LPL Financial

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Dear Valued Investor:

As the calendar turned to fall, the markets began to rise. While bonds posted a respectable 2.5% gain for the third quarter, measured by the Barclays Aggregate Bond index, the S&P 500 posted an outstanding 11% gain for the third quarter. This performance was driven by an unusually strong September. The gains during the quarter were far from steady. Volatility was high as the S&P 500 moved up and down — and up again — within a 10% trading range during much of the quarter. Despite the strong gains in September, the stock market ended the third quarter not far from where it began the year.

Investors may also look forward to the market posting gains by year-end as key drivers combine to lift stocks out of their third quarter trading range. Here is our "one-and-a-half cents" worth of insight on the potential positives investors are likely to see during October:

- A **one and a half** (not double) dip for the economy. Slow, but positive economic growth is likely to support modest stock market gains in the fourth quarter.
- **One and a half** chambers of Congress go to the Republican Party (GOP) in the mid-term election. The GOP is likely to take the majority in the House and will hold about half of the Senate. The return of political balance in Washington between the parties may slow the pace of legislative change and result in the "gridlock" the market has historically favored. In addition, depending on the outcome of the election, it is possible PAYGO (Pay-As-You-Go) rules that require budget offsets to any tax cuts are waived allowing the extension of many, if not all, of the Bush tax cuts into 2011.
- "QE **Version 1.5**" from the Fed. At the Federal Reserve meeting on November 3, 2010 the Fed is likely to announce additional stimulus measures to improve economic growth. The coming bond purchases may be half the size of quantitative easing (QE) version 1 (the first round of QE the Fed enacted during 2008 and 2009).

Finally, the fourth quarter of mid-term election years is almost always favorable for stocks. The market's reaction to mid-term elections, as uncertainty fades, has almost always been positive, with fourth quarter gains as measured by the S&P 500 index averaging 8% in mid-term election years. The only two exceptions to the gains in the fourth quarter of every mid-term election year since 1950 were 1978 and 1994, when the Fed was hiking rates aggressively, a critical factor that is highly unlikely to take place this quarter. So far, stock market performance in 2010 has tracked the typical pattern for U.S. stocks in mid-term election years, albeit with a bit more than the usual volatility.

The volatility that has been the key characteristic of this year's stock market performance is likely to continue but should present opportunities for those investors patient enough to ride the market's ups and downs. As always, we encourage you to contact your financial professional if you have any questions.

Best regards,

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Quantitative Easing (QE) 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.

Stock investing may involve risk including loss of principal.

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.

This Barclays Aggregate 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.