds Social Security and how workers plan for a secure retirement. The trustees report suggested that the expected shortfall could be addressed by increasing the payroll tax rate, reducing future benefits, transferring revenue from other government coffers to fund Social Security, or some combination of these actions.

It may be prudent for workers to save as much as they can afford while they are still working in the event that future retirement benefits paid by Social Security differ from those available today. Workers who pay Social Security taxes receive a statement, typically three months in advance of their birthday, with an estimated future benefit that is based on certain assumptions factored in by the Social Security Administration. When reviewing your statement, look at the assumptions, including retirement at various ages, and consider your standard of living if your expected benefit is reduced or if you retired early because of circumstances out of your control.

If a smaller Social Security benefit would potentially cause financial hardship, you may want to try to increase your savings rate. Employer-sponsored retirement plans and IRAs are investment vehicles established specifically for investors to build assets for their later years.

Since there are no guarantees for the future, saving as much as you can prior to retirement may increase your chances of being financially secure regardless of developments in Washington or within the broader economy.

[1]*Source: Social Security Board of Trustees: Economic Downturn Leads to Worsening of Long-Range Financing Outlook, Social Security Administration, May 2009.*