Weekly Market Commentary

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Chasing Returns

Jeffrey Kleintop, CFA
Chief Market Strategist
LPL Financial

Highlights

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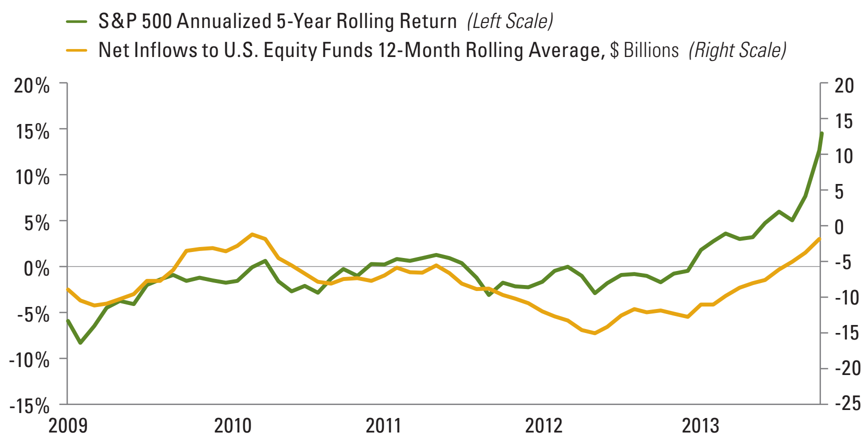
1 Stock Market Investors Chase Five-Year Returns



Source: LPL Financial, Investment Company Institute data, Bloomberg data 11/11/13

The S&P 500 is an unmanaged index which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

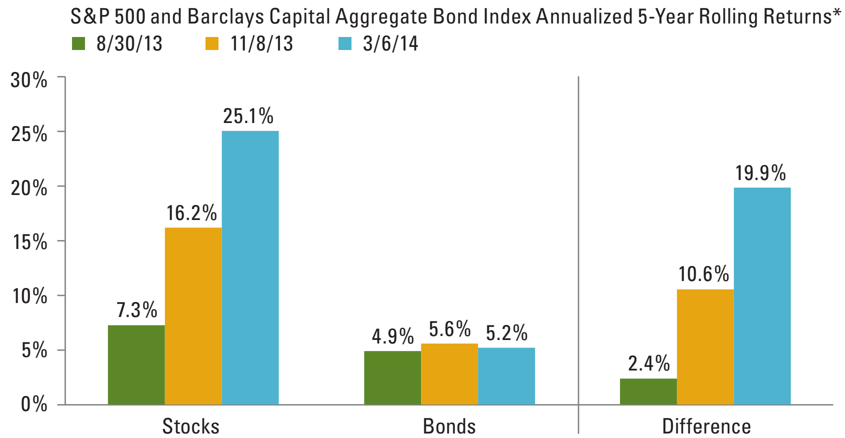
Past performance is no guarantee of future results.

For the U.S. stock market, it appears the rolling five-year has been the return that investors have most closely followed based upon their investing behavior in recent years [Figure 1]. The five-year trailing annualized return for the S&P 500 has been weak, especially when compared with bonds, in recent years.

In fact, even as recently as the end of August 2013, the difference in the five-year annualized return between stocks and bonds was only about 2%, hardly enough to compensate investors for the volatility they experienced [Figure 2]. Yet that difference has started to soar and may lead to investors chasing returns into the stock market.

In the past few weeks, the five-year return has soared into the double digits—reflecting not only a strong recent trend in the stock market, but the dropping off of much of the horrific declines in the fall of 2008, when the financial crisis took hold. The gap between stock and bond market returns

2 Stocks' Five-Year Returns Exceeding Bonds by Increasing Amount



Source: LPL Financial, Bloomberg data 11/11/13

*Assuming zero total return between 11/8/13 and 3/6/14 for stocks and bonds.

The S&P 500 and the Barclays Capital Aggregate Index are an unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

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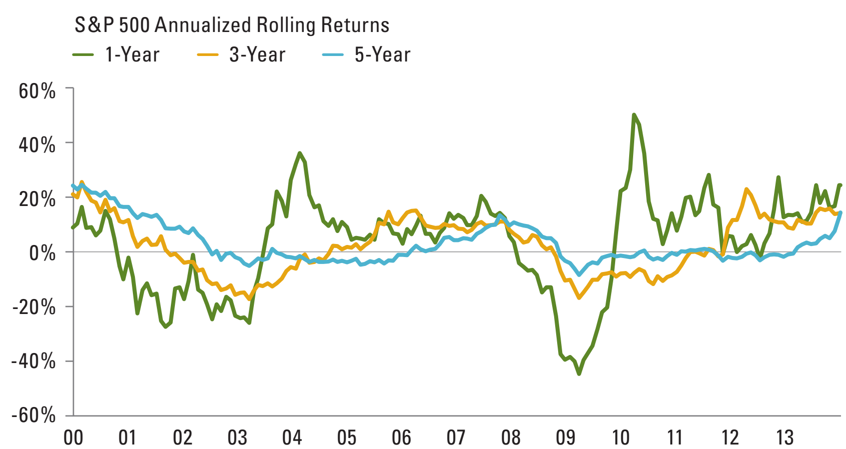
over the past five years as of the end of last week widened to 10%. As of March 6, 2014, five years from the bear market low in the S&P 500—even assuming no additional gains in the stock market between now and then—the five-year annualized return may have exceeded bonds by 20%!

The one-, three-, and five-year trailing annualized returns are now in the double digits for the first time this cycle [Figure 3]. This may prompt many investors to reconsider the role of stocks in their portfolios—especially as interest rates rise and bond performance lags.

3 Stock Market Now Has Double-Digit Returns for Past One-, Three-, and Five-Year Annualized Periods



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The Investment Company Institute (ICI) is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). Members of ICI manage total assets of $11.18 trillion and serve nearly 90 million shareholders.

In fact, a great rotation back to stocks may already be underway. Net inflows have been positive into bond funds over the past five years, while funds that invest in U.S. stocks saw net outflows, according to ICI data. But the month of October 2013 saw the biggest monthly inflows to funds that invest in U.S. stocks in years (excluding January's seasonal peak for inflows)—despite the concerns over the government shutdown and debt ceiling. It is no surprise that this took place just as the five-year trailing return for stocks began to soar into double digits.

Although corporations will likely remain buyers of their stocks in the coming year, 2014 may finally be the year that individual investors as a group begin to buy stocks in contrast to the net selling they have done since the bull market began nearly five years ago. This may help to continue the rise in the valuations that defined this year's outstanding gains for stocks. ■

INDEX DESCRIPTIONS

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 Barclays Capital U.S. 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.

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