Portfolio Compass

October 3, 2012

The *Portfolio Compass* provides a snapshot of LPL Financial Research's views on Equity & Alternative Asset Classes, the Equity Sectors, and Fixed Income. This biweekly publication illustrates our current views and will change as needed over a 3- to 12-month time horizon.

Reading the *Portfolio Compass*

Fundamental, technical, and valuation characteristics for each category are shown by colored squares.

Negative, neutral, or positive views are illustrated by a solid black bar positioned over the color scale, while an outlined black bar with an arrow indicates change and shows the previous view.

Rationales for our views are provided beneath each category.

* LPL Financial provided this range based on our earnings per share growth estimate for 2012, and a modest expansion in the price-to-earnings ratio. Please see our *2012 Outlook* and *2012 Mid-Year Outlook* publications for further information.

Navigating the Markets

Compass Changes

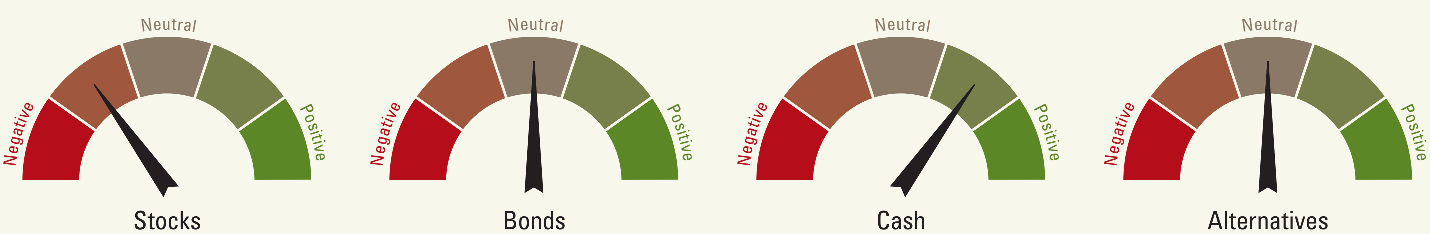
- No changes.

Investment Takeaways

- Our near-term stock market view remains cautious, with the S&P 500 having returned 17% this year (as of October 2, 2012), above the high end of our forecast range as discussed in our *2012 Mid-Year Outlook.**
- Within equities, we favor Growth, Technology, and Industrials, and we expect the Federal Reserve's (Fed) latest bond-purchase program, Quantitative Easing 3, or QE3, to support the Materials sector.
- We believe QE3 will weaken the US dollar, which may strengthen the case for Precious Metals, where our view is positive.
- Our recently upgraded Large Foreign view, to neutral, reflects recent policy progress in Europe, prospects for US dollar weakness, and the improved technical picture.
- We continue to favor economically sensitive fixed income sectors and their higher yields in general over interest rate sensitive sectors such as Treasuries. Over the short term, we are somewhat cautious on municipal bonds.
- The S&P 500 continues to operate in a short-term sideways price trend between 1440 and 1460. Key levels to watch outside of that range are 1500 on the upside and 1420 on the downside.

Broad Asset Class Views

LPL Financial Research's views on stocks, bonds, cash, and alternatives are illustrated below. The positions of negative, neutral, or positive are indicated by the solid black compass needle, while an outlined needle shows a previous view.



LPL Financial

Equity & Alternative Asset Classes

Favor Precious Metals Post-QE3

- Our near-term stock market view remains cautious, with the S&P 500 having returned 17% this year (as of October 2, 2012), above the high end of our forecast range as discussed in our *2012 Mid-Year Outlook.*
- Our recently upgraded, positive view of Precious Metals is strengthened by the third round of QE3 from the Fed, which we expect to weaken the dollar.
- Our recently upgraded Large Foreign view, to neutral, reflects recent policy progress in Europe, prospects for further US dollar weakness, and the improved technical picture. The Large Foreign (developed) benchmark, the MSCI EAFE Index, slightly outpaced the S&P 500 during the third quarter but still trails for the year.
- Our views are generally aligned across capitalization, with a slight preference toward Large and Mid, which bested Small during the third quarter, based on the Russell Indexes.
- We continue to favor Growth due to its tendency to outperform in slow-growth environments, and due to our preference for Technology, the biggest Growth sector, over Financials, the biggest Value sector. Value marginally outperformed Growth in the third quarter but still trails for the year.
- Our recently downgraded Agriculture Commodities view, to neutral, reflects our belief that crop damage from severe U.S. droughts is reflected in grain prices.

		Fundamentals	Technicals	Valuations	Negative / Neutral / Positive
Style/Capitalization	Large Growth				
	Large Value				
	Favor Growth over Value due to superior earnings trends in slow-growth economy, attractive relative valuations, and our positive Technology view. Our views across capitalizations are fairly balanced.				
	Mid Growth				
	Mid Value				
	Lull in merger & acquisition activity, our expectation of more stock market volatility and weakening relative strength have tempered our enthusiasm some for Mid Caps in recent months.				
	Small Growth				
	Small Value				
	Risk of renewed stock market volatility in the fourth quarter tempers our near-term view of Small Caps, which lagged Large and Mid during the third quarter.				
Region	U.S. Stocks				
	Large Foreign				
	Small Foreign				
	Emerging Markets				
	Our recently upgraded Large Foreign view reflects recent policy progress in Europe, prospects for further US dollar weakness, and the improved technical picture, while valuations remain reasonable. Based on the MSCI Indexes, Large Foreign outpaced U.S. stocks in the third quarter, as did Emerging Markets, but the U.S. still leads both year-to-date.				
REITs	REITs				
	Fundamentals improving some, housing helps, but yields are not compelling given interest rate risk.				
Commodities	Industrial Metals				
	Precious Metals				
	Energy				
	Agricultural				
	Our recently upgraded Precious Metals view is strengthened by the Fed's QE3 program, which should put pressure on the US dollar. Our recently lowered Agriculture Commodities view reflects our belief that crop damage from summer droughts is reflected in grain prices. We see the Oil Commodity as fairly valued in the low $90s and are positively biased toward Industrial Metals.				
Other	Non-Correlated Strategies				
	Favor distressed assets for volatile environment, Long/Short Equity vehicles as market increasingly rewards fundamentals, and Merger-Arbitrage/Event-Driven strategies on increased corporate activity.				

Equity Sectors

Continue To Favor Cyclical Sectors for Balance of 2012

- We continue to favor cyclical sectors in general, which we find attractively valued relative to the overall market and defensive sectors. Cyclical sectors performed better than their defensive counterparts in the just-completed third quarter, with an average gain of 7%, compared with less than 4% for defensive sectors.
- Our recently upgraded Materials sector view is modestly positive. While anticipated, the Fed's latest policy action was more aggressive than expected and is likely to drive commodity-related investments higher.
- Our Energy sector view, still neutral, is biased to the positive side. Energy was the top-performing S&P 500 sector in the third quarter with a 10% return.
- Our Technology view remains positive. Technology and Financials are the top performers year-to-date (as of October 3, 2012) among widely held sectors, although Telecom has been a bit stronger.
- Our Industrials view remains modestly positive, as we continue to expect a pickup in business spending later this year and only a modest slowdown and more stimulative monetary policy from China.
- We continue to under-emphasize defensive sectors but remain watchful for a potential stock market pullback, during which these sectors may outperform. We expected higher stock market volatility in the fourth quarter related to election and policy uncertainty.

	Sector	Fundamentals	Technicals	Valuations	Negative — Neutral — Positive	S&P 500 Weight (%)
Cyclical	Materials	Neutral	Positive	Neutral	Neutral/Positive	3.5
	Aggressiveness of QE3 should offset risk of more pronounced global growth slowdown.					
	Energy	Neutral	Positive	Positive	Neutral	11.3
	Our bias remains positive following QE3; Mideast tensions and valuations are supportive.					
	Industrials	Positive	Neutral	Positive	Neutral/Positive	9.8
	Seasonality, slowing growth are concerns; still expect business spending to pick up in second half.					
	Consumer Discretionary	Neutral	Positive	Negative	Neutral	11.0
	Consumers continue to hang in despite weak job market, high gas prices; wealth effect is helping.					
	Technology	Positive	Positive	Positive	Positive	20.0
	A top 2012 performer with 22% return YTD buoyed by powerful mobility trend and attractive valuations.					
	Financials	Negative	Positive	Positive	Negative/Neutral	14.6
	Europe's progress, valuations, housing recovery help; growth and regulatory remain challenges.					
Defensive	Utilities	Negative	Negative	Negative	Negative	3.5
	Lack of growth, valuations, and interest rate risk are biggest risks; worst Q3 sector performer (-0.5%).					
	Health Care	Negative	Neutral	Positive	Negative/Neutral	12.1
	Affordable Care Act clarity and low valuations help, but expect volatility around November elections.					
	Consumer Staples	Neutral	Negative	Negative	Negative/Neutral	10.9
	Renewed margin pressure from rising commodities prices hurts, seasonal tailwind abating.					
	Telecommunications	Neutral	Neutral	Negative	Negative/Neutral	3.3
	Top sector YTD on improving earnings and rich yields, although valuations remain steep.					

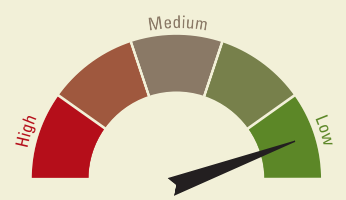
* For more detailed information, please refer to the quarterly *Sector Strategy* publication.

Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

Fixed Income

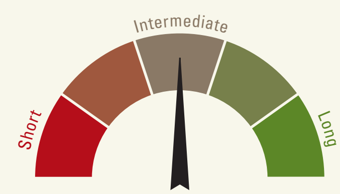
Favor Economically Sensitive Sectors To Help Take Advantage of Higher Yields

- We remain focused on intermediate bonds. The Fed has committed to refrain from raising interest rates until mid-2015, up from late 2014. Therefore, intermediate maturity bonds may benefit as investors seek higher yields amidst a low-yield world.
- Over the short term, we are cautious on municipal bonds due to a coming seasonal increase in new issuance, which may weigh on prices. Weakness is likely to be limited, as valuations remain attractive with top-rated municipal bonds yielding more than comparable Treasuries.



Credit Quality

Credit spreads still wide; prefer corporate bonds to government bonds.



Duration

Expect short rates to stay low and the yield curve to remain steep; favor intermediate maturities.

		Fundamentals	Technicals	Valuations	Negative — Neutral — Positive
Tax-Free Bonds	Munis–Short-term				
	Muni curve is steep, and short-term yields are very low.				
	Munis–Intermediate-term				
	Attractive valuations partially offset by lower yields.				
	Munis–Long-term				
	Valuations attractive but yields at record lows.				
	Munis–High-Yield				
	Yield to be bigger driver of return. Defaults to remain isolated.				

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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 availably 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 (CONT.)

Favor Economically Sensitive Sectors To Help Take Advantage of Higher Yields

- A still-sluggish economy, Spain's pending formal request for aid, and uncertainty over the economic impact of the "fiscal cliff" all augur for a stable rate environment, which also favors intermediate bonds that still possess a substantial yield advantage relative to short-term bonds.
- Fed purchases of mortgage-backed securities will amount to roughly 50% of new issuance and should keep the sector well supported going forward.
- Higher yielding, fundamentally sound segments of the bond market such as high-yield bonds and investment-grade corporate bonds remain attractive, but we temper our enthusiasm due to lower yields, strong year-to-date performance, and higher valuations.

		Fundamentals	Technicals	Valuations	Negative / Neutral / Positive
Taxable Bonds—U.S.	Treasuries				
	European issues putting downward pressure on yields, keeping Treasuries expensive.				
	TIPS				
	Prefer to nominal Treasuries as easy monetary policy is inflationary over time.				
	Mortgage-Backed Securities				
	Currently most attractive government bond option. Stable yield range a positive.				
	Investment-Grade Corporates				
	Yield spreads still attractive. Credit quality stable.				
	Preferred Stocks				
	Good income generator. European bank risks manageable.				
	High-Yield Corporates				
	Earnings season should support fundamentals and 6.0% yield spread is attractive.				
	Bank Loans				
	Prefer high-yield for income, with rising rate catalyst delayed with Federal Open Market Committee (FOMC) on hold until late 2014.				
Taxable Bonds—Foreign	Foreign Bonds—Hedged				
	Sovereign risks still a concern.				
	Foreign Bonds—Unhedged				
	Low yields and euro currency risk a concern.				
	Emerging Market Debt				
	Fundamentals and valuations attractive but sensitive to European risks.				

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 availably 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. 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. International and emerging market investing involves risks such as currency fluctuation and political instability and may not be suitable for all 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. 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. 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. 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.

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 $250M to $1B. 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 & gas services, oil & gas exploration and equipment. Public energy companies are typically based in North America, Europe, the UK, and Latin America.

Merger Arbitrage is 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.

EQUITY SECTORS

Materials: Companies that engage 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: 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 or the exploration, production, marketing, refining and/or transportation of oil and gas products, coal and consumable fuels.

Industrials: 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.

Consumer Discretionary: 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.

Technology: Companies 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 include manufacturers and distributors of communications equipment, computers and peripherals, electronic equipment and related instruments, and semiconductor equipment and products.

Financials: Companies involved in activities such as banking, consumer finance, investment banking and brokerage, asset management, insurance and investment, and real estate, including REITs.

Utilities: Companies considered electric, gas or water utilities, or companies that operate as independent producers and/or distributors of power.

Healthcare: Companies in two main industry groups: Healthcare equipment and supplies or companies that provide healthcare-related services, including distributors of healthcare products, providers of basic healthcare services, and owners and operators of healthcare facilities and organizations or companies primarily involved in the research, development, production and marketing of pharmaceuticals and biotechnology products.

Consumer Staples: 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.

Telecommunications: Companies that provide communications services primarily through a fixed line, cellular, wireless, high bandwidth and/or fiber-optic cable network.

FIXED INCOME

Credit Quality: An individual bond's credit rating is determined by private independent rating agencies such as Standard & Poor's, Moody's and Fitch. Their credit quality designations range from high ('AAA' to 'AA') to medium ('A' to 'BBB') to low ('BB', 'B', 'CCC', 'CC' to 'C').

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 semi-annually 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 ratning 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 interbank 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 Market 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.

Long positions may decline as short positions rise, thereby accelerating potential losses to the investor.

Stock investing involves risk including 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.

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 Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. As of the latest reconstitution, the average market capitalization was approximately $4 billion; the median market capitalization was approximately $700 million. The index had a total market capitalization range of approximately $309 billion to $128 million.

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.

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

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