

Market Insight



First Quarter 2014

Stocks Cool Off as U.S. Economy Weathers Deep Freeze

1 Q1 2014 At a Glance

Sector	Q1 2014
GDP*	1.8%
S&P 500 Index	1.8%
Barclays Aggregate Bond Index	1.8%
DJ-UBS Commodities Index	7.0%

Source: LPL Financial Research, FactSet, Bloomberg 03/31/14

*Bloomberg consensus as of March 31, 2014

Figures for S&P 500, Barclays Aggregate, and DJ-UBS Commodities Index are total returns from 01/01/14–03/31/14.

All indices are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges, or expenses. The results don't reflect any particular investment. Past performance is no guarantee of future results.

A Quick Look Forward

LPL Financial Research's 2014 outlook calls for better economic growth, which we see leading to stock market total returns likely in the low double digits (10–15%), derived from earnings per share for S&P 500 companies growing 5–10% and a rise in the price-to-earnings ratio (PE) of about half a point. That better growth may lead to rising yields and flat bond market total returns, with the 10-year Treasury yield likely ending the year at 3.25–3.75%. (Derived from our expectation for a 1% acceleration in U.S. GDP based on many of the drags of 2013 fading.) The primary risk to our outlook is that better economic growth does not develop.

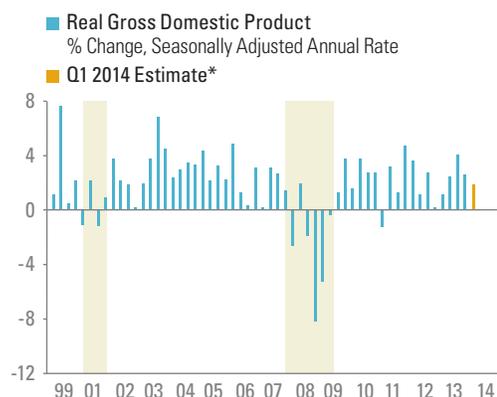
For more insight into our forecasts, please see our *Outlook 2014: The Investor's Almanac* publication and *Outlook 2014* video on YouTube.

- U.S. economy struggles to emerge from deep freeze.** As 2014 began, the foundation was in place for better economic growth as the drags on the U.S. economy in 2013 were poised to reverse. But Mother Nature had other ideas, and severe winter weather caused significant disruptions to the U.S. economy. However, signs have emerged in recent weeks that the economy has made some progress underneath all that snow and ice. Underlying fundamentals in the labor market suggest that the job market may be thawing, and businesses are beginning to invest more in future growth through capital spending.
- Bull market enters sixth year as S&P 500 posts fifth straight quarterly gain.** After a booming 2013, the stock market, much like the U.S. economy, got off to a bit of a slow start in 2014. Still, the S&P 500 Index's 1.8% first quarter return marked the fifth straight positive quarter for the broad market index and extended the current bull market into its sixth year. Stocks did suffer a pullback of just over 5% during the quarter because the widely anticipated pickup in economic growth failed to materialize. Emerging market (EM) concerns also contributed to stock market volatility.
- Commodities bounced back after challenging 2013.** After a very challenging 2013 for commodities markets, the stabilization that began late last year carried through to the start of 2014. The Dow Jones-UBS Commodity Index produced a strong 7.0% gain during the first quarter, reversing much of last year's decline. The biggest contributor to the gain in the asset class was agriculture, as droughts in the United States and Brazil contributed to sharply higher grain prices.
- Bonds matched the performance of stocks.** After the second-worst loss in the 40-year history of the index in 2013, the Barclays Aggregate Bond Index finished the first quarter with a positive 1.8% total return, equal to that of the S&P 500 Index after reinvestment of dividends. Bond prices rose across the board, and yields fell, with the 10-year Treasury yield closing the first quarter 0.3% lower near 2.7%. Credit paced gains in the bond market though all segments participated.

The economic forecasts set forth in the presentation may not develop as predicted.

Please note: all return figures are as of March 31, 2014 unless otherwise stated.

2 Pickup in U.S. Economic Growth Delayed Due to Severe Winter Weather



Source: LPL Financial Research, Bureau of Economic Analysis, Haver Analytics 03/31/14

Shaded areas indicate recession.

*Reflects Q1 2014 Bloomberg-tracked consensus of economic forecasters at 1.8%.

3 Slower, Weather-Impacted Retail Sales Gains to Start the Year



Source: LPL Financial Research, ICSC, Haver Analytics 03/31/14

Shaded areas indicate recession.

The International Council of Shopping Centers (ICSC) is a global trade association of the shopping center industry.

U.S. Economy Struggles to Emerge From Deep Freeze in Early 2014

Weighed down by government spending cuts, tax increases, and recession in Europe, the U.S. economy grew at a sluggish pace of just under 2% in 2013. As 2014 began, the foundation was in place for better growth as these drags on the U.S. economy were poised to reverse. But Mother Nature had other ideas, and severe winter weather caused significant disruptions to the U.S. economy. We estimate that weather reduced first quarter gross domestic product (GDP) by about 1%, which may lead to another quarter of sub-par economic growth in the 1.5–2% range [Figure 2], based on the Bloomberg-tracked consensus of economic forecasters as of March 31, 2014. Some of that lost economic activity may be recovered in subsequent months, but as April began the extent is unclear. Inflation remains well contained, with the latest reading of the Federal Reserve’s (Fed’s) preferred inflation measure (core personal consumption expenditures excluding food and energy) rising just 1.1% year over year in February.

Shoppers made fewer trips to the malls. Consumer spending, the biggest piece of the U.S. economy, was no doubt impacted by severe winter weather as shoppers made fewer trips to the malls and a larger share of consumers’ discretionary income was redirected toward higher energy costs. Coming off a disappointing holiday shopping season with 3–4% sales gains in late 2013, retail sales gains slowed to between 2% and 3% in early 2014 [Figure 3], below the typical pace at this stage of economic recovery. Although less policy uncertainty in Washington has helped confidence, gains in jobs, incomes, and wealth (stock and home prices) are providing less support for retail sales in early 2014 than in 2013. Consumers also dealt with higher health care costs related to the implementation of the Affordable Care Act (ACA).

Progress Underneath the Snow and Ice

Signs have emerged in recent weeks that the economy has made some progress underneath all that snow and ice. The latest edition of the Fed’s Beige Book, which is essentially a “window on Main Street,” provided a positive assessment of the U.S. economy and still characterized growth as “modest to moderate,” despite significant weather impacts. Many Beige Book comments pointed to optimism once the weather normalizes. Encouragingly, as the quarter came to a close, consumer confidence rose to a six-year high and auto sales raced to the fastest pace since 2006.

Underlying fundamentals in the labor market suggest that the job market may be thawing. The unemployment rate has continued to fall, dropping from 7% to 6.7% over the three months ending February 2014. Initial claims for unemployment insurance fell to 311,000 during the week of March 28, a level last seen on a sustained basis in mid-2007 prior to the onset of the Great Recession. And hiring expectations by small businesses have been moving higher as tracked by the National Federation of Independent Business.

Signs have also emerged in early 2014 that businesses are beginning to invest more in future growth through capital spending. Durable goods orders, a proxy for capital spending, pointed to a small boost for

EM economies struggled during the first quarter as the tide of global money flow began to turn.

the economy from capital spending during the first quarter, despite the relentlessly poor weather. The Institute for Supply Management (ISM) survey of purchasing managers' plans for investment is consistent with a modest expansion of the manufacturing sector. Less policy uncertainty in Washington is also helping support various measures of business confidence.

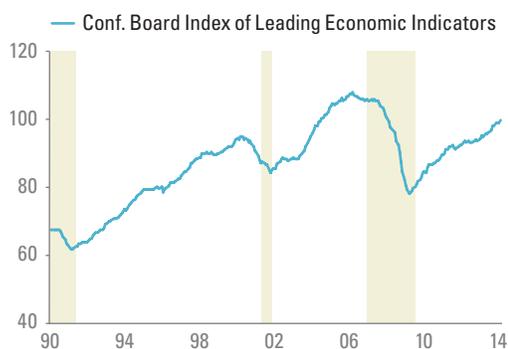
Fed support remains in place. Recognizing improving underlying fundamentals of the U.S. economy, in December 2013 the Fed began scaling back its bond-buying program, known as quantitative easing (QE), and continued to do so in 2014. QE, even reduced (tapered), along with the Fed's commitment to keep interest rates low for an extended period, still leaves the central bank providing considerable support to the economy. The Fed has cited less fiscal drag and an improving labor market as justification for its decision to reduce QE, which is on track to be eliminated by year end.

Fed tapering a challenge for emerging markets. EM economies struggled during the first quarter as the tide of global money flow began to turn, prompted by actions from the Fed. Many of these economies depend on foreign capital to fund their trade deficits, and that capital has become more difficult to attract as competing yields have risen in more stable countries and several of these economies have struggled with political turmoil, weak currencies, and stubborn inflation. These local challenges, along with broader issues related to slower growth in China and the Russia-Ukraine conflict, have all contributed to reduced EM growth expectations.

Better but still sluggish growth in Europe. After emerging from recession in late 2013, European growth continued to get a bit better in early 2014. Though still on pace for only about 1% annualized growth (based on the Bloomberg-tracked consensus of economists forecasts as of March 31, 2014), Europe now presents a stronger source of demand for U.S. exports than it has in recent years. But measures of financial system health in Europe still reflect structural challenges and limited ability to borrow by Eurozone consumers and businesses through the region's banks. Meanwhile, geopolitical risk in the region remains higher than usual given Europe's dependence on Russia and Ukraine for energy and other commodities.

Brief look ahead: leading indicators suggest very low likelihood of recession. Based on leading economic indicators, we believe a U.S. recession in the next two years remains highly unlikely despite the sluggish pace of U.S. economic growth [Figure 4]. As noted in our *Outlook 2014: The Investor's Almanac*, we believe less drag from government spending cuts substantially reduces the odds of recession in 2014. Less policy uncertainty in Washington and the absence of new tax increases should also help.

4 Leading Economic Indicators Suggest Very Low Probability of Recession



Source: LPL Financial Research, Bloomberg, Conference Board 03/31/14

Shaded areas indicate recession.

The Index of Leading Economic Indicators (LEI) is an economic variable, such as private-sector wages, that tends to show the direction of future economic activity.

5 S&P 500 Pulled Back More Than 5% Intra-Quarter but Posted Another Quarterly Gain



Source: LPL Financial Research, FactSet 03/31/14

The S&P 500 Index is an unmanaged index, which cannot be invested into directly. The returns do not reflect fees, sales charges or expenses. The results don't reflect any particular investment. Past performance is no guarantee of future results.

6 Interest Rate Sensitive Utilities Benefited From Falling Interest Rates
Ranked by First Quarter Returns

Sector	Q1 2014 (%)
Utilities	10.1
Health Care	5.8
Materials	2.9
Financials	2.6
Technology	2.3
S&P 500	1.8
Energy	0.8
Consumer Staples	0.5
Telecom	0.5
Industrials	0.1
Consumer Discretionary	-2.8

Source: LPL Financial Research, FactSet 03/31/14

The 10 S&P 500 Global Industry Classification Standards (GICS) indexes are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges or expenses. The results don't reflect any particular investment. Past performance is no guarantee of future results.

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

The asset classes are represented by the 10 S&P 500 Global Industry Classification Standard (GICS) indexes.

Bull Market Enters Sixth Year Following Fifth Straight Quarterly Gain for the S&P 500

After a booming 2013, the stock market, much like the U.S. economy, got off to a bit of a slow start in 2014. Still, the S&P 500 Index's 1.8% return during the first quarter including dividends marked the fifth straight positive quarter for the broad market index, extending the current bull market into its sixth year. The quarter was notable in that it saw individual investors return to the stock market at a steady clip. Though 1.8% is not a bad return, stocks were held back and suffered a pullback of just over 5% during the quarter [Figure 5] because the widely anticipated pickup in economic growth failed to materialize. (We noted in our *Outlook 2014: Investor's Almanac* that disappointing growth was the biggest risk to the stock market this year.)

EM concerns also held stocks back. Sluggish growth, much of it weather related, was not the only reason for the stock market's modest gains. EM concerns noted above, including nervousness surrounding China's growth outlook, contributed to stock market volatility at the start of the year and drove just the second pullback of more than 5% in the S&P 500 since the start of 2013 (from 1/15/14 to 2/3/14). Above-average stock valuations, the age of the bull market, and fears of an escalating Russia-Ukraine conflict likely also contributed to the slower pace of stock market gains to start the year after such a strong performance in 2013.

Slower growth and falling bond yields helped support defensive sectors. After cyclical sectors finished 2013 strong, the defensives took the top two spots on the sector leaderboard during the first quarter of 2014. Utilities benefited from increased power demand during the frigid winter. They also tend to be the most interest rate sensitive among equity sectors and benefited from falling interest rates and bond market strength as economic data fell short of expectations and geopolitical risks rose. These same factors helped drive a rebound in real estate investment trusts (REITs), which returned a solid 8.5% after last year's dramatic underperformance, based on the NAREIT Equity Index. Health care also enjoyed a solid quarter amid prospects for greater demand for health care products and services under the ACA, which drove solid gains in drug and equipment makers and insurers. On the flip side, consumer discretionary struggled with weakness in retail due to the weather-driven slowdown in consumer spending, higher energy costs, an ACA-related increase in health care expenditures, and the market's increased sensitivity to higher valuations.

Cyclical sectors are economically sensitive and typically have stronger performance as economic and market conditions improve.

Defensive sectors typically are less economically sensitive and tend to perform relatively better in more challenging economic and market environments.

7 Strong First Quarter for Mid Caps and Value; U.S. Outpaced International

Asset Class	Q1 2014 (%)
U.S. Mid Caps	3.5
U.S. All Cap Value	2.9
U.S. Large Caps	2.1
U.S. Small Caps	1.1
U.S. All Cap Growth	1.1
Developed Foreign	0.8
Emerging Markets	-0.4

Source: LPL Financial Research, FactSet 03/31/14

Based on Russell 1000, Russell 3000 Growth and Value Indexes, Russell 2000, MSCI EAFE, MSCI EM Index

Total returns from 01/01/14–03/31/14.

All indices are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges or expenses. The results don't reflect any particular investment. Past performance is no guarantee of future results.

Mid-capitalization companies are subject to higher volatility than those of larger capitalized companies.

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

Value investments can perform differently from the market as a whole. They can remain undervalued by the market for long periods of time.

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

Slower growth in China and the Russia-Ukraine conflict were the biggest drivers of the EM weakness.

Strong First Quarter for Mid Caps and Value

Mergers, U.S. focus boosted mid caps. After stocks with small market capitalizations led in 2013, mid caps provided the market cap sweet spot to start 2014, beating both their larger and smaller sized peers, based on the Russell market cap indexes. Mid caps benefited from a pickup in merger and acquisition activity and a more U.S.-dominated end market, while not being hurt as much by some of the overseas economic weakness that affected larger and more global companies, and the valuation concerns that weighed on small caps. Mid cap strength was broad based with nine of 10 stock market sectors outperforming their large cap counterparts, suggesting the market took a broadly more favorable view of the growth prospects and valuations of mid-sized companies.

Valuation concerns, dividends drove value outperformance. After trailing growth during the back half of 2013 and for most of the first quarter, a downturn in some high-flying growth stocks late in March left value as the better performing style during the first quarter of 2014. Value stocks garnered support from the market's increasing sensitivity to valuations, which became more pronounced late in the quarter, and from higher dividend payouts, which become relatively more attractive as interest rates fall. At the sector level, financials' and utilities' outperformance, and outsized losses for the growth-oriented consumer discretionary sector, led to value outperformance.

Staying Close to Home Paid Off Again, Though Europe Was a Bright Spot

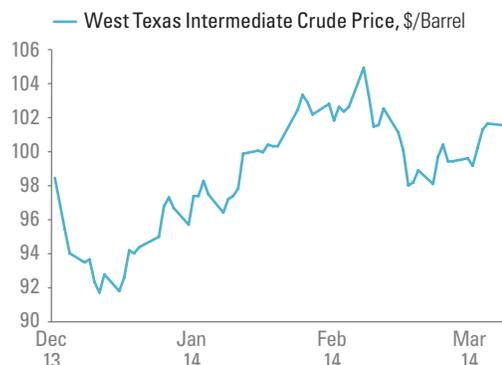
U.S. stocks outpaced international. After lagging throughout 2013, developed international markets again trailed the United States during the first quarter, but for a different reason. Last year, weakness in Europe drove the majority of the underperformance of the MSCI EAFE Developed Market Index relative to the S&P 500. But during the first quarter, when the MSCI EAFE returned just 0.8%, the MSCI Europe Index outpaced the U.S. stock market with a 2.2% return. Losses in the Pacific region and Japan led to the modest international underperformance, with Pacific markets impacted by fears of a more pronounced China slowdown, while Japan saw selling pressure related to skepticism regarding the long-term effectiveness of the country's stimulus programs.

China and Russia weighed on EM. The MSCI Emerging Markets Index lost 0.4% during the quarter, trailing both the developed foreign and U.S. equity benchmarks. Slower growth in China and the Russia-Ukraine conflict were the biggest drivers of the EM weakness, which translated into losses for the Chinese and Russian stock markets, while Mexico and South Korea also suffered losses. Concerns about current account deficits, i.e., trade imbalances, also contributed to lagging EM performance.

Commodities Bounced Back After Challenging 2013

U.S. and Brazil droughts drove grain prices higher. After a very challenging 2013 for commodities markets, and gold in particular, the stabilization that began late last year carried through to the start of 2014. The Dow Jones-UBS Commodity Index produced a strong 7.0% gain

8 Cold Weather and Russia Tensions Have Supported Oil Prices



Source: LPL Financial Research, FactSet 03/31/14

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

9 Geopolitical Risk, Growth Concerns, and Lower Interest Rates Supported Gold



Source: LPL Financial Research, FactSet 03/31/14

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

Precious metal investing is subject to substantial fluctuation and potential for loss.

The risks associated with investment-grade corporate bonds are considered significantly higher than those associated with first-class government bonds. The difference between rates for first-class government bonds and investment-grade bonds is called investment-grade spread. The range of this spread is an indicator of the market's belief in the stability of the economy.

Credit quality is one of the principal criteria for judging the investment quality of a bond or bond mutual fund. As the term implies, credit quality informs investors of a bond or bond portfolio's credit worthiness, or risk of default.

Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

during the first quarter, reversing much of last year's decline. The biggest contributor to the gain in the asset class was agriculture. The Dow Jones-UBS Agriculture Index rose 16.5% during the quarter, as droughts in the United States and Brazil contributed to sharply higher grain prices, while supply disruptions drove spikes in coffee and lean hog prices. The Russia-Ukraine conflict also contributed to higher grain prices because Ukraine is a significant global exporter.

Energy and precious metals also rose. Agriculture was not the only source of commodities' strength in the quarter as energy and precious metals also produced solid gains. Crude oil, which rose 3.2% during the quarter to end at \$101, garnered support from the severe winter weather and geopolitical tensions [Figure 8]. A very volatile period for natural gas ended with a similar quarterly gain. Rising geopolitical risk, increasing concerns about global growth, and lower interest rates provided support for gold, which rose despite further reductions in Fed stimulus. The yellow metal rose 6.8% during the quarter after paring gains in late March [Figure 9]. Other precious metals also performed well, with tightening supply in Russia and South Africa driving solid mid-single-digit gains in platinum and palladium.

While the agriculture, energy, and precious metal markets were able to shrug off concerns about slowing Chinese growth, the most China-sensitive industrial metals suffered, as copper prices fell 10.9% and aluminum lost 3.2% during the quarter.

Fixed Income – Taxable: Bonds Matched Stock Returns to the Surprise of Many

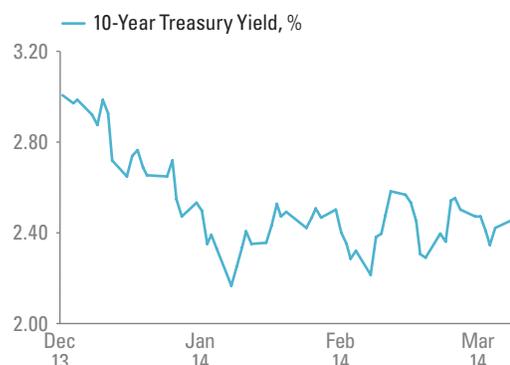
Broad-based bond market strength. Bonds matched the performance of stocks over the first quarter. After the second-worst loss in the 40-year history of the index in 2013, the Barclays Aggregate Bond Index finished the first quarter with a positive 1.8% total return, equal to that of the S&P 500 Index after reinvestment of dividends. Bond prices rose across the board following the difficult 2013, and yields fell, with the 10-year Treasury yield closing the first quarter 0.3% lower near 2.7% [Figure 10].

Bond market gains were driven by several different factors. First, the drop in yields early in the quarter, and corresponding gains in bond prices, coincided with initial weather-driven weakness in the economic data. Second, geopolitical uncertainty increased due to the Russia-Ukraine conflict. And third, by pulling back on stimulus, the Fed has affected the market's confidence in future economic growth, supporting bond prices. In addition, by communicating that the central bank will remain accommodative "for some time," as Chair Janet Yellen recently put it, the Fed has provided support for bond prices.

Credit Paces Broad-Based Bond Market Strength

Credit paced gains in the bond market though all segments participated [Figure 11]. Lower-rated, more economically sensitive sectors such as high-yield bonds shook off concerns about economic growth as investors

10 Yields Moved Lower During the Quarter on Weaker Economic Data, Geopolitical Uncertainty



Source: LPL Financial Research, FactSet 03/31/14

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

11 Broad-Based Bond Market Strength Ranked by First Quarter Returns

Sector	Q1 2014 (%)
Preferred Securities	6.5
Municipal High-Yield	5.9
Emerging Market Debt	3.5
Municipal Bonds	3.3
Foreign Bonds (Unhedged)	3.2
High-Yield Corporates	3.0
Investment-Grade Corporates	2.9
Foreign Bonds (Hedged)	2.4
TIPS	2.0
Barclays Aggregate	1.8
Mortgage-Backed Securities	1.6
US Treasuries	1.3
Bank Loans	1.1

Source: LPL Financial Research, FactSet 03/31/14

The indexes mentioned are unmanaged and you cannot invest into directly. The returns do not reflect fees, sales charges, or expenses. The results don't reflect any particular investment. Past performance is no guarantee of future results.

Asset class returns are represented by the returns of indexes and are not ranked on an annual total return basis. It is not possible to invest directly in an index so these are not actual results an investor would achieve.

focused on a low default environment. Credit spreads for high-yield bonds, as well as investment-grade corporates, narrowed in recognition of the favorable credit environment and strong corporate balance sheets. Narrowing spreads, along with higher yields, helped both of these sectors outperform the broad bond market with returns near 3%. Preferred stocks, in particular, benefited from the low default environment, as well as their interest rate sensitivity, higher yields, and the stronger balance sheets of financial companies, which make up a majority of issuers in the sector. Preferreds produced the strongest returns among the major fixed income asset classes during the quarter at over 6%.

One economically sensitive bond sector that was not able to keep up with the broad bond market was bank loans. The sector was held back by its limited interest rate sensitivity but still managed to produce a positive 1.1% return due to its economic sensitivity and above-benchmark yields.

High-quality bonds produced gains but lagged. The first quarter was unusual for the bond market in that credit spreads narrowed as interest rates fell and bond prices rose. A falling yield environment would historically be positive for the highest quality bonds with the greatest interest rate sensitivity and relatively less economic sensitivity. But the more interest rate sensitive, high-quality government bond sectors, including Treasuries and Treasury inflation-protected securities (TIPS), lagged the more economically sensitive bond sectors and, in the case of Treasuries, trailed the Barclays Aggregate Index. TIPS edged out the broad bond market index with a 1.9% return, while Treasuries lagged with a 1.3% return.

Longer-maturity bonds fared better. Within the bond market, longer-maturity bonds fared significantly better than their short and intermediate counterparts due to the decline in longer term yields, while short- and intermediate-term yields were flat or rose. Relatively less interest rate sensitivity contributed to the modest underperformance of mortgage-backed securities (MBS), which produced a 1.6% return. On a positive note,

Bank loans are loans issued by below investment-grade companies for short-term funding purposes with higher yield than short-term debt and involve risk.

Preferred stock investing involves risk, which may include loss of principal.

Treasury inflation-protected securities (TIPS) help eliminate inflation risk to your portfolio, as the principal is adjusted semiannually for inflation based on the Consumer Price Index—while providing a real rate of return guaranteed by the U.S. government.

Mortgage-backed securities are subject to credit, default risk, prepayment risk that acts much like call risk when you get your principal back sooner than the stated maturity, extension risk, the opposite of prepayment risk, and interest rate risk.

Asset Class Indexes: Emerging Market Debt – JP Morgan Emerging Markets Global Index; High-Yield – Barclays US High Yield Corporate Index; Foreign Bonds (un-hedged) – Citigroup Non-US World Govt Bond Index (un-hedged); Municipal High-Yield – Barclays Municipal High-Yield Index; Bank Loans – Barclays US High-Yield Loan Index; Invst-Grade Corporate – Barclays US Corporate Bond Index; Municipal – Barclays Municipal Bond Index; Preferred Stocks – Merrill Lynch Preferred Stock Hybrid Index; TIPS – Barclays Treasury Inflation Protected Securities Index; Foreign Bonds (hedged) – Citigroup Non-US World Govt Bond Index Hedged for Currency; Mortgage-Backed Securities – Barclays US MBS Index; Treasury – Barclays US Treasury Index.

Significant upward pressure on domestic interest rates and a corresponding widening of credit spread could negatively impact the market price of emerging debt markets.

MBS continued to benefit from the still notable pace of Fed purchases, absorbing much of net new supply, but benefited less than corporate bonds from the favorable credit environment.

Going Overseas Was Advantageous in the Bond Market

Overseas bond returns outpaced U.S. Unlike the stock market, where market participants generally benefited from staying close to home to start the year, bond returns overseas outpaced those in the United States during the first quarter. After losing more than 6% in 2013, and despite significant economic and geopolitical stress points, emerging market debt (EMD) produced a solid 3.5% return during the quarter and outpaced the domestic Barclays Aggregate Bond Index. The dollar-denominated benchmark suffered limited impact overall from the significant emerging market currency volatility in January through early February that subsided over the balance of the quarter.

Deflation fears in Europe supported foreign bonds. Higher-quality developed foreign bond markets also beat the broad U.S. bond market index during the quarter. US dollar weakness during the quarter led to stronger returns for unhedged foreign bonds (+3.2%) than hedged (+2.4%), but both outpaced the Barclays Aggregate Index's 1.8% return. Markets have become increasingly worried about deflation in Europe, which has sparked speculation of further stimulus from the European Central Bank (ECB) and provided support for foreign bonds.

Fixed Income – Tax-free: Strong Start to 2014 for Municipal Bonds

Municipal bonds are subject to availability, price, and to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate rise. Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.

Drags from 2013 reversed for municipals. Municipal bonds, both high-yield and high-quality, produced solid first quarter returns as both credit risk and interest rate risk were rewarded and the factors that drove last year's underperformance reversed. Last year, interest rate sensitivity and credit concerns related to troubled issuers including Detroit and Puerto Rico, which were exaggerated due to relatively less liquid municipal bond markets, drove underperformance for municipal bonds. So far this year, lower interest rates, an improved supply-demand balance, and still-low overall default rates have all contributed to solid gains for municipal bonds. The Barclays Municipal Bond Index returned 3.3% during the quarter, while the Barclays High-Yield Municipal Bond Index fared even better with its 5.9% return. Compared to the taxable high-yield bond market, municipal high-yield bonds have greater interest rate sensitivity and benefited from the overall decline in bond yields. High-yield municipal bonds also received a boost from their higher yields and the favorable credit market dynamics that drove solid gains for high-yield corporate bonds. ■

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.

Stock investing may involve risk including loss of principal.

Duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. It is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. The bigger the duration number, the greater the interest-rate risk or reward for bond prices.

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

Quantitative easing is a government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.

Default rate is the interest rate charged to a borrower when payments on a revolving line of credit are overdue. This higher rate is applied to outstanding balances in arrears in addition to the regular interest charges for the debt.

Municipal bonds are subject to availability, price, and to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate rise. Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.

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

Currency risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

Credit risk is the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk arises whenever a borrower is expecting to use future cash flows to pay a current debt. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation. Credit risk is closely tied to the potential return of an investment, the most notable being that the yields on bonds correlate strongly to their perceived credit risk.

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

Materials Sector: Companies that are engaged 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.

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.

Health Care Sector: Companies are 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.

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

Consumer Staples Sector: 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.

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.

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

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.

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.

Technology Software & Services Sector: Companies include those 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, including manufacturers and distributors of communications equipment, computers and peripherals, electronic equipment and related instruments, and semiconductor equipment and products.

INDEX DEFINITIONS

The Barclays Aggregate Bond 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.

The Barclays Capital High Yield Index covers the universe of publicly issued debt obligations rated below investment grade. Bonds must be rated below investment-grade or high-yield (Ba1/BB+ or lower), by at least two of the following ratings agencies: Moody's, S&P, and Fitch. Bonds must also have at least one year to maturity, have at least \$150 million in par value outstanding, and must be US dollar denominated and non-convertible. Bonds issued by countries designated as emerging markets are excluded.

The Barclays Capital High Yield Municipal Bond Index is an unmanaged index made up of bonds that are non-investment grade, unrated, or rated below Ba1 by Moody's Investors Service with a remaining maturity of at least one year.

The Barclays Capital Long Government/Credit Index measures the investment return of all medium and larger public issues of U.S. Treasury, agency, investment-grade corporate, and investment-grade international dollar-denominated bonds with maturities longer than 10 years. The average maturity is approximately 20 years.

Barclays Capital US Corporate Investment Grade Index measures the performance of investment grade corporate bonds.

Barclays Capital U.S. Intermediate Credit Bond Index measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year and less than ten years.

The Barclays Corporate Index is an unmanaged index of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both U.S. and non-U.S. corporations. The non-corporate sectors are Sovereign, Supranational, Foreign Agency, and Foreign Local Government. Bonds must have at least one year to final maturity, must be dollar-denominated and non-convertible, and must have at least \$250 million par amount outstanding. Bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment-grade.

The Barclays Mortgage-Backed Securities Index includes 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Federal National Mortgage Association (FNMA).

The Barclays Municipal Bond Index is a market capitalization-weighted index of investment-grade municipal bonds with maturities of at least one year. All indices are unmanaged and include reinvested dividends. One cannot invest directly in an index. Past performance is no guarantee of future results.

The Barclays Treasury Index is an unmanaged index of public debt obligations of the U.S. Treasury with a remaining maturity of one year or more. The index does not include t-bills (due to the maturity constraint), zero coupon bonds (Strips), or Treasury Inflation Protected Securities (TIPS).

The Barclays U.S. Treasury TIPS Index is a rules-based, market value-weighted index that tracks inflation-protected securities issued by the U.S. Treasury. The U.S. TIPS Index is a subset of the Global Inflation-Linked Index, with a 36.0% market value weight in the index (as of December 2007), but is not eligible for other nominal treasury or aggregate indices. In order to prevent the erosion of purchasing power, TIPS are indexed to the non-seasonally adjusted Consumer Price Index for All Urban Consumers, or the CPI-U (CPI).

The BofA Merrill Lynch Preferred Stock Hybrid Securities Index is an unmanaged index consisting of a set of investment-grade, exchange-traded preferred stocks with outstanding market values of at least \$50 million that are covered by Merrill Lynch Fixed Income Research. The Index includes certain publicly issued, \$25- and \$100-par securities with at least one year to maturity.

Citigroup World BIG ex US Index is a market capitalization weighted index that tracks the performance of the international fixed rate bonds that have remaining maturities of one year or longer and that are rated BBB-/Baa3, or better, by S&P or Moody's, respectively. This Index excludes the U.S. and is unhedged USD.

The Conference Board Leading Economic Index is an American economic leading indicator intended to forecast future economic activity. It is calculated by The Conference Board, a non-governmental organization, which determines the value of the index from the values of ten key variables.

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 Dow Jones - UBS Commodity Index is composed of futures contracts on 19 physical commodities. Unlike equities, which entitle the holder to a continuing stake in a corporation, commodity futures contracts specify a delivery date for the underlying physical commodity.

The Institute for Supply Management (ISM) index is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders, and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys.

The JPMorgan Emerging Markets Bond Index Global ("EMBI Global") tracks total returns for traded external debt instruments in the emerging markets, and is an expanded version of the JPMorgan EMBI+. As with the EMBI+, the EMBI Global includes U.S. dollar-denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least \$500 million. It covers more of the eligible instruments than the EMBI+ by relaxing somewhat the strict EMBI+ limits on secondary market trading liquidity.

MSCI EAFE is made up of approximately 1,045 equity securities issued by companies located in 19 countries and listed on the stock exchanges of Europe, Australia, and the Far East. All values are expressed in U.S. dollars. All values are expressed in US dollars. Past performance is no guarantee of future results.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of May 2005 the MSCI Emerging Markets Index consisted of the following 26 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, Turkey and Venezuela.

The MSCI Europe Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe. As of June 2007, the MSCI Europe Index consisted of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

The New York Mercantile Exchange (NYMEX) is a commodity futures exchange owned and operated by CME Group of Chicago.

The Russell 1000 Index consists of the 1,000 largest securities in the Russell 3000 Index, which represents 90% of the total market capitalization of the Russell 3000 Index. It is a large-cap, market oriented index and is highly correlated with the S&P 500 Index.

Russell 1000® Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

Russell 2000® Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 2000® Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 3000 Value Index measures the performance of those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell Mid Cap Index offers investors access to the mid cap segment of the U.S. equity universe. The Russell Mid Cap Index is constructed to provide a comprehensive and unbiased barometer for the mid-cap segment and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid cap opportunity set. The Russell Mid Cap Index includes the smallest 800 securities in the Russell 1000.

The Russell Mid Cap Value Index offers investors access to the mid cap value segment of the U.S. equity universe. The Russell Mid Cap Value Index is constructed to provide a comprehensive and unbiased barometer of the mid cap value market. Based on ongoing empirical research of investment manager behavior, the methodology used to determine value probability approximates the aggregate mid cap value manager's opportunity set.

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.

Consumer Price Inflation is the retail price increase as measured by a consumer price index (CPI). Core CPI is a subset of the total Consumer Price Index (CPI) that excludes the highly volatile food and energy prices. It is released by the Bureau of Labor Statistics around the middle of each month. Compare to Personal Consumption Expenditures (PCE); Core PPI; Producer Price Index (PPI).

The MSCI Japan Index is a free-float adjusted market capitalization weighted index that is designed to track the equity market performance of Japanese securities listed on Tokyo Stock Exchange, Osaka Stock Exchange, JASDAQ and Nagoya Stock Exchange. The MSCI Japan Total Return Index takes into account both price performance and income from dividend payments. The MSCI Japan Index is constructed based on the MSCI Global Investable Market Indices Methodology, targeting a free-float market capitalization coverage of 85%.

This research material has been prepared by LPL Financial.

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Not FDIC or NCUA/NCUSIF Insured | No Bank or Credit Union Guarantee | May Lose Value | Not Guaranteed by any Government Agency | Not a Bank/Credit Union Deposit