Current Conditions Index

May 11, 2011

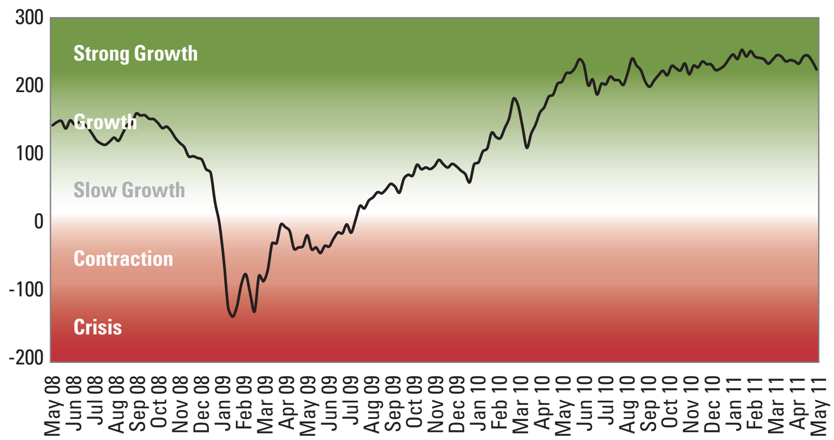
Overview

The LPL Financial Research 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 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 slid to 225. The level of the CCI indicates an environment fostering growth in the economy and markets. Recent monthly economic data including employment, manufacturing activity, and retail sales also point to solid growth.

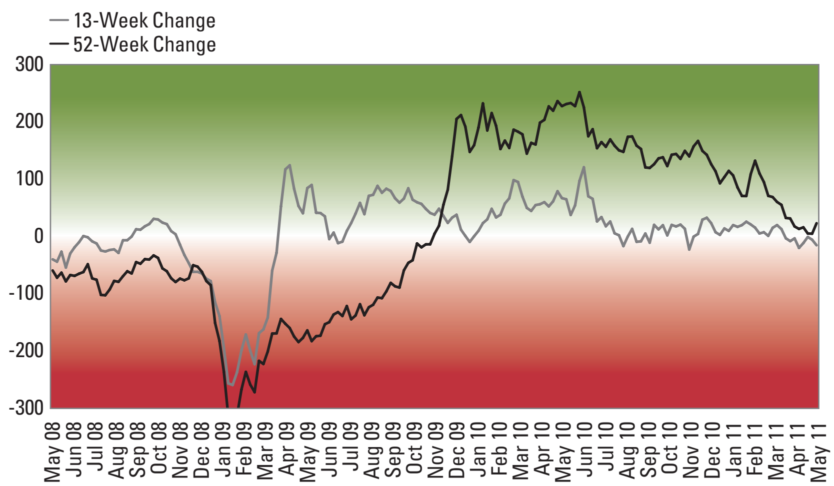
LPL Financial Research Current Conditions Index



Source: LPL Financial 05/11/11

However, the growth momentum in the index has stalled as the economy transitions from strong recovery to uneven, modest growth. Over the past year, the index has been flat. Seven of the 10 CCI components have turned down over the past quarter, and five of the 10 over the past year.

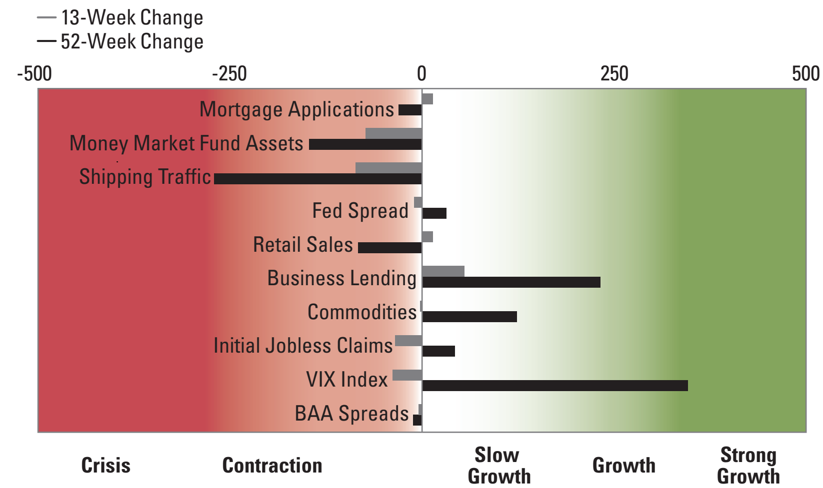
LPL Financial Research CCI Growth Momentum



Source: LPL Financial 05/11/11

Most components of the CCI point to an environment of slowing growth momentum over the past 13- and 52-weeks. In the past week, the sudden deterioration in Initial Jobless Claims and Commodity prices weighed on the index. The rise in the number of those filing for unemployment benefits for the first time may be affected by temporary factors including the worst natural disaster to hit the U.S. since Katrina. Commodity prices suffered from a hike in margin requirements following a sharp rise in price and a week of softer-than-expected economic data fueling the selling of inflation hedges such as commodities. On the positive side, Business Lending has been rising, in sharp contrast to the 20% year-over-year pace of decline a year ago.

LPL Financial Research CCI Components



Source: LPL Financial 05/11/11

Current Snapshot

Component of CCI Index	Current Level	13-Week Change	52-Week Change
BAA Spreads	528	-5	-11
VIX Index	319	-38	346
Initial Jobless Claims	238	-33	42
Commodities	168	-3	124
Business Lending	173	55	231
Retail Sales	187	13	-83
Fed Spread	334	-11	31
Shipping Traffic	709	-86	-271
Money Market Fund Assets	-139	-73	-147
Mortgage Applications	-240	12	-30
CCI	**225**	**-17**	**23**

Source: LPL Financial 05/11/11

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:

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.

VIX Index – 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.

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

Commodities – 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.

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.

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.

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.

Shipping 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.

Money Market Fund Assets – 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.

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.