Weekly Market Commentary

March 11, 2013

Dow: The Great and Powerful

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Highlights

The Dow Jones Industrial Average powered its way to a new all-time high last week—four years after the low point on March 6, 2009.

The good news is that since WWII, only two of the six bull markets that made it to their fourth anniversary failed to make it to a fifth. But the bad news is that we may need a modest pullback to sustain this bull market.

Rather than signal a sign of weakness, pullbacks are often the pauses that refresh the bull market.

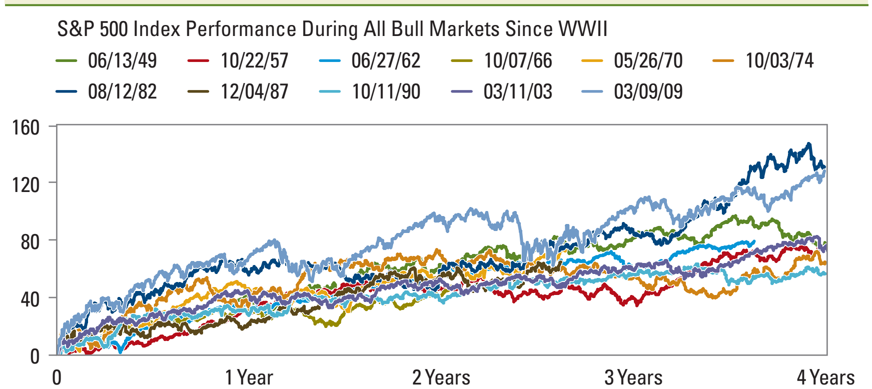
The film, *Oz: The Great and Powerful*, the prequel to *The Wizard of Oz*, premiered last week. The story of how the wonderful wizard overcame the risks and prevailed worked its magic on moviegoers and proved popular with a strong box office showing. In the same week, the Dow Jones Industrial Average (Dow) proved popular with investors as it powered its way to a new all-time high, as it overcame many risks to reach the fourth anniversary of the start of the current bull market from the low point on March 6, 2009.

The Dow stands 115% higher than it did four years ago. However, if we do not disregard the stocks behind the curtain of the great and powerful Dow, we see that this time the index no longer holds the stocks of AIG, Citigroup, and General Motors (among others) as it did at the prior peak on October 9, 2007. The many changes to the 30 companies that make up the Dow make it worthwhile to take a look at the stock market defined by broader indexes like the NASDAQ and S&P 500.

- On the 13th anniversary of the peak in the NASDAQ, this tech-heavy index is still more than 35% away from the peak reached on March 10, 2000. Nevertheless, this index has outperformed the Dow with a gain of 149% over the past four years.
- The broadly diversified S&P 500 Index is also outpacing the Dow with a gain of 125% since its March 2009 low and experiencing the second-best four-year bull market in history, second only to the bull that began on August 12, 1982 [Figure 1].

The Dow stands 115% higher than it did four years ago.

1 This Is the Second-Best Four-Year Rally Ever



Source: Bloomberg data, LPL Financial 03/09/13

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

What is next for the bull market? The good news is that since WWII, only two of the six bull markets that made it to their fourth anniversary failed to make it to a fifth. Each of those four bull markets that extended through a fourth year posted a double-digit return in the year leading up to the fifth anniversary [Figure 2].

2 Powerful Rally

S&P 500 Bull Markets

Begin	End	After 1 Year	After 2 Years	After 3 Years	After 4 Years	After 5 Years	Duration (Months)
06/13/49	08/02/56	42.1%	59.0%	79.9%	75.8%	110.9%	86
10/22/57	12/12/61	31.0%	43.7%	36.8%	75.7%	-	50
06/27/62	02/09/66	31.3%	54.9%	57.9%	-	-	43
10/07/66	11/29/68	32.9%	41.7%	-	-	-	26
05/26/70	01/11/73	43.7%	59.7%	-	-	-	32
10/03/74	11/28/80	38.1%	67.3%	55.3%	64.7%	76.0%	74
08/12/82	08/25/87	58.3%	61.5%	83.2%	137.6%	224.5%	60
12/04/87	07/16/90	21.4%	56.9%	-	-	-	31
10/11/90	03/24/00	29.1%	45.4%	71.1%	77.9%	127.3%	113
03/11/03	10/09/07	38.2%	49.9%	60.1%	75.2%	-	55
03/09/09	*current*	*68.6%*	*95.1%*	*102.6%*	*129.3%*		*48*
Average ex-current		**36.6%**	**54.0%**	**63.5%**	**84.5%**	**134.7%**	**58**

Source: Bloomberg data, LPL Financial 03/09/13

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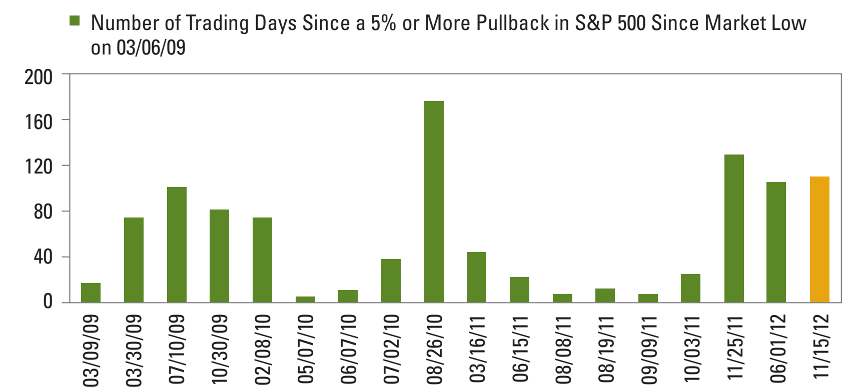
The current bull market is not likely to be over, but the bad news is that we may need a pullback to sustain it. Of the 18 pullbacks of 5% or more over the past four years, the current rally, at 114 days without a 5% or more pullback, is one of the longest of the bull market [Figure 3].

3 Stock Market Increasingly Due for a 5% or More Pullback



Source: S&P 500 Index Alert, LPL Financial 03/09/13

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Rather than a sign of weakness, pullbacks are often the pauses that refresh the bull market. When the market has avoided pullbacks for an extended period, the bull market has tended to be shorter and result in a bear market when the decline eventually came. For example, the long bull markets of the 1980s and 1990s had dozens of 5% or more pullbacks with many of 10% or more, whereas the much shorter four-year 2003–2007 bull market did not have a single pullback of 10% or more and ended by erasing the entire bull market gain.

Therefore, pullbacks do not have to be viewed as wicked; instead we should cheer them, since they help to sustain the bull market and provide opportunities for investors to put money to work at a discount. ■

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.

Dow Jones Industrial Average (DJIA): The Dow Jones Industrial Average Index is comprised of U.S.-listed stocks of companies that produce other (non-transportation and non-utility) goods and services. The Dow Jones Industrial Averages are maintained by editors of The Wall Street Journal. While the stock selection process is somewhat subjective, a stock typically is added only if the company has an excellent reputation, demonstrates sustained growth, is of interest to a large number of investors and accurately represents the market sectors covered by the average. The Dow Jones averages are unique in that they are price weighted; therefore their component weightings are affected only by changes in the stocks' prices.

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The Index is market-value weighted. This means that each company's security affects the Index in proportion to its market value. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index. It is not possible to invest directly in an index.

RES 4104 0313
Tracking #1-149185 (Exp. 03/14)