LPL Financial Research

Current Conditions Index

February 11, 2010

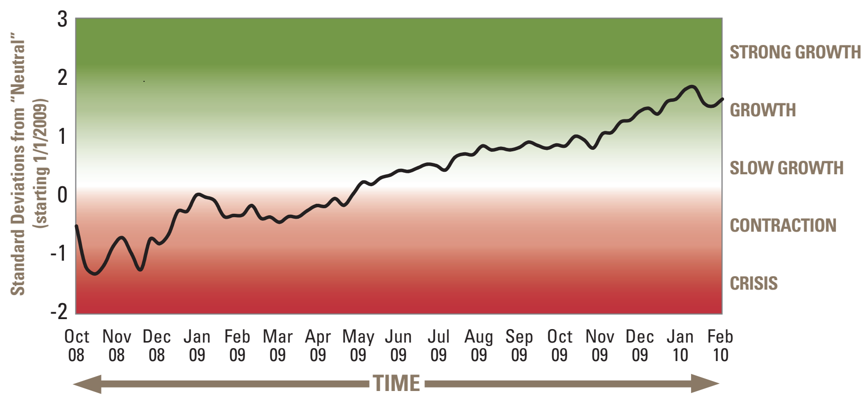
Overview

The LPL Financial Current Conditions Index is a weekly measure of the conditions that underline 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 been 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 conditions. The components of the CCI are periodically changed to retune the index to those factors most critical to the markets and economy so it may continue to be a valuable investment decision-making tool.

Over the past week, the LPL Financial Current Conditions Index rebounded slightly to 1.6. The level of the current conditions index indicates an environment fostering trend-like growth in the economy and markets. We expect that the CCI may weaken in the latter half of 2010 to reflect an environment of slow growth. We will watch current conditions closely as the global tailwinds for growth fade or even give rise to headwinds as we make investment recommendations in 2010.

LPL Financial Research Current Conditions Index



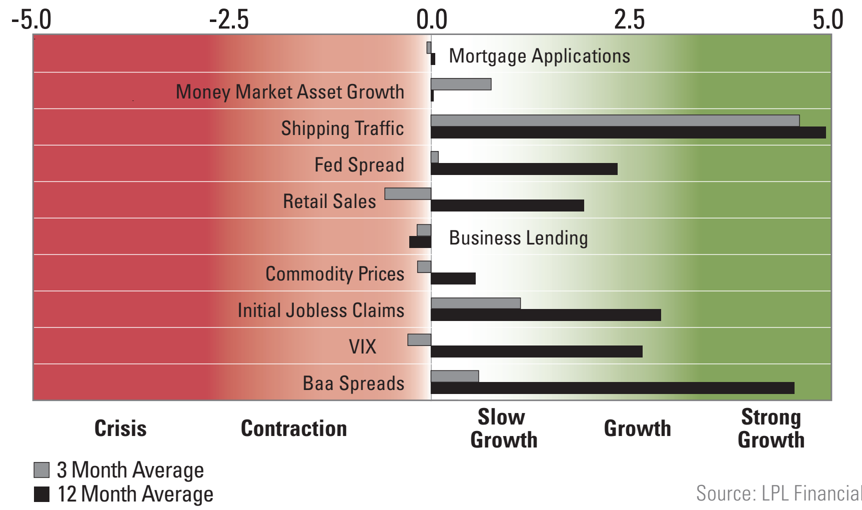
Source: LPL Financial

The improvement in the index was primarily driven by the rise in shipping traffic and retail sales. These were partially offset by a rise in the VIX*, as the outlook for stock market volatility rose on heightened concern over the labor market and the European sovereign debt market.

*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 FINANCIAL RESEARCH CURRENT CONDITIONS INDEX COMPONENTS

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



Source: LPL Financial

CURRENT SNAPSHOT

Component of CCI Index	This Week	One Week Ago	Four Weeks Ago
BAA Spreads	5.4	5.3	5.5
VIX	2	2.2	3.2
Initial Jobless Claims	1.3	1.3	1.9
Commodities	0.4	0.5	0.9
Business Lending	-0.5	-0.5	-0.3
Retail Sales	1.4	0.6	1.3
Fed Spread	3.3	3.3	3.2
Shipping Traffic	5.3	4.7	5.1
Money Market Fund Assets	-0.4	-0.5	-0.6
Mortgage Applications	-2	-1.9	-2.3
CCI	**1.6**	**1.5**	**1.8**

Source: LPL Financial

How the Index is Constructed

To create the index we found 10 indicators that provided a weekly, real-time measure of the conditions in the economic and market environment. We then standardized these components compared to their pre-crisis 10-year average, equally weighted their standardized scores, and aligned the resulting index with zero at the start of 2009. These components capture how the conditions are evolving from a wide range of angles. Each component is important and measures a different driver of the environment. The 10 components of the CCI are described below:

Initial Claims Filed for Unemployment Benefits – Measures the number of people filing for unemployment benefits. A rise in the number of new claims acts as a negative on the CCI.

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.

Baa Spreads – The yield on corporate bonds above the rate on comparable maturity Treasury debt is a market based estimate of the amount of fear in the bond market. Baa-rated bonds are the lowest quality bonds still considered investment grade, rather than high-yield. Therefore, they best reflect the stresses across the quality spectrum. A rise in Baa spreads acts as a negative for the CCI.

Retail Sales – International Council of Shopping Centers tabulates data on major retailer's sales compared to the same week a year earlier. This measures the current pace of consumer spending. Consumer spending makes up two-thirds of GDP. Rising retail sales acts as a positive for the CCI.

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.

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.

VIX – 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. A rise in the VIX acts as a negative on the CCI.

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.

Commodity Prices – While retail sales captures end user demand for goods, commodity prices reflect the demand for the earliest stages of production of goods. Commodity prices can offer an indicator of the pace of economic activity. The CRB Commodity Index includes copper, cotton, etc. A rise in commodity prices acts as a positive on the CCI.

Mortgage Applications – The weekly index measuring mortgage applications provides an indication of housing demand. With much of the credit crisis tied to housing, keeping tabs on real time buying activity can offer insight on how the crisis is evolving. A rise in the index of mortgage applications acts as a positive on the CCI.

LPL Financial

RES 2021 0210
Compliance Tracking #614201 (Exp. 02/11)