Weekly Market Commentary

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Groundhog Day Comes Late

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Highlights

- Last week, the stock market saw its shadow and we are in for six more weeks of winter weather affected reports contributing to stock market volatility.
- One way to invest in a low-return, volatile market is to focus on yield rather than solely on price appreciation.
- The added advantage of incorporating a focus on dividends now is that March and April tend to be the time of year when most companies increase their dividend payment.
- We expect dividend payments to rebound in 2010, including those from the Financial sector as dividends are reinstated, since some companies now have both the ability and incentive to pay dividends.

Groundhog Day came late in February for the stock market. Last Thursday's worsening weekly unemployment claims data spooked stock market investors worried about job growth as February winter storms negatively impacted the data. In that labor report, the stock market saw its shadow and it appears that investors are in for six more weeks of winter weather affected reports contributing to stock market volatility. Everything from retail sales to manufacturing to the job market is likely to have been affected by the unusually bad winter weather in February. The most significant of these may be the Employment report for February, due this week on Friday morning, which is likely to show another month of job losses that were exaggerated by the winter storms.

In the last Weekly Market Commentary entitled *Investing for Volatility*, we described ways to invest in a low-return, volatile market. One of these ways is to focus on yield rather than solely on price appreciation. Our favorite asset class remains High-Yield Bonds. However, another way to incorporate more yield into a portfolio is through dividends. Indeed, higher dividend yielding sectors have been better performers lately. The added advantage of incorporating a focus on dividends now is that March and April tend to be the time of year when most companies increase their dividend payment. In the current environment, a boost to the dividend payment may signal more confidence in sustained growth by business leaders than their guidance on the earnings outlook helping to lift stock prices along with the dividend payout.

The past two years have been tough on dividends. In fact, 2009 marked the worst year on record for dividends since 1955, resulting in a 21% decline in dividends per share for the S&P 500 companies as a whole. In both 2008 and 2009, 32 S&P 500 companies suspended their dividends while only 11 initiated a dividend payment.

Dividends finally appear to be on the rebound. Currently, 366 of the S&P 500 companies pay a dividend. A total of 49 companies in the S&P 500 increased or initiated a dividend so far this year while only two companies have decreased or suspended their dividend. Of the 49 positive dividend actions, there have been five companies initiating a dividend payment in the S&P 500 so far this year and all of them were in the Consumer Discretionary and Information Technology sectors.

It may seem strange to think about the Information Technology sector when discussing dividends. Historically, tech stocks rarely offered any dividends, preferring instead to reinvest that cash back in to their growing businesses or to fund growth through acquisitions. But the sector has become much

*High yield/junk bonds are not investment grade securities, involve substantial risks and generally should be part of the diversified portfolio of sophisticated investors.

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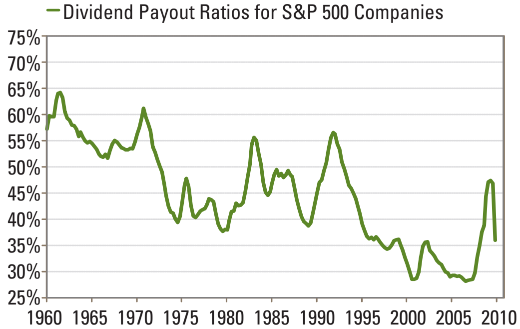
1 50 Years of Dividend Payout Ratios for S&P 500 Companies



Source: LPL Financial, Standard & Poors Data as of 2/26/10

more attractive to yield-focused investors. It used to be the Financial sector that dominated the dividend payers, contributing over 20% of the S&P 500 total dividends. But with the impact of the financial crisis on the make-up of the index and the suspension of dividends for some companies the sector now makes up a below average 9% of the dividends paid by S&P 500 companies. The Financial sector now has a smaller contribution than the Information Technology sector.

S&P 500 Dividend Data

	Dividend Contribution		Dividend Yield		Number of Dividend Payers	
S&P 500 Sector	2008	Feb 2010	2008	Feb 2010	2008	Feb 2010
Financials	20.5%	9.0%	4.4%	1.1%	71	66
Industrials	13.9%	11.7%	3.7%	2.3%	55	53
Consumer Staples	13.3%	17.4%	3.1%	3.0%	37	39
Health Care	12.2%	13.0%	2.5%	2.0%	25	22
Energy	9.9%	11.8%	2.2%	2.1%	34	32
Telecom Services	7.2%	8.9%	5.6%	6.1%	7	6
Information Technology	7.0%	9.1%	1.4%	1.0%	29	31
Consumer Discretionary	6.4%	7.6%	2.3%	1.6%	57	56
Utilities	6.3%	8.1%	4.5%	4.5%	31	33
Materials	3.4%	3.3%	3.5%	1.9%	26	28
S&P 500	100%	100%	3.0%	2.0%	372	366

Source: Standard & Poors, LPL Financial Data as of 2/26/10

We expect dividend payments to rebound in 2010, including those from the Financial sector as TARP loans are repaid and dividends are reinstated. One of the reasons we believe dividends are turning the corner is that companies now have the ability to pay the dividends. The dividend payout ratio (the last four quarters of dividends per share divided by the last four quarters of earnings per share) is low indicating an ability to increase the payout. The aggregate S&P 500 dividend payout ratio is currently 36%. This is below average, and even with increases to dividend payments this ratio is likely to fall back to the lows of the 2000s as earnings growth rises more quickly in the coming quarters. With the payout ratio near its lows, companies have ample reserves to pay dividends. Another factor supporting the ability to pay dividends is that cash balances are also high.

Importantly, not only do companies have the ability to increase their dividend payments, they also have the incentive. Investors may already be increasingly turning to dividends as a gauge of financial health. After all, dividends cannot be restated or written off. The simple clarity of a dividend increase speaks loudly amid the uncertain economic environment and weather-distorted economic reports.

Investing in international and emerging markets may entail additional risks such as currency fluctuation and political instability.

Stock investing involves risk including loss of principal.

Small-cap stocks may be subject to higher degree of risk than more established companies' securities. The illiquidity of the small-cap market may adversely affect the value of these investments.

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

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.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

Industrials Sector: Companies whose businesses: Manufacture and distribute capital goods, including aerospace and defense, construction, engineering and building products, electrical equipment and industrial machinery. Provide commercial services and supplies, including printing, employment, environmental and office services. Provide transportation services, including airlines, couriers, marine, road and rail, and transportation infrastructure.

Consumer Discretionary Sector: Companies that tend to be the most sensitive to economic cycles. Its manufacturing segment includes automotive, household durable goods, textiles and apparel, and leisure equipment. The service segment includes hotels, restaurants and other leisure facilities, media production and services, consumer retailing and services and education services.

Consumer Staples: Companies whose businesses are less sensitive to economic cycles. It includes manufacturers and distributors of food, beverages and tobacco, and producers of non-durable household goods and personal products. It also includes food and drug retailing companies.

Health Care: Companies in two main industry groups: Health Care equipment and supplies or companies that provide health care-related services, including distributors of health care products, providers of basic health care services, and owners and operators of health care facilities and organizations. Companies primarily involved in the research, development, production and marketing of pharmaceuticals and biotechnology products.

Telecommunications Services: Companies that provide communications services primarily through a fixed line, cellular, wireless, high bandwidth and/or fiber-optic cable network.

Utilities Sector: Companies considered electric, gas or water utilities, or companies that operate as independent producers and/or distributors of power.

Energy Sector: Companies whose businesses are dominated by either of the following activities: The construction or provision of oil rigs, drilling equipment and other energy-related service and equipment, including seismic data collection. The exploration, production, marketing, refining and/or transportation of oil and gas products, coal and consumable fuels.

Financials Sector: Companies involved in activities such as banking, consumer finance, investment banking and brokerage, asset management, insurance and investment, and real estate, including REITs.

Materials Sector: Companies that engage in a wide range of commodity-related manufacturing. Included in this sector are companies that manufacture chemicals, construction materials, glass, paper, forest products and related packaging products, metals, minerals and mining companies, including producers of steel.

Information Technology: Companies that primarily develop software in various fields such as the Internet, applications, systems and/or database management and companies that provide information technology consulting and services. Technology hardware & equipment include manufacturers and distributors of communications equipment, computers and peripherals, electronic equipment and related instruments, and semiconductor equipment and products.

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