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Dear Valued Investor:

As January came to a close, it was clear that the stock market remained quite resilient. The S&P 500 Index, a proxy for large cap U.S. equities, returned 2.4% in January, which marks the fifth consecutive positive month for the market. The gains were recorded despite record snowfall across the country, increased geopolitical unrest and municipal bonds catching a bout of the "Whitney Flu."

Stocks were not the only asset on the rise, as energy prices remained on their upward trajectory. Snowed-in consumers were forced to constantly turn up their heat to escape the crippling snowstorms that swept across the country and left a remarkable 70% of the nation staring out windows at a winter wonderland. Another factor impacting oil prices was the geopolitical unrest that flared up in several spots around the world, including Tunisia and Egypt. Perhaps the most notable situation is Egypt, where social and government instability has slowed down oil tanker traffic traveling though the heavily utilized Suez Canal—a geographic choke point where two million barrels of oil pass each day. Oil closed the month near $92/barrel, up substantially from the $75 level last seen in August 2010, which has resulted in surging gasoline costs at the pumps.

Appearing on *60 Minutes* in late December 2010, analyst Meredith Whitney declared that the municipal bond market was on the precipice of major defaults. This highly publicized broadcast ignited a fire-sale of municipal bonds that led to the worst three-month returns for the Barclays Municipal Bond Index, a proxy for municipal debt, since 1994. Despite the real concern for state and local governments to meet severe revenue challenges, I believe the media hype and market over-reaction has taken a genuine "muni bond cold" and turned it into the "Whitney Flu." With mandated balanced budgets, increasing state and local tax rates, and an improving economic environment that is raising state revenue receipts, municipal bonds appear to be emerging as an attractive investment opportunity.

Despite mounting headwinds, the market has shown a remarkable ability to ignore the "noise" and focus on the general improvement in underlying economic conditions. That said, the S&P 500 has risen 23% since August 2010, as investors anticipate a recovery in jobs needed to solidify economic growth. With job growth lackluster in recent months, investor expectations could be slightly ahead of economic fundamentals. While I remain optimistic that the market will continue to experience higher levels than those we see today as economic and earnings growth continues, the climb higher may be choppier than what we have experienced of late. Volatility is increasing and I anticipate the market will face tougher resistance as it moves higher. But with the economy being supported by increased business spending and

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a revitalized consumer, the backdrop appears positive for further advances. As always, if you have questions, I encourage you to contact your financial professional.

Best regards,

Burt White
Chief Investment Officer
LPL Financial