Weekly Market Commentary

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Individual Investors on a Buyers Strike

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Highlights

This is the first time in twenty-five years that a three-month gain in the S&P 500 of 10% or more was not accompanied by net inflows into U.S. equity mutual funds and ETFs.

While individuals may have overcome, to some degree, their distrust of the durability of the economic recovery and policymakers in Washington, they remain distrustful of the integrity of the U.S. stock market. $53 billion has come out of U.S. stock mutual funds since the "flash crash" of May 6, 2010.

The structure and significant evolution of the U.S. stock market has pushed the U.S. stock market to fray at the edges. When pushed too hard, it can have a temporary breakdown.

If the current buyers strike by individual investors turns into a permanent boycott, further gains may be hard to come by.

U.S. stocks, as measured by the S&P 500, are up 15% in the three and a half months since the beginning of the second half of 2010. Nonetheless, individual investors have remained net sellers during every week. In the past twenty five years, there has never been a three-month gain in the S&P 500 of 10% or more that was not accompanied by net inflows into equity mutual funds and Exchange Traded Funds (ETFs) (according to Investment Company Institute data). Why are individuals staying away from investing in the stock market?

Of course, risks remain but have shown some mitigation and prompted foreign and institutional investors to push stocks higher. Two key issues investors have been focusing on this year have taken a positive turn:

- Some confidence has emerged that the economy will not enter a double-dip recession. The sluggish growth in the U.S. economy has stabilized in the last month or two and many key economic releases have been stronger than most predicted.
- Policy actions are becoming more positive for the market. The mid-term elections herald a change likely to return political balance to Washington between the parties that may slow the pace of legislative change and result in the "gridlock" the market has historically favored. In addition, the market has gone from fretting over how soon the Fed would begin to withdraw the extraordinary support they provided in the aftermath of the financial crisis to looking forward to even more stimulus in the coming months.

Weekly Mutual Fund Flows During September U.S. Stock Market Rally (In Millions of Dollars)

	9/8/2010	9/15/2010	9/22/2010	9/29/2010	10/6/2010
Total Equity	-1,061	-3,022	-1,958	-3,052	-4,308
Domestic	**-2,235**	**-3,599**	**-2,568**	**-4,175**	**-5,569**
Foreign	1,174	578	610	1,123	1,261
Hybrid*	565	456	740	857	747
Total Bond	5,732	7,750	6,811	5,110	7,793
Taxable	4,978	7,375	6,182	4,504	7,188
Municipal	754	375	629	606	605
Total	**5,237**	**5,185**	**5,594**	**2,915**	**4,233**

Source: Investment Company Institute 10/13/10

*Hybrid funds can invest in stocks and income securities.

Weekly cash flows are estimates that are adjusted to represent industry totals, based on reporting covering a percentage of industry assets.

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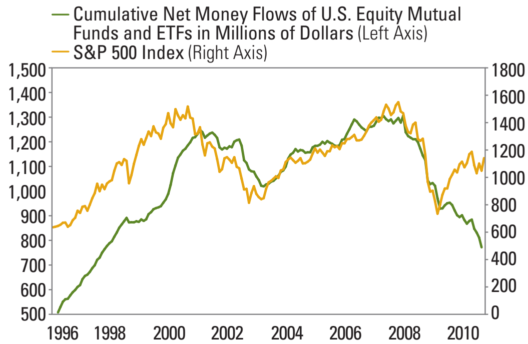
1 Cumulative Net Money Flows of U.S. Equity Mutual Funds and ETFs and S&P 500 Index Level



Source: LPL Financial, Haver Analytics, Bloomberg 10/15/10

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

Individual investors have not been avoiding investing entirely. Interestingly, they have been putting money to work in foreign stocks and U.S. bonds—including more aggressive emerging market stocks and High-Yield bonds, as they reallocate money from cash and U.S. stocks.

With this improving backdrop, why do individual investors continue to sell U.S. stocks? Perhaps it stems from a lack of confidence in the U.S. stock market itself. While individuals may have overcome to some degree their distrust of the durability of the economic recovery and policymakers in Washington, they remain distrustful of the integrity of the U.S. stock market. A whopping $53 billion has come out of domestic equity mutual funds since the "flash crash" on the afternoon of May 6, 2010 in which major equity indices, down over 4% from their prior-day close, suddenly plummeted an additional 5-6% in a matter of minutes before rebounding almost as quickly to "pre-crash" levels. During the "flash crash" the Dow Jones Industrial Average plunged about 600 points only to recover those losses within minutes. It was the biggest one-day point decline, 998.5 points, on an intraday basis in the 114-year history of the Dow Jones Industrial Average. Against the backdrop of unusually high volatility and thinning liquidity, the trigger for the "flash crash" was a large mutual fund company initiating an automated computer sell program that had no regard for price or timing in order to sell a massive amount of S&P 500 futures contracts as a hedge to an existing equity position.

The Securities and Exchange Commission's (SEC) investigation of the "flash crash" highlights that it was not merely the major averages that experienced wide swings, but the stocks of some large U.S. companies fell to a penny or spiked as high as $100,000 before the prices returned to "pre-crash" levels. The SEC notes that "more than 300 securities were executed at prices more than 60% away from their values just moments before." While the SEC has taken actions intended to avoid a similar event in the future, they noted that under stressed market conditions, the automated execution of a large sell order could trigger extreme price movements.

The structure of the U.S. stock market has evolved significantly from the days it took place under the shade of a buttonwood tree on Wall Street. Today, most of the volume trades electronically, off the NYSE and NASDAQ. That fragmentation, combined with millisecond trading, unbalanced transparency into real-time order flow, and electronic trading strategies that damage market integrity through the almost instantaneous creation and cancellation of millions of orders, has pushed the U.S. stock market to fray at the edges. When pushed too hard, it can have a temporary breakdown.

However, it would be unfortunate if this record-breaking buyers strike by individual investors is a precursor to a permanent boycott by individuals from investing in U.S. stocks. While these noted evolutionary shifts and the potential for intra-day breakdowns of liquidity for stocks make regular trading of individual stocks challenging for an individual, they have had little to no effect on investing through mutual funds and ETFs for a time horizon that exceeds a single day. Without the return of the individual investor to the U.S. stock market, further gains in the current rally may be hard to come by.

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.

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

High-Yield/Junk Bonds are not investment-grade securities, involve substantial risks, and generally should be part of the diversified portfolio of sophisticated investors.

International and emerging market investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

Principal risk: An investment in Exchange Traded Funds (ETFs), structured as a mutual fund or unit investment trust, involves the risk of losing money and should considered as part of an overall program, not a complete investment program. An investment in ETFs involves additional risks: not diversified, the risks of price volatility, competitive industry pressure, international political and economic developments, possible trading halts, Index tracking error.

Investing in mutual funds involve risk, including possible loss of principal. Investments in specialized industry sectors have additional risks, which are outlined in the prospectus.

The Dow Jones Industrial Average is the most widely used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials. The 30 stocks are chosen by the editors of the Wall Street Journal. The Dow is computed using a price-weighted indexing system, rather than the more common market cap-weighted indexing system.

Stock investing may involve risk including loss of principal.

Investors should consider the investment objectives, risks, charges and expenses of the investment company carefully before investing. The prospectus contains this and other information about the investment company. You can obtain a prospectus from your financial representative. Read carefully before investing.

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