Weekly Market Commentary



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Highlights

The earnings season is a special time of year with a sweet spot that has the potential to deliver game-changing results.

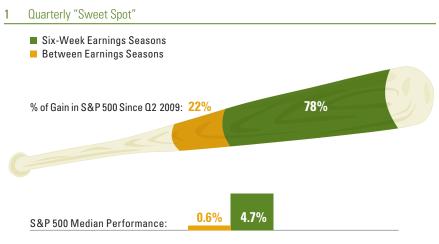
The Earnings Season Sweet Spot

Last week marked that special time of year when the World Series brings together two great teams. A three-run double on a hit to the Green Monster off the sweet spot of the bat of Shane Victorino helped the Boston Red Sox emerge victorious in a title-clinching 6–1 win over the St. Louis Cardinals in Game 6 of the World Series. The earnings season is also a special time of year with a sweet spot that can deliver game-changing results.

Stocks slid lower from mid-September until the earnings season got underway with Alcoa, the company that traditionally marks the start of the reporting season, which released results after the stock market closed on October 8, 2013. The stock market then turned higher and has since steadily climbed 7%, as about three-quarters of the S&P 500 companies reported results for the third quarter of 2013.

Despite all the focus on the travails in Washington, it was earnings that market participants appeared to focus on most closely this October. The earnings news has been good; so far, about 70% of companies have reported earnings above analyst expectations. This is higher than the long-term average of 63% and is above the average over the past four quarters of 66%.

The gain in stocks around the "sweet spot" of the quarter as earnings are reported is no surprise. Stocks have been posting gains during the six-week



Source: LPL Financial Research, FactSet Research Systems 11/04/13

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sweet spot that runs two weeks before and four weeks after Alcoa reports since the bull market began around the start of the second quarter of 2009. In fact, 78% of the rise in the S&P 500 Index since the second quarter of 2009 took place during these quarterly earnings sweet spots—with only 22% of the gains coming from the other half of each of the quarters. Moreover, since the end of 2009, the entire gain in the index came during those quarterly sweet spots, leaving nothing, on average, but volatility during the other seven weeks of every quarter.

The median gain in the S&P 500 during the quarterly sweet spots was 4.7%. But between these sweet spots, during the other seven weeks of each quarter, the median gain in the stock market was only 0.6%. The batting average for the half of the quarter outside the sweet spot has deteriorated since the powerful rebound of 2009. Those weeks only posted gains 43% of the time since 2009, reflecting the increased focus by market participants on earnings after the risks of the Great Recession faded.

While we expect stocks may continue to provide gains for investors, the pace of those gains is likely to slow and volatility may pick up now that the sweet spot of the earnings season will soon be behind us, as this week marks the end of the four-week period since Alcoa reported. The vast majority of companies will soon have reported their results, with 77 more S&P 500 companies set to report this week. We believe this makes it a great time to consider the buying opportunities on any dips for the potential to score with your portfolio on the next quarterly sweet spot.

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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.

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