LPL Financial Research

Current Conditions Index

October 14, 2009

Overview

The LPL Financial Current Conditions Index is a weekly measure of the conditions that underpin our outlook for the markets and economy. The CCI provides real-time context and insight into the trends that shape our recommended actions to manage portfolios. This index has proven to be a useful tool for investment decision-making.

This weekly index is not intended to be a leading index or predictive of where conditions are headed, but a coincident measure of where they are right now. We want to track the conditions in real-time to aid in investment decision making. There are thousands of indicators-some lead the economy, some lag, while others merely offer a lot of statistical noise. We chose to create our own index tailored to the current environment to provide the clearest and most useful way to track how conditions are aligned with the expectations embedded in our investment recommendations. The components of the CCI are periodically changed to retune the index to those factors most critical to the markets and economy over the next year so it may continue to be a valuable investment decision-making tool.

Current Conditions Index Component Changes

We constructed the LPL Financial Current Conditions Index early in 2009 as conditions were deteriorating in the aftermath of the financial crisis that was precipitated by the bankruptcy of Lehman Brothers in mid-September of 2009. Our goal was to create a weekly, fact-based measure of the conditions that underpin our outlook for the markets and economy in 2009. We chose to create an index tailored to track the current environment to provide the clearest snapshot into how conditions are aligned with the expectations embedded in our investment recommendations. It was not intended to be a leading index or predictive of where conditions are headed, but a coincident measure of where they are right now. The CCI continues to be a useful tool to describe the conditions most relevant to investment decision-making in 2009 and contributed to our decision to begin to add risk to portfolios beginning late in the first quarter of 2009 as the markets bottomed and conditions began to improve.

In order for the index to continue to be a valuable investment decision-making tool, we need to make changes to retune the index to those factors most critical to the markets and economy over the next year. Some of the changes are driven by potential distortions that may arise in the components of the index and others by refocusing on new challenges the markets are likely to face while other gauges of stress in our index have returned to normal.

FOUR OF THE 10 CCI COMPONENTS ARE BEING REPLACED

Old Component	New Component
TED Spreads	Fed Spread
Shipping Rates	Rail Traffic
Real Money Supply Growth	Money Market Asset Growth
Consumer Confidence	Business Lending

These changes will have no impact on the history of the CCI, just as with any index where the constituents change over time like the S&P 500. The replacement components will be scaled to the end points of the components they replace. Going forward the CCI will reflect the changes in the new components.

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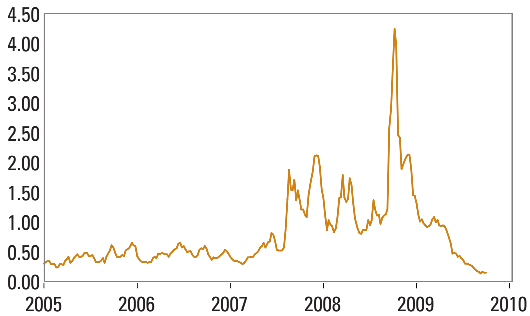
TED Spread Back to Normal
Difference in the Three Month LIBOR Rate and the Yield on Three Month Treasury Bills



Source: Bloomberg, LPL Financial

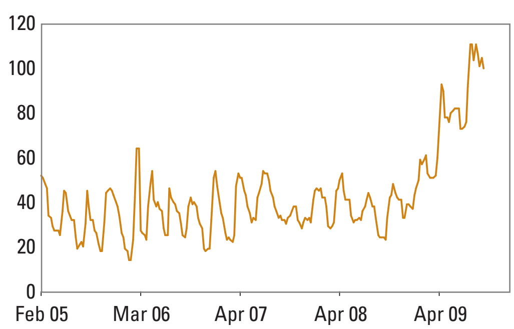
Fed Spread – A measure of future monetary policy, the futures market gives us the difference between the current federal funds rate and the expected federal funds rate six months from now. Typically, a rise in rate hike expectations weighs on the markets since higher rates increase the cost of bank borrowing and have tended to slow the growth in the economy and profits. A rise in the Fed Spread acts as a negative for the CCI.

TED Spread to Fed Spread

The TED Spread measures the difference between the three month LIBOR rate and the yield on three month Treasury bills ("TED" comes from the T in Treasury bills and the ED in Eurodollar futures represented by LIBOR). This is an effective measure of the liquidity available to banks. With bank capital adequacy near the center of the financial crisis this was an important gauge of the stress in the banking system. However, the TED Spread has returned to normal. At about 20bps, the TED spread has contracted from over 450bps at the peak of the crisis to return to the long-term average that preceded the financial crisis after extraordinary efforts were taken to restore liquidity by the Federal Reserve. In addition, banks raised over $1.3 trillion in capital to strengthen their balance sheets. With the efforts to fully restore liquidity to the interbank lending market achieved, a new challenge to the banks and economy must be assessed.

The new challenge may be rate hikes by the Federal Reserve. While the TED Spread measures the interest rate spread banks can borrow at over short-term Treasury rates, we increasingly see a need to measure the expected change in the absolute rate banks may pay as the Fed hikes rates next year. What we are calling the Fed Spread is the difference between the current federal funds rate and the expected federal funds rate six months from now as measured in the futures market. Therefore, the Fed Spread measures the market participants' expectation for rate changes by the Fed over the next six months. Typically, a rise in rate hike expectations weighs on the markets since higher rates increase the cost of bank borrowing and have tended to slow the growth in the economy and profits.

Rising Number of Bulk Carrier Vessels Launched



Source: Bloomberg, LPL Financial

Railroad Traffic – A measure of trade, the Association of American Railroads tracks the number of carloads of cargo that moves by rail in the U.S. each week. A growing economy moves more cargo. A rise in railroad traffic acts as a positive for the CCI.

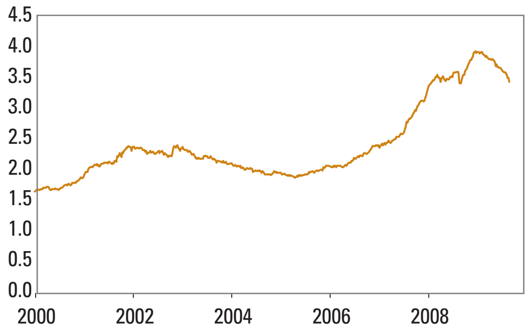
Shipping Rates to Rail Traffic

What we said in the *Guide to the CCI* about Shipping Rates has been true historically.

"Shipping Rates – A measure of global trade, the Baltic Exchange compiles the Baltic Dry freight Index which tracks the cost to ship various cargoes of raw materials on various key routes around the world. Since the supply of dry bulk ships does not change much in the short-term, the index is moved by the amount of cargo that is being traded in various global markets. A growing global economy moves more cargo which pushes up shipping rates. A rise in shipping rates acts as a positive for the CCI."

However, dry bulk ship supply has started to increase materially relative to demand which may distort the information content of this component which is intended to track global trade activity. In 2009, the dry bulk carrier fleet–whose lease rates our Shipping Rates component measures—has been growing sharply. Capacity now outstrips demand, even with increased rates of decommissioning and scrapping of older ships, drastically pushing down the cost of shipping tracked by this component of the index. This has resulted in the potential to distort the CCI with a reading on shipping rates that is falling despite growing container traffic. We may be able to return to using Shipping Rates in the future (after all, 90% of global trade takes place by sea); however, until the supply stabilizes another measure of container traffic is needed.

Money Mountain
Money Market Fund Total Assets in $Trillions



Source: Bloomberg, LPL Financial

Money Market Asset Growth – A measure of the willingness to take risk by investors, the year-over-year change in money market fund assets tracked by Investment Company Institute shows the change in total assets in cash equivalent money market funds. A rise in money market asset growth acts as a negative for the CCI.

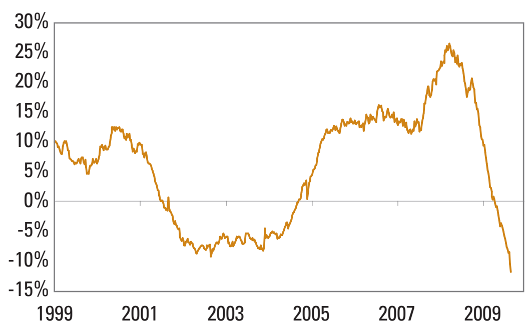
U.S. weekly railroad traffic data produced by the Association of American Railroads measures the number of carloads of cargo that moves by rail in the U.S. each week. This gives us an actual reading of the amount of container traffic that is generally unaffected by supply of railcars. Railroad traffic fell sharply in the aftermath of the financial crisis, but has started to rebound recently rising to the highest level this year. Due to seasonality and holiday-related spikes and troughs in the traffic we use the year-over-year change in the four week moving average of rail traffic in our index.

Real Money Supply Growth to Money Market Asset Growth

Real Money Supply Growth, measured by the year-over-year change in M2 growth adjusted for inflation, is a gauge of the Federal Reserves actions to provide adequate liquidity for U.S. economic activity. Now that we have introduced the expectations for changes in monetary policy directly with our Fed Spread component this measure becomes less useful. A more useful metric may be the willingness of individuals to fund economic activity by investing.

The year-over-year change in money market assets shows the willingness to take risk by investors. Specifically it tells us whether investors are pulling money out of the markets and putting it in cash equivalent money market funds or putting more money to work in the markets and helping to fund growth through the purchase of stocks, bonds, and other assets.

Business Loan Growth
Year-over-Year Commercial & Industrial Loan Growth at U.S. Commercial Banks



Source: Bloomberg, LPL Financial

Business Lending – A good gauge of business' willingness to borrow to fund growth, the Federal Reserve tabulates demand for Commercial & Industrial loans at U.S. commercial banks. More borrowing reflects increasing optimism by business leaders in the strength of demand. A rise in loan growth acts as a positive for the CCI.

Consumer Confidence to Business Lending

While the Retail Sales component of the CCI tracks actual consumer spending, the Consumer Confidence component merely measures how consumers feel. While this sentiment gauge is of some value, we prefer to pay more attention to what consumers do then what they say. Although both have improved, Retail Sales have been stronger than Consumer Confidence would suggest this year. Also, sentiment is an opinion rather than fact-based and objective data. Instead of a dual reading on the consumer, we believe a gauge of business spending may be more valuable to judging the sustainability of the recovery in the coming year.

Weekly data tracked by the Federal Reserve on demand for Commercial & Industrial loans at U.S. commercial banks is a good gauge of business' willingness to borrow to fund growth—in the form of expanding inventories, payroll, or other initiatives. While typically a lagging indicator that does not catch turning points, real-time demand for loans by businesses is a gauge of the sustainability of the recovery and confirms strength in leading and coincident indicators. The pace of year-over-year demand for loans has been negative and getting worse, but we expect it to stabilize and begin to improve over the next year.

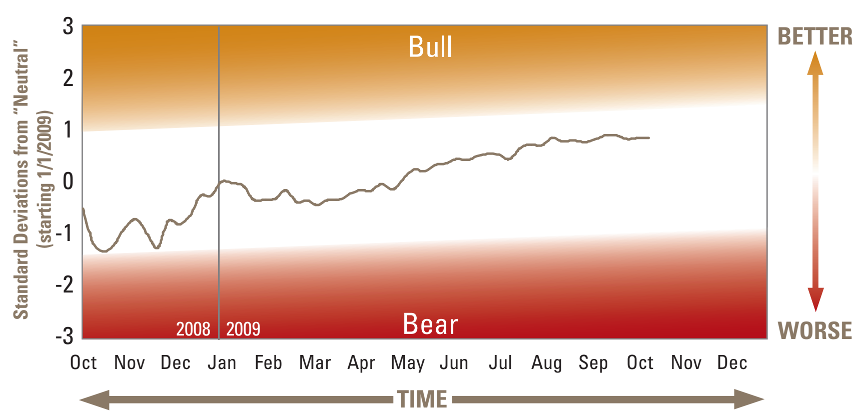
Continual Improvement

The CCI has proven to be a valuable investment decision-making tool in 2009. We are very pleased with the success of the index to track real-time conditions in the markets and economy. The drivers of the markets and economy change both during and across business cycles. From time to time changes to the index constituents are required to ensure the index incorporates those factors that are most critical to assessing the conditions in the markets and economy going forward.

CCI Weekly Update

Over the past week, the LPL Financial Current Conditions Index remained at 0.8. The index reflects current conditions aligned with the high end of our base case outlook, established at the end of last year, for mid-teen gains in the stock market and mid-single digits gains in the bond market in 2009, as measured by the S&P 500 index and the Barclays Aggregate Index respectively. The markets have already achieved these gains. However, CCI implies the economy and markets are on track for an outcome somewhat better than our original base case outlook for 2009.

LPL Research Current Conditions Index



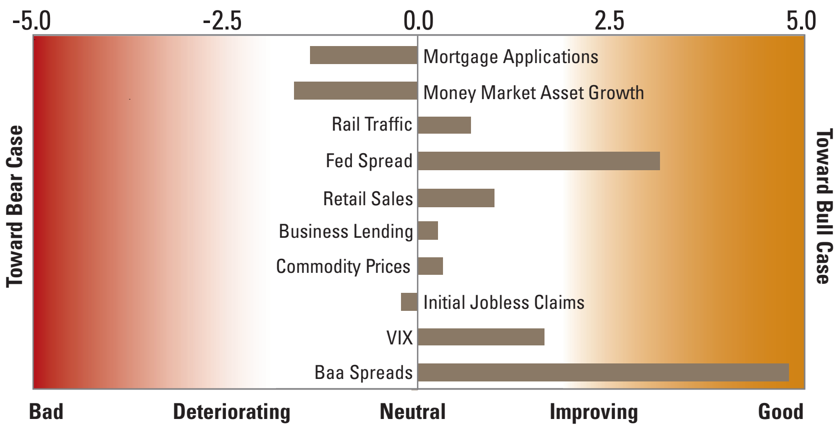
Source: LPL Financial

Over the past week, the biggest improvement was in the VIX*—a market based estimate of future stock market volatility and a gauge of the fear present in the stock market. The VIX* fell as stocks rallied as the third quarter earnings season got underway. The biggest deterioration was in Shipping Traffic. Although traffic rose slightly last week, the year-over-year pace of fell since this week one year ago marked the 2008 peak for railroad and trucking carload volume. Most components of the CCI have improved since the start of the year.

*The VIX is a measure of the volatility implied in the prices of options contracts for the S&P 500. It is a market based estimate of future volatility. While this is not necessarily predictive it does measure the current degree of fear present in the stock market.

LPL RESEARCH CURRENT CONDITIONS INDEX COMPONENTS

STANDARD DEVIATIONS FROM "NEUTRAL" SINCE 1/1/2009



Source: LPL Financial

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide or be construed as providing specific investment advice or recommendations for any individual. To determine which investments may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

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

Stock investing involves risk including loss of principal.

High Yield/Junk Bonds are not investment grade securities, involve substantial risks and generally should be part of the diversified portfolio of sophisticated investors.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the Fund.

CURRENT SNAPSHOT

Component of CCI Index	This Week	One Week Ago	Four Weeks Ago
BAA Spreads	4.9	4.8	4.6
VIX	2.5	1.6	2.3
Initial Jobless Claims	-0.3	-0.3	-0.8
Commodities	0.5	0.3	0.3
Business Lending	0.0	0.2	0.0
Retail Sales	1.0	1.0	1.3
Fed Spread	3.1	3.1	3.1
Shipping Traffic	-0.3	0.6	0.7
Money Market Fund Assets	-1.5	-1.6	-0.6
Mortgage Applications	-1.5	-1.4	-2.0
CCI	0.8	0.8	0.9

Source: LPL Financial