

# NAVIGATING THE MARKETS

## COMPASS CHANGES

- We are initiating a master limited partnership (MLP) view (neutral/positive) and introducing several new alternative investment categories.
- Upgrading technology and industrials to positive and munis (int.) to neutral/positive.

## INVESTMENT TAKEAWAYS

- We forecast high-single-digit S&P 500 returns in 2015, supported by estimated 5–10% earnings growth.\*
- We expect a leadership shift toward large caps in 2015 as the business cycle matures, though in the near term we have a slight preference for small caps.
- We continue to favor cyclical growth sectors, plus healthcare, while watching energy for contrarian opportunities.
- Lower inflation expectations and to a lesser degree, growth concerns, continue to fuel bond market gains, but we would not chase recent strength.
- High-yield bonds remain volatile in response to energy sector declines. Widespread energy defaults are priced in, in our view, and we find the sector attractive.
- From a technical perspective, if the S&P 500 support holds at its 100-day simple moving average, it may present a buy-on-the-dip opportunity for U.S. equities.

## CONTENTS

Compass Changes.....1

Macroeconomic Views.....2

What We're Watching.....3

Asset Class & Sector Top Picks.....4

Equity Asset Classes.....5

Equity Sectors.....6

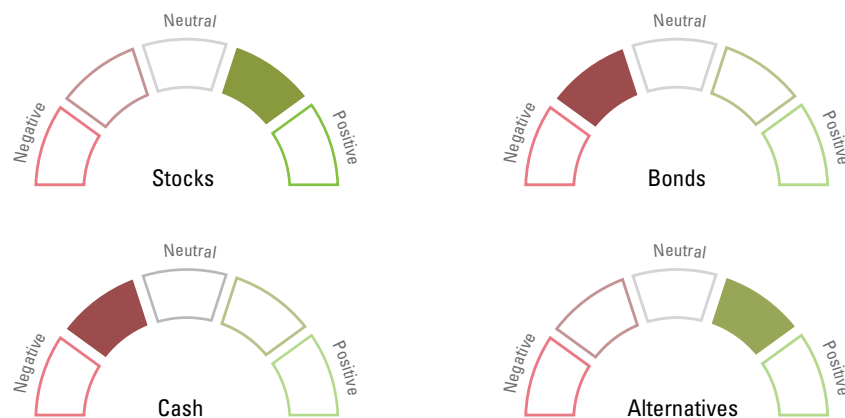
Fixed Income.....7

Commodities & Alternative Asset Classes.....9

All performance referenced herein is as of January 20, 2014, unless otherwise noted.

## BROAD ASSET CLASS VIEWS

LPL Financial Research's views on stocks, bonds, cash, and alternatives are illustrated below.



\* Historically since WWII, the average annual gain on stocks has been 7–9%. Thus, our forecast is in-line with average stock market growth. We forecast a 5–9% gain, including dividends, for U.S. stocks in 2015 as measured by the S&P 500. This gain is derived from earnings per share (EPS) for S&P 500 companies growing 5–10%. Earnings gains are supported by our expectation of improved global economic growth and stable profit margins in 2015.

## MACROECONOMIC VIEWS

	Economic Factor	Outlook	Investing Impact
ECONOMY	U.S. GDP Growth	2015 GDP 3.0–3.5%.	No recession or overheating in 2015 may support equity markets.
	Consumer Spending	Low oil prices, stock market, and home price gains are all supportive.	Supports consumer cyclicals.
	Business Spending	Priorities slowly shifting toward investment.	Industrials, technology most likely to benefit.
	Housing	Tight supply, years of underbuilding may help but consumers are still cautious.	A stronger turnaround could support housing/financials stocks.
	Import/Export	Cheaper oil, more oil exports, and “know-how” service sectors helping trade imbalances.	Supports technology, business services.
	Labor Market	Steadily improving but still not at potential.	Profit margins may begin to narrow; Fed rate hikes forthcoming.
	Inflation	Lower commodity prices creating downward pressure.	Interest rates likely to rise but process will be gradual.
	Business Cycle	Still mid-cycle but have likely moved into latter half.	Equity markets may have room to run, but expect more volatility.
	Dollar	Europe’s struggles and foreign central bank stimulus boosting U.S. dollar.	Drag on foreign market returns (unhedged), hurts U.S. profits.
Global GDP Growth	Modest improvement in 2015 led by U.S.	Supports multinational technology and industrials.	
POLICY	Fiscal	Potentially minimal impact on U.S. economy.	Low expectations could be good for stocks.
	Monetary	Expect Fed tightening in late 2015.	Modest negative for bonds; manageable risk for stocks.
	Government	Little impact on GDP in 2015.	Drag from 2013 rolled off, helping calm markets.
RISKS	Financial	Measures of financial stress are stable.	Expect stock market gains in 2015.
	Geopolitical & Other	High due to Ukraine and Islamic State; fallout from sharp drop in oil prices.	May contribute to higher market volatility.
OVERSEAS	Developed Overseas Economies	Expect little improvement in Europe or Japan; ECB QE not a panacea.	Favor U.S. equities over developed foreign.
	Emerging Markets Economies	China growth stabilizing at about 7%; cheap oil helps.	Faster growth may help lift low valuations.
FINANCIAL CONDITIONS	Corporate Profits	We expect 5–10% gains in 2015.	Supportive of mid-cycle stock market gains.
	Main Street	Fed Beige Book depicts improving economy, labor market.	Supportive of consumer cyclicals.

Source: LPL Financial Research, U.S. Department of Energy, Haver Analytics 01/09/15

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

## WHAT WE'RE WATCHING

As we highlighted in our *Outlook 2015: In Transit*, the Federal Reserve (Fed) is watching a number of labor market indicators to help determine an appropriate timetable for interest rate hikes. We expect the Fed to begin its rate hike campaign in late 2015, but the pace of hikes will likely be gradual and reflect the progress in the various labor market indicators listed here. Fed Chair Yellen's labor market indicators are making progress, but have not yet reached full health, providing support for continued monetary policy support from the Fed.

"What We're Watching" features indicators that are keys to the current LPL Research macroeconomic outlook. Economic and market dynamics will dictate featured topics and their durability.

	Description	Prerecession High	Recession Low	Current Reading	Percentage from Prerecession Levels
Unemployment & Underemployment	Unemployment rate: % of labor force	4.40%	10.00%	5.56%	79%
	Labor force participation rate: year-over-year change, % of unemployed	0.4%	-1.1%	-0.1%	67%
	Part time for economic reasons: % of labor force	2.7%	6.7%	4.6%	53%
	Long-term unemployed: 27 weeks or more, % of unemployed	15.9%	45.3%	31.9%	46%
	Duration of unemployment: weeks	7.3	25	12.6	70%
Employment & Work	Private payroll employment: millions	116.0	107.2	118.4	127%
	Government payroll employment: millions	22.6	21.8	21.9	12%
	Temporary help employment: millions	2.7	1.7	3	130%
	Average weekly hours (production): hours	33.9	33.0	33.9	100%
	Average weekly hours of persons at work: hours	39.7	36.2	38.9	77%
	Wage rates: average hourly earnings, year-over-year % change	4.2%	1.3%	1.7%	14%
Job Market Environment	Composite help-wanted: index	4250	2750	5175	162%
	Hiring rate: % of payroll employment	4.5%	3.2%	3.7%	38%
	Transition rate from unemployment to employment: % of unemployment	29.6%	15.9%	24.0%	59%
	Jobs plentiful vs. hard to get: diffusion index	11.4	-46.1	-10.6	62%
	Hiring plans: diffusion index	19%	-10%	15%	86%
	Jobs hard to fill: %	31%	8%	25%	74%
Layoffs & Quits	Insured unemployment rate: % of covered employment	1.9%	5.0%	1.8%	103%
	Job losers unemployed less than 5 weeks: % of employment	45.4%	14.7%	32.2%	57%
	Quit rate: % of payroll employment	60%	39%	57%	86%
	Job leavers unemployed less than 5 weeks: % of employment	48.8%	17.5%	27.6%	32%

Have reached or exceeded their prerecession levels


Source: LPL Financial Research, Bureau of Labor Statistics, Haver Analytics 01/20/15  
The time frame for all data is the last 10 years: 2004–2014.

## ASSET CLASS & SECTOR TOP PICKS

Below we provide our top overall ideas across the various asset classes and sectors covered in this publication, as well as our best ideas within the three disciplines of our investment process: fundamentals, technicals, and valuations. More details on these and other investment ideas can be found in subsequent pages.

Characteristics	EQUITY ASSET CLASSES	EQUITY SECTORS	FIXED INCOME	Characteristics	ALTERNATIVE ASSET CLASSES
<b>BEST OVERALL IDEAS</b>	Large Growth	Industrials Technology	High-Yield Bonds	<b>BEST OVERALL IDEAS</b>	Global Macro
<b>Fundamentals</b>	Large Growth	Industrials Technology Healthcare	Munis Treasuries	<b>Catalysts</b>	Event Driven Global Macro
<b>Technicals</b>	Large Growth Large Value	Utilities Technology Healthcare	Munis MBS Investment-Grade Corps	<b>Trading Environment</b>	Managed Futures
<b>Valuations</b>	Emerging Markets	Energy Technology Telecommunications	Munis High-Yield Bonds Bank Loans	<b>Volatility</b>	Global Macro

## READING THE PORTFOLIO COMPASS

RATING	ICON		
Negative	■	●	<p>Fundamental, technical, and valuation characteristics for each category are shown by their blue icons below, and displayed as colored squares.</p> <p>Negative, neutral, or positive views are illustrated as a colored circle positioned over the scale, while an outlined black circle with an arrow indicates change and shows the previous view.</p> <p>Rationales for our views are provided on the right side.</p> 
Negative / Neutral		●	
Neutral	■	●	
Positive / Neutral		●	
Positive	■	●	
Previous Position	⊙		

Sector	F	T	V	⊖	○	⊕	S&P*	Rationale
Materials	■	■	■	■	●	■	3.2	China stimulus could help more, but technicals are negative and China's growth is stalling
Energy	■	■	■	■	●	■	8.2	Intriguing potential contrarian opportunity, but supply and technicals suggest caution; favor MLPs.

Growth-oriented funds may underperform when value investing is in favor and growth stocks may be more volatile than other stocks because they are more sensitive to investor perceptions of the issuing company's growth of earnings potential.

Global macro strategy is a hedge fund strategy that selects its holdings primarily on the macroeconomic and political views of various countries, and is subject to numerous risks such as: geopolitical, derivative, commodity, volatility, currency, and regulatory.

## EQUITY ASSET CLASSES

We forecast high-single-digit S&P 500 returns for 2015, supported by estimated 5–10% earnings growth and stable PE ratio amid a favorable economic backdrop. We favor U.S. equities over foreign and growth over value, with a positive emerging markets bias.

Sector		F	T	V	⊖	○	⊕	Rationale
Style / Capitalization	Large Growth	■	■	■	—	○	●	We see a shift in leadership to large caps in 2015 as the business cycle matures, but small caps may recover more of 2014's underperformance in the near term. Our cyclical sector preferences (favoring technology over financials) and valuations favor growth over value.
	Large Value	■	■	■	—	●	○	
	Mid Growth	■	■	■	—	○	●	Positive mid growth view reflects cyclical sector exposure, earnings growth, and potential up-capture. Mid caps should benefit from continued healthy acquisition activity. Mid cap valuations are roughly in-line with their long-term averages relative to the S&P 500.
	Mid Value	■	■	■	—	●	○	
	Small Growth	■	■	■	—	●	○	In the near term we have a slight preference for small caps over large, as we see potential for small caps to potentially recoup some of 2014's underperformance. However, given where we are in the business cycle, we expect a transition in leadership from small caps to large caps to take place in 2015. Relative to the large cap S&P 500, small cap valuations are roughly in-line with their historical average premium.
	Small Value	■	■	■	●	○	○	
Region	U.S. Stocks	■	■	■	—	○	●	We favor U.S. over large foreign despite impending QE from the ECB, primarily due to Europe's still sluggish growth and structural constraints. Improving fundamentals and low valuations make EM one of our best ideas for 2015, but we would like to see better technicals and stable oil prices to consider a more positive near-term view. Within EM, our preference is for Asia rather than broad exposure due to relatively stronger current account balances and the benefits from cheaper oil prices.
	Large Foreign	■	■	■	●	○	○	
	Small Foreign	■	■	■	●	○	○	
	Emerging Markets	■	■	■	—	○	●	
REITs	REITs	■	■	■	—	○	○	Solid job growth helps, and technicals are positive, but interest rate risk and above-average valuations keep us neutral.
MLPs	MLPs	■	■	■	—	○	●	Very attractive yields, solid short/intermediate-term distribution prospects despite oil decline.

Unconstrained eclectic strategies have a flexible investment style that does not limit the fund to a single asset class or security type.

Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

Investing in MLPs involves additional risks as compared with the risks of investing in common stock, including risks related to cash flow, dilution, and voting rights. MLPs may trade less frequently than larger companies due to their smaller capitalizations, which may result in erratic price movement or difficulty in buying or selling. MLPs are subject to significant regulation and may be adversely affected by changes in the regulatory environment, including the risk that an MLP could lose its tax status as a partnership. Additional management fees and other expenses are associated with investing in MLP funds.

## EQUITY SECTORS

We continue to favor cyclical growth sectors, which tend to do well during the middle to late stages of the business cycle, with a focus on industrials and technology. Meanwhile, we continue to watch the energy sector for potential contrarian opportunities.

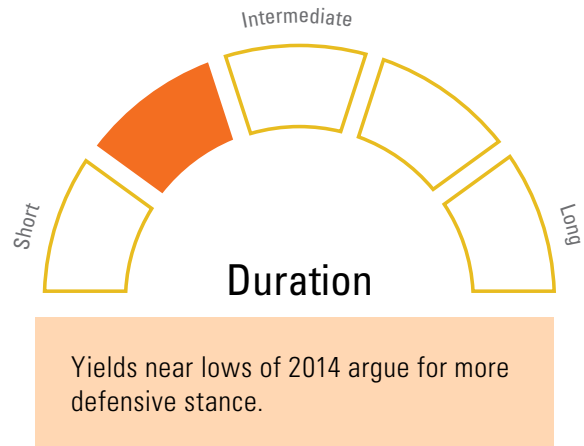
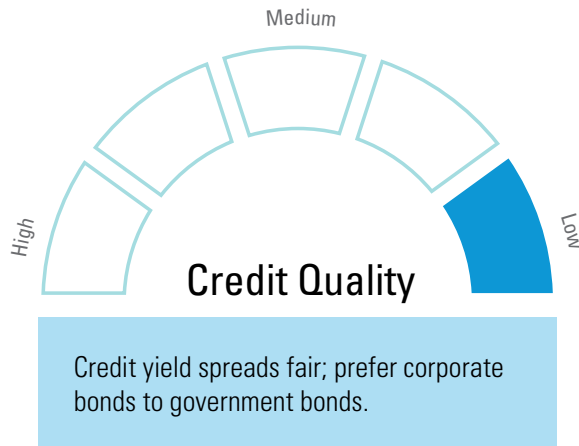
	Sector	F	T	V	⊖	○	⊕	S&P*	Rationale
Cyclical	Materials	■	■	■	●	○	●	3.2	China stimulus could help more, but technicals are negative and China's growth may be stalling.
	Energy	■	■	■	●	○	●	8.2	Intriguing potential contrarian opportunity, but supply and technicals suggest caution; favor MLPs.
	Industrials	■	■	■	●	○	●	10.2	We expect a pickup in business spending; favor transports, which benefit from cheaper energy costs.
	Consumer Discretionary	■	■	■	●	○	●	11.9	Cheaper oil helps boost the near-term outlook although late-cycle performance record is mixed.
	Technology	■	■	■	●	○	●	19.5	Earnings, improving business spending, valuations, and technicals all supportive.
	Financials	■	■	■	●	○	●	16.1	Tough interest rate and regulatory environment suggest caution while we wait for higher interest rates.
Defensive	Utilities	■	■	■	●	○	●	3.4	Our negative view reflects interest rate risk, rich valuations, and our preference for cyclicals.
	Healthcare	■	■	■	●	○	●	14.9	Favorite defensive sector on solid earnings, robust innovation, ACA-demand lift, positive technicals.
	Consumer Staples	■	■	■	●	○	●	10.2	Still favor cyclical sectors and Europe's slowdown is a risk, but low commodity prices help margins.
	Telecommunications	■	■	■	●	○	●	2.4	Interest rate and business risks remain; valuations are below the S&P 500 and long-term averages.

\* S&P 500 Weight (%)

Because of its narrow focus, specialty sector investing, such as healthcare, financials, or energy, will be subject to greater volatility than investing more broadly across many sectors and companies. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Diversification does not ensure against market risk.

## FIXED INCOME

We prefer corporate bonds over higher-quality government bonds due to their relatively higher yields and the financial health of corporate America. Low yields and the likelihood that interest rates move higher argue for a more defensive stance on fixed income duration.



Yield spread is the difference between yields on differing debt instruments, calculated by deducting the yield of one instrument from another. The higher the yield spread, the greater the difference between the yields offered by each instrument. The spread can be measured between debt instruments of differing maturities, credit ratings, and risk.

Municipal bonds have failed to match Treasury strength in recent months, and that trend has continued to start 2015. On a positive note, municipal valuations are at their most attractive level since late 2013 and may provide a buffer when interest rates turn higher.

Sector	F	T	V	⊖	○	⊕	Rationale
Munis–Short-Term	■	■	■	●			Relative valuations improving due to strength in intermediate and long, but yields are still very low.
Munis–Intermediate-Term	■	■	■		●	●	Valuations are more attractive but offset by low absolute yields. Intermediate is our preferred spot on the yield curve.
Munis–Long-Term	■	■	■		●		Valuations are more attractive but offset by low absolute yields. The risk of rising interest rates keeps us focused on intermediate rather than long.
Munis–High-Yield	■	■	■		●		Default risk is low, but long-term bond strength may linger near term and provide support.

Continued on next page.

For the purposes of this publication, intermediate-term bonds have maturities between 3 and 10 years, and short-term bonds are those with maturities of less than 3 years.

All 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.

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

Municipal interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.

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.

## FIXED INCOME (CONTINUED)

Lower inflation expectations and to a lesser degree, growth concerns, have continued to fuel bond strength in early 2015, but we find it imprudent to chase recent strength. Still lower yields and now higher valuations suggest low future returns for high-quality bonds. For fixed income allocations, we emphasize a blend of high-quality intermediate bonds coupled with less interest rate-sensitive sectors such as high-yield bonds and bank loans.

Sector		F	T	V	⊖	○	⊕	Rationale
Taxable Bonds – U.S.	Treasuries	■	■	■	●			Yields near 2-year lows and longer-term prospects are unattractive. Deflation pressures in Europe have brought U.S. Treasury yields down to low levels we believe are not sustainable.
	TIPS	■	■	■	●			Implied inflation expectations at 4-year lows; more favorable relative to conventional Treasuries.
	Mortgage-Backed Securities (MBS)	■	■	■	●			Valuations cheapened following early 2015 Treasury strength.
	Investment-Grade Corporates	■	■	■		●		Yield spread to Treasuries is back above historic average. Corporate balance sheets remain very strong.
	Preferred Stocks	■	■	■		●		Valuations are slightly expensive but fundamentals are firm. Financial companies, which make up the bulk of the issuers, have seen financial health improve.
	High-Yield Corporates	■	■	■			●	Widespread energy defaults priced in; average yield near 7% and yield spread is near historic average.
	Bank Loans	■	■	■			●	Attractive due to short-term nature and above-average yield. Less energy exposure than high-yield has helped performance during recent oil downdraft.
Taxable Bonds – Foreign	Foreign Bonds – Hedged	■	■	■	●			More expensive relative to U.S. government bonds; QE largely priced in.
	Foreign Bonds – Unhedged	■	■	■	●			Low yields, unattractive valuations, and euro currency weakness pose risks.
	Emerging Markets Debts	■	■	■		●		Yield spread back above 4%, valuations attractive, but headwinds may persist.

Mortgage-backed securities are subject to credit, default, 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, market and interest rate risk.

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.

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 (CPI)—while providing a real rate of return guaranteed by the U.S. government. Investing in foreign and emerging markets debt securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical, and regulatory risk, and risk associated with varying settlement standards.



## COMMODITIES & ALTERNATIVE ASSET CLASSES

Central bank policy divergence should lead to higher market volatility and more dispersion among assets, which may create a more fertile environment for macro strategies. While narrowly led equity markets have proven difficult for equity-oriented alternative strategies, we favor higher beta options in that space until individual stock selection is better rewarded.

	Sector	F	T	V	⊖	○	⊕	Rationale
Commodities	Industrial Metals	■	■					After its sharp decline, oil is an intriguing opportunity on a potential technical bounce, but supply pressures suggest caution is warranted. Some of the factors we are watching to consider a more positive view on oil include inventories, rig counts, futures curves, capital spending reductions, guidance from major producers (OPEC and non-OPEC), and various technical indicators. Fed tightening, interest rate risk, and technicals keep us neutral on precious metals, although gold's move back to \$1300 has helped improve its technical picture somewhat. Agriculture commodities broadly remain in a downtrend.
	Precious Metals	■	■					
	Energy	■	■	■				
	Agricultural	■	■					

	Sector	T E	C T	V O	⊖	○	⊕	Rationale
Alternatives	Long/Short Equity	■	■	■				May benefit from higher volatility and rising dispersion across equity sectors and securities. Favor more directional as opposed to lower net and market neutral-oriented funds.
	Event Driven	■	■	■				Increased M&A and recent widening of deal spreads raise optimism on event driven and merger arbitrage strategies.
	Managed Futures	■	■	■				Expectation of rising volatility across currency and commodity markets may be beneficial, along with more persistent trends across asset classes.
	Global Macro	■	■	■				Expectation of rising volatility may be beneficial, while ability to position in advance of market inflection points will also be a useful tool.

### LEGEND

CHARACTERISTICS	ICON	DEFINITION
Catalysts		Potential for favorable macroeconomic and/or idiosyncratic market developments that may benefit the investment strategy.
Trading Environment		Market characteristics present sufficient investment opportunities for this investment style.
Volatility		The current volatility regime provides a constructive environment that an investment of this style can capitalize on.

Alternative strategies may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments.

Event-driven strategies, such as merger arbitrage, long/short equity strategies, and futures trading are highly speculative, include a high degree of risk, and may not be suitable for all investors.

## DEFINITIONS:

EQUITY AND ALTERNATIVES ASSET CLASSES

**Large Growth:** Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

**Large Value:** Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

**Mid Growth:** The U.S. mid cap range for market capitalization typically falls between \$1 billion and \$8 billion and represents 20% of the total capitalization of the U.S. equity market. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

**Mid Value:** The U.S. mid cap range for market capitalization typically falls between \$1 billion and \$8 billion and represents 20% of the total capitalization of the U.S. equity market. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

**Small Growth:** Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

**Small Value:** Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

**U.S. Stocks:** Stock of companies domiciled in the U.S.

**Large Foreign:** Large cap foreign stocks have market capitalizations greater than \$5 billion. The majority of the holdings in the large foreign category are in the MSCI EAFE Index.

**Small Foreign:** Small cap foreign stocks typically have market capitalizations of \$250 million to \$1 billion. The majority of the holdings in the small foreign category are in the MSCI Small Cap EAFE Index.

**Emerging Markets:** Stocks of a single developing country or a grouping of developing countries. For the most part, these countries are in Eastern Europe, Africa, the Middle East, Latin America, the Far East, and Asia.

**REITs:** REITs are companies that develop and manage real estate properties. There are several different types of REITs, including apartment, factory-outlet, health care, hotel, industrial, mortgage, office, and shopping center REITs. This would also include real estate operating companies.

**Commodities – Industrial Metals:** Stocks in companies that mine base metals such as copper, aluminum, and iron ore. Also included are the actual metals themselves. Industrial metals companies are typically based in North America, Australia, or South Africa.

**Commodities – Precious Metals:** Stocks of companies that do gold- silver-, platinum-, and base-metal mining. Precious metals companies are typically based in North America, Australia, or South Africa.

**Commodities – Energy:** Stocks of companies that focus on integrated energy, oil and gas services, oil and gas exploration and equipment. Public energy companies are typically based in North America, Europe, the United Kingdom, and Latin America.

**Event Driven:** A hedge fund strategy in which the stocks of two merging companies are simultaneously bought and sold to create a riskless profit. A merger arbitrageur looks at the risk that the merger deal will not close on time, or at all. Because of this slight uncertainty, the target company's stock will typically sell at a discount to the price that the combined company will have when the merger is closed. This discrepancy is the arbitrageur's profit.

**Long/Short:** An investment strategy generally associated with hedge funds. It involves buying long equities that are expected to increase in value and selling short equities that are expected to decrease in value.

**Managed Futures:** Managed futures use systematic quantitative programs to find and invest in positive and negative trends in the futures markets for financials and commodities. Historically, the benefit of managed futures have been solid long-term returns with very low correlation to equities and fixed income securities.

## FIXED INCOME

**Credit Quality:** 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.

**Duration:** A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration 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.

**Munis – Short-Term:** Bonds issued by various state and local governments to fund public projects. The income from these bonds is generally free from federal taxes. These bonds generally have maturities of less than three years.

**Munis – Intermediate:** Bonds issued by various state and local governments to fund public projects. The income from these bonds is generally free from federal taxes. These bonds generally have maturities of between 3 and 10 years.

**Munis – Long-Term:** Bonds issued by various state and local governments to fund public projects. The income from these bonds is generally free from federal taxes. These bonds generally have maturities of more than 10 years.

**Munis – High-Yield:** Bonds issued by various state and local governments to fund public projects. The income from these bonds is generally free from federal taxes. These bonds generally offer higher yields than other types of bonds, but they are also more vulnerable to economic and credit risk. These bonds are rated BB+ and below.

**Treasuries:** A marketable, fixed-interest U.S. government debt security. Treasury bonds make interest payments semiannually and the income that holders receive is only taxed at the federal level.

**TIPS (Treasury Inflation-Protected Securities):** A special type of Treasury note or bond that offers protection from inflation. Like other Treasuries, an inflation-indexed security pays interest every six months and pays the principal when the security matures. The difference is that the underlying principal is automatically adjusted for inflation as measured by the consumer price index (CPI).

**Mortgage-Backed Securities:** A type of asset-backed security that is secured by a mortgage or collection of mortgages. These securities must also be grouped in one of the top two ratings as determined by a accredited credit rating agency, and usually pay periodic payments that are similar to coupon payments. Furthermore, the mortgage must have originated from a regulated and authorized financial institution.

**Investment-Grade Corporates:** Securities issued by corporations with a credit rating of BBB or higher. Bond rating firms, such as Standard & Poor's, use different designations consisting of upper- and lower-case letters A and B to identify a bond's investment-grade credit quality rating. AAA and AA (high credit quality) and A and BBB (medium credit quality) are considered investment-grade.

**Preferred Stocks:** A class of ownership in a corporation that has a higher claim on the assets and earnings than common stock. Preferred stock generally has a dividend that must be paid out before dividends to common stockholders and the shares usually do not have voting rights.

**High-Yield Corporates:** Securities issued by corporations with a credit rating of BB+ and below. These bonds generally offer higher yields than investment-grade bonds, but they are also more vulnerable to economic and credit risk.

**Bank Loans:** In exchange for their credit risk, these floating-rate bank loans offer interest payments that typically float above a common short-term benchmark such as the London Inter-Bank Offered Rate, or LIBOR.

**Foreign Bonds – Hedged:** Non-U.S. fixed income securities generally from investment-grade issuers in developed countries, with hedged currency exposure.

**Foreign Bonds – Unhedged:** Non-U.S. fixed income securities normally denominated in major foreign currencies.

**Emerging Markets Debt:** The debt of sovereigns, agencies, local issues, and corporations of emerging markets countries and subject to currency risk.

---

## 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 indexes are unmanaged and cannot be invested into directly.

Past performance is no guarantee of future results.

Stock investing involves risk including loss of principal.

Preferred stock investing involves risk, which may include loss of principal.

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.

This research material has been prepared by LPL Financial.

To the extent you are receiving investment advice from a separately registered independent investment advisor, please note that LPL Financial is not an affiliate of and makes no representation with respect to such entity.

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

RES 4958 0115 | Tracking #1-347607 (Exp. 01/16)