

Market Insight



Second Quarter 2013

Fed Taper Fears Felt Across Financial Markets

Highlights

The U.S. economy continues to grow at a sluggish pace near 2%, as measured by GDP.

Stocks added to strong first quarter gains during the first eight weeks of the quarter before suffering a bout of heightened volatility.

Commodities asset classes struggled significantly as a group due to fears of the Fed tapering bond purchases, the strong US dollar, and slowing growth in China.

Fed tapering fears drove a 62 basis point rise in the 10-year Treasury yield and significant outflows across many fixed income sectors.

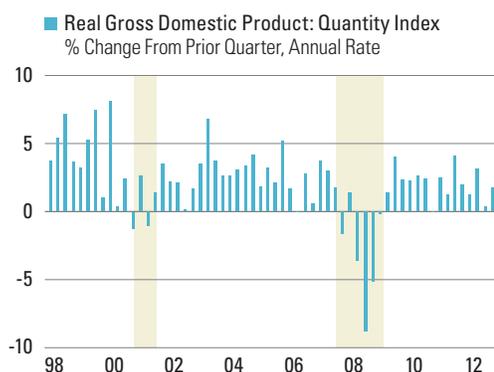
- **Economy** – The U.S. economy continues to grow at a sluggish pace near 2%, as measured by gross domestic product (GDP). The economy continues to be hampered by government spending cuts and slowing growth overseas, primarily in Europe but in China as well, though housing and consumer spending were bright spots. Inflation remains well contained.
- **Stocks** – Stocks added to strong first quarter gains during the first eight weeks of the quarter before suffering a bout of heightened volatility in late May, which continued through June on fears that the Federal Reserve (Fed) would begin to taper bond purchases this fall. Despite the intra-quarter pullback, the S&P 500 Index produced its best first half return since 1998 at 13.8% with its 2.9% second quarter return.
- **Commodities** – Commodities asset classes struggled significantly as a group in the second quarter due to fears of the Fed tapering bond purchases, the strong US dollar, and slowing growth in China. Selling was most pronounced in precious metals, while crude oil was a relative winner.
- **Bonds** – Fed tapering fears drove a 62 basis point rise in the 10-year Treasury yield in the quarter (and 96 basis points trough to peak from May 2 through June 25) and significant outflows across many fixed income sectors. After modest losses in the first quarter, the Barclays Aggregate Bond Index fell 2.3% in the second quarter, bringing the year-to-date return to -2.4%. Duration was the primary driver of bond sector performance due to the magnitude of the interest rate move.

As we close the books on a strong first half of 2013 for U.S. stocks, the U.S. economy remains on a path of modest economic growth. But with aggressive stimulus from the Fed likely to fade, Europe mired in recession, and China slowing, the macroeconomic backdrop for the markets remains challenging. For insight into our forecasts for the economy, stock and bond markets, please see our *Mid-Year Outlook 2013: Investors' Trail Map to the Markets* publication.

The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Please note: all return figures are as of June 28, 2013 unless otherwise stated.

1 The U.S. Economy Continues To Grow at a Sluggish Pace



Source: Bureau of Economic Analysis, Haver Analytics 07/01/13

Shaded areas indicate recession.

2 Consumers Continue To Spend Despite Higher Taxes and Modest Income Growth



Source: ICSC, Haver Analytics 07/01/13

Shaded areas indicate recession.

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

Economy: Slow Growth Continues for the U.S. Economy, but Housing and Consumer Spending Offer Bright Spots

The U.S. economy continues to grow at a sluggish pace near 2%, as measured by GDP [Figure 1]. The economy continues to be hampered by government spending cuts (via the sequester) and slowing growth overseas, primarily in Europe but in China as well, though housing and consumer spending were bright spots. Inflation remains well contained.

Housing remains supported by several factors, including near-record affordability, buffeted by low mortgage rates, a rapidly diminishing inventory, a wide gap between household formation rates and new home construction, and an improving labor market. Housing construction added 0.3% to U.S. economic growth in the first quarter of 2013 (as measured by residential investment per the U.S. Bureau of Economic Analysis' GDP report), marking the eighth quarter in a row that housing has added to GDP.

Consumer spending has also been somewhat of a bright spot, related to the steady, albeit gradual improvement in the labor market but also supported by strong gains in stocks and home prices. The S&P 500 Index has returned 24% over the past 12 months (as of June 28, 2013), while home prices, based on the Case-Shiller home price index, rose 12% as of the latest data (April 2013). This positive wealth effect is driving higher consumer confidence and consumer spending gains, helping to offset the impact of still-high unemployment, modest job and income gains, and higher taxes. Retail sales have not been booming by any stretch, but they are chugging along at a near 4% growth rate despite these challenges [Figure 2].

Respectable Growth Excluding Government Drag

The two primary drags on U.S. economic growth, government spending and Europe, showed few signs of abating as the second quarter ended. Based on the most recent revised GDP report, the U.S. economy grew at a 1.8% annualized rate in the first quarter of 2013, including a 0.9% drag from government spending. But if we back out government spending, this rate increases to 2.7% for GDP ex-government—relatively positive considering the increase in payroll taxes in 2013 and all of the fears surrounding the impact of the fiscal cliff. Though these factors have dragged on growth on the margin, tax increases and government spending cuts have helped to narrow the budget deficit and assuage fears of a market disruption around the debt ceiling, which still must be dealt with later this year.

Europe Remains Mired in Recession, China Slows

Much of Europe is mired in recession, and economists (based on Bloomberg consensus) have lowered growth projections as weakness has spilled over from the peripheral nations to the core ones. The Eurozone economy contracted by -0.2% in the first quarter of 2013, following the -0.6% drop in the fourth quarter of 2012, representing its sixth consecutive quarter of recession, dating back to the fourth quarter of 2011. While economic conditions in Europe may not be getting any worse, they do not appear to be getting any better either. Access to credit is still constrained, and uncertainty surrounding the future of the Eurozone continues to linger.

Part of Europe's problem, which has also contributed to the sluggish pace of U.S. growth, is slowing growth in emerging market countries. During June 2013, economic and financial market conditions in China deteriorated as the government continued to try to curb speculation in property markets, driving interbank lending rates sharply higher. In addition, the growth trajectories of several other key emerging market countries, including Brazil, have deteriorated in recent months. Europe is heavily dependent on emerging market exports (roughly 60% of Europe exports head to emerging markets), even more so than the United States (about 50% of exports).

Partially offsetting the above drags on global economic growth were the Japanese government and central bank's bold actions to end Japan's decades-long bout with deflation—where prices and wages fall over a prolonged period of time. We do not expect the Japanese economy to grow much faster than its long-term historical average this year, but growth expectations have increased in recent months based on consensus economists' forecasts to 1.5–2.0%.

Inflation Remains Well-Contained, but Fed Tapering Fears Reach Fever Pitch

The Fed's preferred measure of inflation—the personal consumption expenditures (PCE) deflator—rose just 1.1% year over year in May 2013, nowhere near the Fed's 2% target.

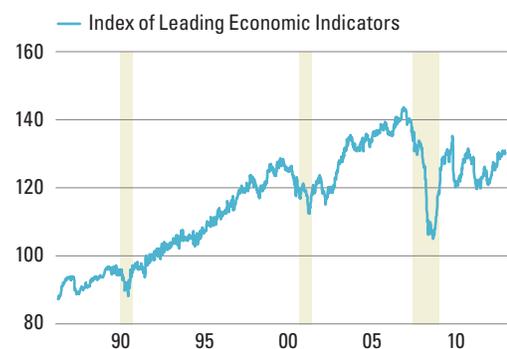
The slow pace of U.S. economic growth, along with spare capacity in labor and product markets, has contributed to still well-contained inflation. In fact, the latest government data point to the economy being in a period of disinflation-rising prices, but at a slower rate than prior periods. The Consumer Price Index (CPI) rose just 1.4% in May 2013 versus the prior-year period, and excluding food and energy (core inflation), CPI rose 1.7% year over year, still well within the Fed's comfort range. Even more benign is the Fed's preferred measure of inflation, the personal consumption expenditures (PCE) deflator, which rose just 1.1% year over year in May 2013, nowhere near the Fed's 2% target.

Despite these well-contained inflation readings, the financial markets (stock, bond and commodities) remained fearful of the Fed's plans to eventually taper its bond purchases (QE). These fears and resulting rise in interest rates do not appear to have impacted the economy, or housing, as the second quarter ended, but they undoubtedly affected stock and bond investors as discussed below. Although the Fed may begin to reduce its bond purchases later this year, it remains very accommodative as purchases will almost certainly continue well into 2014, and the federal funds policy rate may remain effectively pegged at zero well into 2015.

Job Growth Plodding Along

What does the economic growth picture mean for the job market? The June 2013 employment report revealed that the private sector economy has created around 200,000 jobs per month over the past 12 months, a decent performance, and likely enough to keep the Fed on track to begin tapering QE by the fall of 2013. The unemployment rate remains elevated at 7.6% at mid-year 2013, and will likely only decline gradually over the remainder of the year. Should the current pace of economic growth continue at or near 2%, a meaningful uptick in new jobs created is unlikely. And while

3 Leading Economic Indicators Suggest Very Low Probability of Recession



Source: Economic Cycle Research Institute, Haver Analytics 07/01/13
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.

the unemployment rate has edged slightly lower in recent months, the workforce participation rate has fallen, suggesting little true improvement in labor market conditions.

Leading Indicators Suggest Very Low Likelihood of Recession

Based on the Leading Economic Index (LEI), a recession in the United States remains highly unlikely despite the impact of government spending cuts, recession in Europe, and the slowdown in China. The LEI can be a useful, fact-based, forward-looking tool to determine where the U.S. economy may be headed. The latest reading on the LEI (May 2013) puts the index 2.0% above its May 2012 level. Since 1960, the U.S. economy was never in recession when the year-over-year increase in the LEI has been at least 2.0%. Looking out 12 months after the LEI was up 2.0% or more, the economy was in recession just 7% of the time [Figure 3].

Stock Markets: Fed Drove Long-Awaited Pullback, but Stocks Still Ended the Second Quarter Higher

Stocks added to strong first quarter gains during the first eight weeks of the quarter before suffering a bout of heightened volatility in late May, which continued through June on fears that the Fed would begin to curb bond purchases this fall. Despite the intra-quarter pullback, the 2.9% quarterly return for the S&P 500 Index was enough to produce its best first half return since 1998 at 13.8%.

Gains in April and throughout much of May were driven largely by the same factors that drove stocks higher in the first quarter. Central banks around the developed world remained very accommodative, while U.S. economic growth was not strong enough to spark fears of reduced stimulus from the Fed. It was the “goldilocks” scenario—not too hot and not too cold. Meanwhile, economic and financial conditions in Europe remained stable.

This goldilocks environment changed on May 21, 2013. In his congressional testimony, Fed Chairman Ben Bernanke indicated the central bank could begin tapering its bond purchases at the “next few meetings.” That day marked the closing high of the S&P 500 Index at 1669, and stocks then began the first pullback of 5% or more since November 2012. The market’s “tapering tantrum” was further exacerbated by the Fed’s communications at its June 19, 2013 policy meeting, where it set a timetable for winding down bond purchases. The result was a down month in June, the first down month since October 2012, and higher market volatility despite the Fed’s efforts to clarify its plans.

The VIX measure of implied stock market volatility (based on options prices), which began the quarter at a low level below 13, jumped above 20 in June for the first time since December 2012, ahead of the fiscal cliff resolution. And after just three trading days where the S&P 500 Index lost more than 1% in the first quarter, that number jumped to nine in the second quarter.

4 Volatile Path to Modest Quarterly Gains for the S&P 500 Index



Source: FactSet, LPL Financial 06/28/13

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.

5 Sector Leadership Reverses as Cyclical Performance Improves
Ranked by Second Quarter Returns

Sector	Q2 2013 (%)	YTD (%)
Financials	7.2	19.5
Consumer Discretionary	6.8	19.8
Health Care	3.8	20.3
S&P 500	2.9	13.8
Industrials	2.8	13.8
Technology	1.7	11.2
Telecom	1.0	10.5
Consumer Staples	0.5	15.1
Energy	-0.4	9.8
Materials	-1.8	2.9
Utilities	-2.7	9.9

Source: FactSet, LPL Financial 06/28/13

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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 ten S&P 500 Global Industry Classification Standard (GICS) indexes.

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.

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.

Regions and End Consumer, Not Yield, Drove Sector Leadership

The unusual defensive sector leadership in the first quarter of 2013 returned somewhat to normal in the second quarter, as market participants factored in fundamentals and valuation as opposed to just yield. The market favored domestic-oriented and more consumer-driven sectors in financials, consumer discretionary, and health care, while the China-sensitive, export-driven natural resource sectors lagged. The higher-yielding sectors that led the first quarter rally also lagged, as they were hurt by the sharp rise in interest rates, especially utilities, which was the worst second quarter performer. The end result was a sector ranking that favored more economic sensitive (cyclical) sectors in general, but the market was focused more on regions and the end-consumer than simple economic sensitivity.

Domestic Focused Small Cap Stocks Led Mid and Large

Exposure to China and other economically challenged export markets also contributed to market cap performance. The more domestically focused small cap Russell 2000 Index fared best in the quarter, beating both the Russell 1000 large cap and midcap indexes. Small caps also got a slight boost from their higher beta (market sensitivity) and economic sensitivity, as the broad market moved higher while cyclical sectors generally fared better. The solid small cap performance was concentrated in the consumer and technology sectors. The Russell 2000 Index returned 3.1% in the quarter, followed by the Russell 1000 Index (2.6%) and the Russell Midcap Index (2.2%). Small caps outperformed mid and large caps in the first half: the Russell 2000 Index returned 15.9%, versus 15.4% for mid caps and 13.9% for large caps.

Value Leadership Continued on Strong Financials Sector Performance

In terms of style, value outperformed growth for the fifth straight quarter, based on the Russell 3000 all-cap style indexes. The biggest driver of value outperformance, by far, continues to be strong performance for financials, the biggest value sector, and underperformance by the biggest growth sector, technology. Historically, growth stocks tend to perform better in slow economic growth environments when growth is more scarce—a bit counter-intuitive. However, the growth style has not benefited from the slow growth over the past year, as it has continued to trail value amid financial sector strength and technology sector weakness. Value had the added headwind of larger weights in the higher-yielding telecom and utilities sectors that underperformed during May and June 2013, when interest rates rose but its outperformance continued. During the quarter, the Russell 3000 Value Index returned 2.5%, compared to 1.8% for the Russell 3000 Growth Index. The Russell 3000 Value Index returned 14.5% in the first half, besting the 11.3% return for its Growth counterpart.

Emerging Markets Suffered Sizable Losses as China's Growth Slowed

Although the sector, market cap, and style trend are worth noting, their divergences were nowhere near as large as those witnessed within the different geographies during the second quarter, especially in emerging markets. Emerging markets suffered near double-digit percentage declines

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

in the second quarter as the growth trajectory in China and several other key emerging market countries such as Brazil, India, and Turkey deteriorated. Some of the problems in these markets are local; however, these countries are also being impacted by the weakness in European economies, a key destination for their exports. And although some of the natural resource exporting countries have been hurt by lower commodity prices, the commodity importing countries that would typically benefit have not. The MSCI Emerging Markets Index lost 7.9% in the second quarter and is down 9.4% year to date.

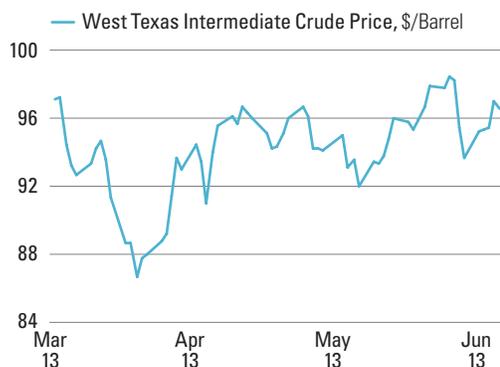
In the developed international markets, bold actions taken by the Japanese government and the Bank of Japan drove strong gains in Japan, as the MSCI Japan Index returned 4.4%. The yen weakened, brightening exporters' prospects, while the market gained some confidence that a way out of the decades-long deflation battle may finally be emerging. But Europe's ongoing recession, which dragged its markets down slightly in the quarter, along with losses for the China-driven developed Asian markets (ex. Japan) and negative currency impacts from a strong US dollar, resulted in a 0.7% loss for the developed foreign benchmark, the MSCI EAFE, which trailed the U.S. equity market substantially in the first half of the year with a 4.5% return.

Commodities Asset Classes: Slowing EM Growth, Fed Taper Talk, and Strong US Dollar Dragged Commodities Lower

Commodities struggled significantly as a group in the second quarter due to several factors. In precious metals, where the selling was most pronounced, weakness was primarily attributable to Fed tapering fears and the strong US dollar. In industrial metals, the story was all about China as growth slowed for the world's largest commodity consumer. In the agriculture markets, weather was the biggest driver of the weakness as supply pressures eased. Milder weather also contributed to natural gas weakness. The closest thing to stability in commodities was crude oil, which ended the quarter about where it started in the mid-to-high \$90s (WTI crude oil futures) on rising geopolitical tensions. For the quarter, the Dow Jones-UBS Commodity Index significantly trailed the stock and bond markets with a 9.5% loss, bringing the 2013 return to -10.5%.

Crude oil was the relative winner among the key commodities as WTI crude oil (near-term futures) dropped 0.7% in the second quarter and is up 5% year to date, despite the broad-based weakness in commodities. Crude oil garnered support from escalating tensions in the Mideast, primarily around Syria and Iran, while concerns arose around Egypt late in the quarter. The rising geopolitical risk premium reflects fears of a broader conflict in key oil-producing nations, which enabled crude oil prices to hold up well despite slower growth in emerging markets, elevated domestic inventories, and relatively weak U.S. demand. The more domestic-focused natural gas market, which does not benefit meaningfully from overseas oil supply fears, was hurt by mild weather and continues to be constrained by the significant supply overhang from the significant unconventional oil and gas shale discoveries in recent years.

6 Volatile, Range-Bounded Quarter for Crude Oil



Source: FactSet, LPL Financial 06/28/13

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

7 Fed Taper Fears, Low Inflation, and a Strong US Dollar Led to Worst Quarter on Record for Gold

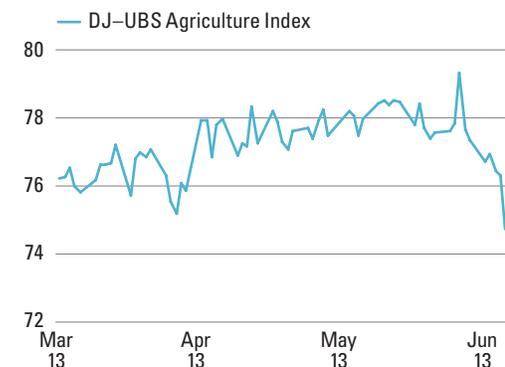


Source: FactSet, LPL Financial 06/28/13

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.

8 Agriculture Decline Continued in the Second Quarter Amid Improved Harvest Prospects



Source: FactSet, LPL Financial 06/28/13

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

The Dow Jones - UBS Agriculture 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.

The second quarter was a perfect storm for precious metals as the primary drivers of performance, for gold in particular, turned against them. The Fed outlined its timetable for reducing bond purchases, diminishing the case for owning gold to benefit from downward pressure on the US dollar and short-term interest rates. Inflation has fallen further and remains well contained, reducing gold's attractiveness as a potential inflation hedge. And the market's fears of slowing demand from key emerging market country buyers—China and India in particular—weighed on gold and other precious metals. In the end, the second quarter ended as the worst quarterly percentage decline for gold prices since the modern era of gold trading began in 1974. Based on the near-term futures index, gold fell 23% during the second quarter and is down 27% year to date. Silver fared even worse over both periods, while copper held up better but still lost 10% in the quarter and 16% year to date, primarily due to the slowdown in China.

Agriculture has remained in steady decline since summer 2012, when drought conditions ravaged crops in the Midwest. As weather and harvest prospects improved and farmers reacted to higher prices with greater acreage, the grains have given back virtually all of their gains from last summer. After losing 10% during the fourth quarter and another 3.2% during the first quarter, the Dow Jones-UBS Agriculture Index lost another 4.5% in the second quarter and is down 8.3% year to date. Softening export markets and a strong US dollar have added some additional pressure, but supply is the main story. Among individual commodities, livestock and soybeans each held up a bit better than the rest of the agriculture complex, as those supply pictures are more supportive.

Fixed Income — Taxable: Bank Loans Offered Some Calm in the Bond Market Storm

After a first quarter when the stock market was the story, the second quarter's story was no doubt the bond market. Fears that the Fed would soon begin to taper its bond purchases drove a 62 basis point rise in the 10-year Treasury yield in the quarter (and 96 basis points trough to peak from May 2 through June 25) and significant outflows across many fixed income sectors. After modest losses in the first quarter, the Barclays Aggregate Bond Index fell 2.3% in the second quarter, bringing the year-to-date return to -2.4%. All major fixed income sectors suffered losses with the exception of bank loans, which eked out a marginal 0.18% return (according to Barclays Capital U.S. High-Yield Loan Index data), thanks to their shorter duration.

Duration, Not Credit, Was the Primary Driver of Bond Sector Performance

Duration, a measure of interest rate sensitivity, was the primary performance driver in the quarter given the magnitude of the interest rate move, supporting shorter-duration bank loans and contributing to significant losses in longer-duration taxable bonds such as preferreds and Treasury inflation-protected securities (TIPS). Duration drowned out the benefit of higher income in areas such as high-yield bonds and preferreds, which both

9 Swift, Sharp Rise in the 10-Year U.S Treasury Yield on Fed Tapering Fears



Source: FactSet, LPL Financial 06/28/13

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.

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

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.

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.

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.

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

suffered losses, although high-yield held up better than most fixed income sectors in the quarter as it tends to be one of the less interest rate sensitive areas of the bond market.

Credit quality had no discernible impact on bond performance in the quarter as fundamentals for corporate America remain strong. Investment-grade credit spreads remained largely unchanged, and the more economically sensitive high-yield bonds performed better (lost less) than the higher-quality investment-grade corporate bonds, based on the Barclays Investment-Grade Corporate Bond and High-Yield Bond Indexes. Within the corporate bond market, longer-duration bonds fared worse than shorter duration. Preferreds continue to garner support from strong financial company balance sheets.

Mortgage-backed securities (MBS) and Treasuries held up better than the benchmark, as both have a significant buyer who is not as fearful of higher interest rates as most market participants and that is the Fed. Hedged foreign bonds also held up relatively well as central bankers in Europe, primarily the European Central Bank (ECB), are on a much later timetable than the Fed in terms of providing support. Unhedged foreign bonds fared poorly as they suffered from US dollar strength and underperformed the broad bond market benchmark.

Emerging Market Debt Among Worst-Hit Areas of the Bond Market

Emerging market debt was among the worst-hit areas of the bond market again in the second quarter of 2013, as the JPMorgan Emerging Markets Bond Index lost just over 6%, following the first quarter's 2.3% loss. Emerging market debt was hurt by the same factors that hurt emerging market equities, primarily slowing growth and deteriorating financial conditions in China, but also weaker growth trajectories in other key markets such as Brazil. Commodities weakness has further contributed to the weakness in this asset class, which has suffered significant outflows in recent months.

Only bank loans, preferred securities, and high-yield managed positive returns in the first half of the year among taxable fixed income sectors. Bank loans have benefited from their short duration and above-benchmark yields. High-yield has benefited from higher yields, its economic sensitivity, still-low corporate defaults, and relatively less interest rate sensitivity. Preferreds have benefited from higher yields and strengthening financial company balance sheets.

Fixed Income – Tax-Free: Municipal Bonds Suffered Due to Their Longer Duration

Municipal bonds underperformed the broad taxable bond market in the second quarter, based on the Barclays Municipal Bond Index and its Municipal High-Yield counterpart. As was the case in taxable fixed income, the story was all about duration, as fundamentals remained generally favorable. Municipals bonds, broadly, are longer duration than the Barclays

10 Second Quarter Losses Erased Most 2013 Gains for Bond Market Sectors Ranked by Second Quarter Returns

Sector	Q2 2013 (%)	YTD (%)
Bank Loans	0.18	2.40
Foreign Bonds (Hedged)	-1.29	-0.03
High-Yield	-1.44	1.42
US Treasuries	-1.92	-2.11
Mortgage-Backed Securities	-1.96	-2.01
Preferred Securities	-2.17	0.44
Barclays Aggregate	-2.32	-2.44
Municipal Bonds	-2.97	-2.69
Investment-Grade Corporates	-3.31	-3.41
Foreign Bonds (Unhedged)	-3.44	-7.14
Municipal High-Yield	-4.08	-2.19
Emerging Market Debt	-6.06	-8.22
TIPS	-7.05	-7.39

Source: FactSet, LPL Financial 06/28/13

The indexes mentioned below 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.

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.

Aggregate Bond Index and most other key fixed income sectors. Heavy new issuance and extremely illiquid trading conditions exacerbated weakness as bond dealers were reluctant to support markets. The additional income and attractive valuations offered little cushion against the sharp rise in interest rates as the two municipal bond indexes lost 3.0% or more in the quarter, wiping out first quarter gains. High-yield municipal bonds underperformed high-quality due to the relatively longer duration of that segment of the municipal bond market. Year to date, returns for the Barclays Municipal Bond and High-Yield Municipal Bond Indexes are negative 2.69% and 2.19%, respectively. ■

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.

The S&P/Case-Shiller U.S. National Home Price Index measures the change in value of the U.S. residential housing market. The S&P/Chase-Shiller U.S. National Home Price Index tracks the growth in value of real estate by following the purchase price and resale value of homes that have undergone a minimum of two arm's-length transactions. The index is named for its creators, Karl Chase and Robert Shiller.

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.

Beta measures a portfolio's volatility relative to its benchmark. A Beta greater than 1 suggests the portfolio has historically been more volatile than its benchmark. A Beta less than 1 suggests the portfolio has historically been less volatile than its benchmark.

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.

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 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 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 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. When sentiment reaches one extreme or the other, the market typically reverses course. While this is not necessarily predictive it does measure the current degree of fear present in the stock market.

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