



Portfolio Compass

November 9, 2011

The Portfolio Compass provides an easy-to-read snapshot of LPL Financial Research's views on the Economy, Equities and Fixed Income as well as our Current Conditions Index.

This publication illustrates our current views and will change as needed, and incorporates our biases over a 3- to 12-month time horizon.

The Portfolio Compass is comprised of five components:

1. **Current Conditions Index:** The LPL Financial Current Conditions Index is a weekly measure of the conditions that underline our outlook for the markets and economy.
2. **Economic Compass:** The Economic Compass illustrates how the U.S. economy, financial conditions, monetary and fiscal policy, and international economies are tracking to the consensus outlook for each of the indicators in the relevant period.
3. **Equity & Commodity Asset Class Compass:** Evaluates the asset classes such as Large Growth, Mid Value, Foreign Stocks, REITs, and Commodities.
4. **Equity Sector Compass:** Evaluates the 10 S&P 500 equity sectors.
5. **Fixed Income Compass:** Evaluates the fixed income asset classes.

Reading the Portfolio Compass

- In the Economic Compass the dots illustrate how each category is tracking to the consensus outlook.
- In the other compasses the dots illustrate our view for each category as negative, neutral, or positive, in addition to fundamental, valuation, and technical characteristics for the category.
- The bias, illustrated with a right or left facing arrow, provides an "early warning" that a change may be looming.
- The active manager performance column indicates whether active managers, as defined by the Morningstar category average, are beating the asset class benchmarks over the trailing three-month, and 1-year period.
- Rationales for our views are provided in the Comments section.

Broad Asset Class Views

	Negative	Neutral	Positive	Bias
Stocks	■	■	○ → ●	
Bonds	■	●	■	←
Cash	■	●	■	←
Alternatives	■	● ← ○	■	

Source: LPL Financial Research

★ Denotes change in tracking from last issue.

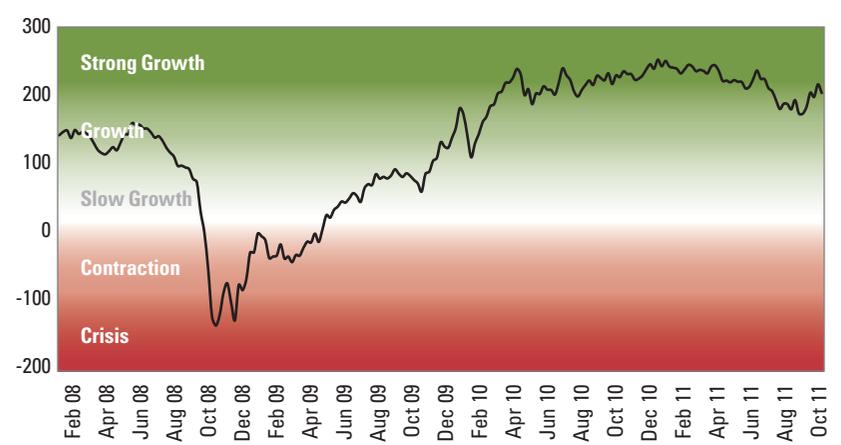


Current Conditions Index

November 9, 2011

How are the Components Affecting the Index Right Now?

LPL Financial Research Current Conditions Index



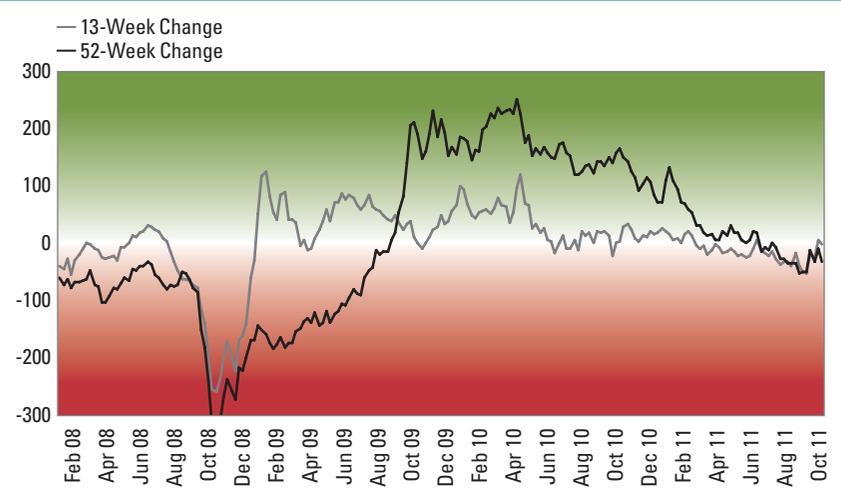
Source: LPL Financial 11/09/11

Over the past week, the LPL Financial Current Conditions Index slipped to 205. The path of the CCI remains consistent with continued economic growth in the United States.

However, the growth momentum in the index remains negative. Both the 13 and 52 week change has turned consistently negative as growth momentum has stalled.

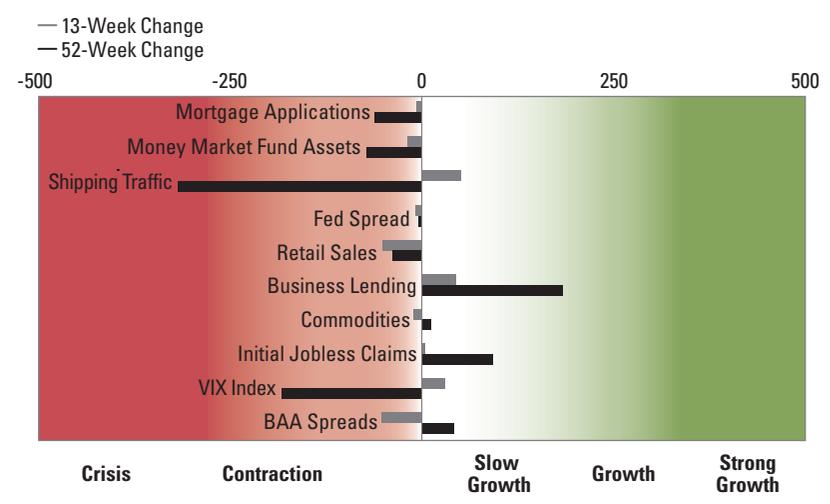
In the latest week, improving Business Lending and Shipping Traffic were not enough to offset deterioration in the VIX.

LPL Financial Research CCI Growth Momentum



Source: LPL Financial 11/09/11

LPL Financial Research CCI Components



Source: LPL Financial 11/09/11



Economic Compass

November 9, 2011

We Put The Odds of Another Recession at One in Three

Given the recent financial market turmoil and uncertainty over policy at home and abroad, the odds of the United States sliding back into recession have increased to around one in three. Through late September and early October, the market had placed much higher odds on a recession. Since then, a better run of economic data in the United States and some action by European policymakers has pushed the market closer to our view. The Fed has promised to keep short term rates at their current low level until at least mid-2013. In addition, the Fed has embarked on "Operation Twist" and the size and scope of the plan—which does not involve any more Treasury purchases by the Fed—was larger than the market anticipated and should help keep longer term rates, including mortgage rates, lower for longer. Fiscal woes in Europe, and to a lesser extent, at the Federal and state and local level in the U.S. remain as key impediments to the recovery.

Economic Factors	Present Status*	Relative to The Consensus			Bias	Comment	
		Below	In Line	Above			
ECONOMY	Consumer Spending	●		●		→	Consumer spending holding up well in the face of unprecedented economic and policy uncertainty.
	Business Spending	●		●			Business spending still leading the economic recovery. A weaker dollar, fast growing emerging markets continue to be a plus.
	Housing	●		●			Housing sales prices and construction still bouncing along the bottom, but nationwide the worst appears to be over for housing.
	Export Sector	●			●		Strong export growth continues to lead economy early in recovery. 50%+ of our exports go to fast-growing emerging markets.
	Labor Market	●		●			Some modest progress made in the labor market in recent months, but still a long way to go to recover 8.8 million jobs lost in the recession.
	Inflation	●		●			Expectations have been too high on core inflation forecasts thus far in 2011. Spare capacity and weak wage growth are inflation "firewall".
POLICY	Fiscal	●		●		→	Super Committee deadlines & extension of payroll tax cut & unemployment benefits are next key events.
	Monetary	●			●		Fed on hold through mid-2013. Now implementing "Operation Twist", QE3 may follow if economy remains sluggish.
	Government	●		●			Recent debt ceiling squabble, regulatory backdrop negatively impacting business confidence and hiring.
OVERSEAS	US Dollar	●		●			Over the long term, dollar likely headed lower.
	Overseas Economies – Developed	●		●			The brunt of the tax hikes and spending cuts just now taking effect in Europe and the U.K. Rebuilding in Japan is underway.
	Overseas Economies – Emerging Markets	●			●		Market fears a "hard landing" in China with a slowdown to 5 to 6% GDP growth. Our view is soft landing likely.
FINANCIAL CONDITIONS	Lending Conditions	●		●		→	Credit conditions have eased and loan demand from business and consumers is stabilizing, but still weak.
	Corporate Profits	●		●			Strong corporate profit growth in Q3 2011 sets up low-to-mid teens increase in 2011.
	Overall Economy	●	●				Economy can avoid a recession, but remains vulnerable to policy mistakes here and in Europe.

★ Denotes change in tracking from last issue. ● Negative ● Neutral ● Positive

* Present Status: Assessment of the current state of the various components of the economy listed. Where available, the assessment is taken from the most recent Federal Reserve's Federal Open Market Committee (FOMC) Beige Book or from the most recent FOMC statement. Where no assessment from the Federal Reserve is available, the assessment is that of the LPL Financial Research Department, based on economic data releases from various government agencies.

Equity & Commodity Asset Class Compass

November 9, 2011

Favor Small and Mid Cap Stocks and Most Economically Sensitive Commodities as Macro Pessimism Likely Overdone

Our improved view of domestic equities reflects our belief that valuations reflect an overly pessimistic growth and profit outlook. While we continue to favor the U.S. over Large Foreign as Europe continues to work through its sovereign debt problem, we find value in Japan as the country rebuilds and are considering a more positive Europe view due to depressed valuations. We favor Growth over Value for the cyclical sector mix, better earnings trends and attractive relative valuations. Our positive Small and Mid Cap outlook is supported by merger and acquisition (M&A) activity and our increasingly constructive stock market view. Inflation for Emerging Markets, while still a concern has started to stabilize and monetary policy is starting to ease. We remain positive on Commodities broadly but have shifted exposure to the stocks of resource producers where we see more attractive return potential. Our lowered view of Energy Commodities reflects the run-up of West Texas Intermediate (WTI) crude into the mid \$90s.

	Fundamentals	Technicals	Valuation	View			Bias	Comment	Active Manager Performance (trailing)	
				Negative	Neutral	Positive			3 mo.	1 yr
STYLE / CAPITALIZATION	Large Growth	●	●	●			●		-	-
	Large Value	●	●	●	●				-	-
	Mid Growth	●	●	●				●	-	-
	Mid Value	●	●	●				●	-	-
	Small Growth	●	●	●				●	-	-
	Small Value	●	●	●				●	+	+
REGION	U.S. Stocks	●	●	●				●		
	Large Foreign	●	●	●				●	+	+
	Small Foreign	●	●	●	●				+	+
	Emerging Markets	●	●	●				●	-	+
REITS	REITs	●	●	●				●	-	-
COMMODITIES	Commodities - Industrial Metals	●	●					●		
	Commodities - Precious Metals	●	●					●		
	★ Commodities - Energy	●	●					●		
	Commodities - Agricultural	●	●					●		

★ Denotes change in view from last issue. ● Negative ● Neutral ● Positive

Real Estate/REITs may result in potential illiquidity and there is no assurance the objectives of the program will be attained. The fast price swings of commodities will result in significant volatility in an investor's holdings. International and emerging markets involve special risks such as currency fluctuation and political instability. The price of small and mid-cap stocks are generally more volatile than large cap stocks. Value investments can perform differently from the market as a whole. They can remain undervalued by the market for long periods of time. Precious metal investing is subject to substantial fluctuation and potential for loss. These securities may not be suitable for all investors.



Equity Sector Compass

November 9, 2011

Cyclical Sectors Discounting Overly Pessimistic Growth Outlook; Taking Slightly Less Negative Stance on Financials

We have become increasingly positive on the cyclical sectors in recent weeks, given the excessive level of pessimism reflected in valuations. Our positive Industrials and Technology views reflect resilient earnings, our expectation for continued growth in business spending and exports, rebuilding in Japan, and attractive valuations. Our positive Materials view is based on continued growth in the U.S. economy, slower but still solid Chinese growth, the likelihood of renewed US dollar weakness, and constrained supplies. We believe Consumer Discretionary may benefit as actual spending exceeds pessimistic sentiment, while we expect higher oil prices may benefit the Energy sector. We continue to under-emphasize the four defensive sectors (Consumer Staples, Health Care, Telecom and Utilities), as we expect investors to increasingly favor cyclicals in the coming months as economic and profit growth exceeds market expectations.

	Fundamentals	Technicals	Valuation	View			Bias	S&P 500 Weight (%)	Comment	Industry Views	
				Negative	Neutral	Positive				Most Favored	Least Favored
CYCLICAL	Materials	●	●	●			→	3.6	Valuation reflects overly pessimistic global growth outlook; supply constraints supportive.	Chemicals, Metals & Mining	None
	★ Energy	●	●	●		○→		12.5	Crude inventories have fallen to their lowest levels of the year, contributing to the recent rise in prices.	Exploration & Production, Equipment & Services	Refiners
	Industrials	●	●	●			→	10.5	Expect business spending growth in 2H11; Emerging Market trends still favorable and valuations are compelling.	Capital Goods, Transports	Aerospace & Defense
	Consumer Discretionary	●	●	●				10.6	Consumer continues to spend based on recent monthly sales data amid excessively bearish sentiment.	Media	Consumer Durables
	Technology	●	●	●				19.7	Positive business spending outlook, resilient earnings performance and compelling valuations.	Software, Semiconductors	IT Services
	Financials	●	●	●	●			→	13.8	Relative strength improving, loan growth picking up, but Europe, mortgage and regulatory risk, tough rate & job environment.	Regional Banks
DEFENSIVE	Utilities	●	●	●	●			3.7	Slow growth, rich valuations, interest rate risk outweigh attractive yields.	Regulated	Independent power producers
	Healthcare	●	●	●	●			11.5	Preference for cyclicals points to limited exposure. Government spending pressure a concern.	Biotech	Pharmaceuticals
	Consumer Staples	●	●	●	●			11.0	Input cost relief helps, but rich valuation and expected market shift toward cyclicals do not.	Food & Staples Retailing	Household & Personal Products
	Telecom	●	●	●	●			3.1	Rich valuation, interest rate risk, potential removal of catalyst if regulators reject large acquisition.	Diversified	none

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Investing in sectors may be more volatile than diversifying across many industries.



Fixed Income Compass

November 9, 2011

Increase Allocation to Fixed Income Sectors Which Normally Outperform When Interest Rates Rise

Optimism over a European debt solution and economic data pointing to slower U.S. economic growth as opposed to recession have bolstered economically-sensitive fixed income sectors, including high-yield at the expense of Treasuries. Slow growth and contained inflation reinforce the FOMC's pledge to keep interest rates low until mid-2013 and high-grade bond yields are likely to remain low by historical standards. We believe growth will slow but may remain positive, enabling the U.S. to sidestep a double dip recession. Spreads on high-yield bonds and investment-grade corporate bonds remain wide, despite stable to improving credit metrics. High-Yield issuers have benefitted from lower interest rates to refinance debt and default rates continue to decline.

	Fundamentals	Technicals	Valuation	View					Bias	Comment	Active Management Performance (trailing)	
				High		Low					3 mo.	1 yr
				Short	Long							
Credit Quality	●		●					●				
Duration	●		●			●			←	Expect short rates to stay low and the yield curve to remain steep; favor intermediate maturities; prefer sector exposure.		
				Negative	Neutral	Positive						
TAXABLE BONDS U.S.	Treasuries	●	●	●	●	●	●	●		Valuations back to an extreme and offset benefit of Fed on hold for longer.	+	+
	TIPS	●	●	●	●	●	●	●		Prefer to nominal Treasuries as easy monetary policy is inflationary over time.	-	-
	Agency Debt	●	●	●	●	●	●	●		Treasury's commitment to maintain support of GSE's has kept yield spreads to Treasuries tight.		
	Investment-Grade Corporates	●	●	●	●	●	●	●		Yield spreads widened on Treasury rally. Earnings results show strong fundamentals.		
	Agency Mortgages	●	●	●	●	●	●	●		Most attractive government bond option. Supply/demand balance aided by Fed reinvestment.		
	Non-Agency Mortgages	●	●	●	●	●	●	●	←	Valuations have increased but opportunity still exists.		
	Preferred Stocks	●	●	●	●	●	●	●		Sector has lagged on questions of sufficient capital levels, led by European banks.		
	High-Yield Corporates	●	●	●	●	●	●	●		Spreads imply higher default rate than is likely to be realized. Sector still attractive.	-	-
	Bank Loans	●	●	●	●	●	●	●	←	Rising rates as a catalyst for outperformance is delayed with FOMC on hold until mid-2013.	-	+
	FOREIGN	Foreign Bonds - Hedged	●	●	●	●	●	●	●		Sovereign risks and low yields still a concern.	
Foreign Bonds - Unhedged	●	●	●	●	●	●	●	●		Non-Dollar bonds may continue to benefit from U.S. fiscal imbalances, which weaken US dollar.		
Emerging Market Debt	●	●	●	●	●	●	●	●		Valuations attractive and bolstered by strong fundamentals and elevated yield spreads.	-	-
TAX-FREE BONDS	Munis - Short-Term	●	●	●	●	●	●	●		Muni curve is steep, and short-term yields are very low.	+	-
	Munis - Intermediate-Term	●	●	●	●	●	●	●		Modest weakness over pickup in supply has increased muni yield to UST ratio.	-	-
	Munis - Long-Term	●	●	●	●	●	●	●		The benefit of more attractive valuations is partially offset by lower yields.	-	-
	Munis - High-Yield	●	●	●	●	●	●	●		Valuations remain attractive but performance may slow after recent rally.		

★ Denotes change in view from last issue. ● Negative ● Neutral ● Positive

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. Preferred stock investing involves risk including 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. 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. Duration: A measure of the sensitivity of the price (the value of the principal) of a fixed-income investment to a change in interest rates.

Appendix - CCI Components

Real-Time Tracking

The LPL Financial Research Current Conditions Index is a weekly measure of the conditions that underline our outlook for the markets and economy. The CCI provides real-time context and insight into the trends that shape our recommended actions to manage portfolios. This index has been a useful tool for investment decision making.

This weekly index is not intended to be a leading index or predictive of where conditions are headed, but a coincident measure of where they are right now. We want to track the conditions in real-time to aid in investment decision making. There are thousands of indicators-some lead the economy, some lag, while others merely offer a lot of statistical noise. We chose to create our own index tailored to the current environment to provide the clearest and most useful way to track conditions. The components of the CCI are periodically changed to re-tune the index to those factors most critical to the markets and economy so it may continue to be a valuable investment decision-making tool.

To create the index we found 10 indicators that provided a weekly, real-time measure of the conditions in the economic and market environment. Each component is important and measures a different driver of the environment. The 10 components of the CCI are described below:

1. **Initial Claims Filed for Unemployment Benefits** – Measures the number of people filing for unemployment benefits. A rise in the number of new claims acts as a negative on the CCI.
2. **Fed Spread** – A measure of future monetary policy, the futures market gives us the difference between the current federal funds rate and the expected federal funds rate six months from now. Typically, a rise in rate hike expectations weighs on the markets since higher rates increase the cost of bank borrowing and have tended to slow the growth in the economy and profits. A rise in the Fed Spread acts as a negative for the CCI.
3. **Baa Spreads** – The yield on corporate bonds above the rate on comparable maturity Treasury debt is a market based estimate of the amount of fear in the bond market. Baa-rated bonds are the lowest quality bonds still considered investment grade, rather than high-yield. Therefore, they best reflect the stresses across the quality spectrum. A rise in Baa spreads acts as a negative for the CCI.
4. **Retail Sales** – International Council of Shopping Centers tabulates data on major retailer's sales compared to the same week a year earlier. This measures the current pace of consumer spending. Consumer spending makes up two-thirds of GDP. Rising retail sales acts as a positive for the CCI.
5. **Shipping Traffic** – A measure of trade, the Association of American Railroads tracks the number of carloads of cargo that moves by rail in the U.S. each week. A growing economy moves more cargo. A rise in railroad traffic acts as a positive for the CCI.
6. **Business Lending** – A good gauge of business' willingness to borrow to fund growth, the Federal Reserve tabulates demand for Commercial & Industrial loans at U.S. commercial banks. More borrowing reflects increasing optimism by business leaders in the strength of demand. A rise in loan growth acts as a positive for the CCI.
7. **VIX** – The VIX is a measure of the volatility implied in the prices of options contracts for the S&P 500. It is a market based estimate of future volatility. While this is not necessarily predictive it does measure the current degree of fear present in the stock market. A rise in the VIX acts as a negative on the CCI.
8. **Money Market Asset Growth** – A measure of the willingness to take risk by investors, the year-over-year change in money market fund assets tracked by Investment Company Institute shows the change in total assets in cash equivalent money market funds. A rise in money market asset growth acts as a negative for the CCI.
9. **Commodity Prices** – While retail sales captures end user demand for goods, commodity prices reflect the demand for the earliest stages of production of goods. Commodity prices can offer an indicator of the pace of economic activity. The CRB Commodity Index includes copper, cotton, etc. A rise in commodity prices acts as a positive on the CCI.
10. **Mortgage Applications** – The weekly index measuring mortgage applications provides an indication of housing demand. With much of the credit crisis tied to housing, keeping tabs on real time buying activity can offer insight on how the crisis is evolving. A rise in the index of mortgage applications acts as a positive on the CCI.



Portfolio Compass Definitions

ECONOMIC DEFINITIONS

Consumer Spending: Real Personal Consumption Expenditures from the U.S. Government's National Income and Product Accounts.

Business Spending: Business Investment in Equipment and Inventories from the U.S. Government's National Income and Product Accounts.

Housing: Amalgamation of housing prices and housing construction activity.

Export Sector: Real Net Exports from the U.S. Government's National Income and Product Accounts.

Labor Market: Unemployment Rate and Nonfarm Payroll job count from the U.S. Bureau of Labor Statistics.

Inflation: Consumer Price Index, overall and excluding food and energy, from the U.S. Bureau of Labor Statistics.

Fiscal Policy: The U.S. Federal government's spending and tax policies.

Monetary Policy: The U.S. Federal Reserve's policies on interest rates and the money supply.

Government Policy: Overall U.S. government policy as it relates to the banking and housing crises.

US dollar: Broad measure of the US dollar versus the currencies of its major trading partners (Canada, Eurozone, Japan, UK, etc.)

International Economies – Developed: Proxy for economic, fiscal, and monetary health of major developed international economies (Canada, Eurozone, Japan, UK, etc.)

International Economies – Emerging: Proxy for economic, fiscal, and monetary health of major emerging international economies (China, India, Russia, Brazil, Eastern Europe, Latin America, etc.)

Financial Conditions: A measure of the health of the financial system relative to "normal" times. Indicators include, but are not limited to: short term credit spreads, overnight bank lending rates, spreads on corporate debt, willingness of banks to lend to each other, willingness of banks to lend to customers, and the ability of corporations to finance themselves in the short-and long-term debt and equity markets

Yield Curve: Difference in basis points between the 10-year Treasury note and the 3-month T-Bill.

Corporate Profits: S&P 500 Operating profits as compiled by Thomson Financial.

Present Status: Assessment of the current state of the various components of the economy listed. Where available, the assessment is taken from the most recent Federal Reserve's Federal Open Market Committee (FOMC) Beige Book or from the most recent FOMC statement. Where no assessment from the Federal Reserve is available, the assessment is that of the LPL Financial Research Department, based on economic data releases from various government agencies.

Earnings Per Share (EPS): The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

EQUITY AND COMMODITY 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).

EQUITY AND COMMODITY ASSET CLASSES (CONT.)



Portfolio Compass Definitions (CONT.)

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.

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.

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.

EQUITY SECTORS

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.

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.

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.

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

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.

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.

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.

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.

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

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



Portfolio Compass Definitions (CONT.)

FIXED INCOME ASSET CLASSES

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.

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).

Agencies: Securities issued by corporations and agencies created by the U.S. government, such as the Federal Home Loan Bank Board and Fannie Mae.

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.

Mortgage-Backed Securities: A Mortgage Backed Security (MBS) is an asset-backed security whose cash flows are backed by the principal and interest payments of a set of mortgage loans. Payments are typically made monthly over the lifetime of the underlying loans.

Agency MBS: These are issued by agencies created by the U.S. Government. Non-agency MBS are issued by private companies and include jumbo, Alt-A, and sub-prime mortgages.

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.

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.



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 indices are unmanaged and cannot be invested in directly.

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.

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.

Investing in alternative investments may not be suitable for all investors and involve special risks such as risk associated with leveraging the investment, potential adverse market forces, regulatory changes, and potential illiquidity. There is no assurance that the investment objective will be attained.

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.

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.

The P/E ratio (price-to-earnings ratio) is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher P/E ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower P/E ratio.

Debt-to-GDP is a measure of a country's federal debt in relation to its gross domestic product (GDP). By comparing what a country owes and what it produces, the debt-to-GDP ratio indicates the country's ability to pay back its debt. The ratio is a coverage ratio on a national level.

The Federal Open Market Committee action known as Operation Twist began in 1961. The intent was to flatten the yield curve in order to promote capital inflows and strengthen the dollar. The Fed utilized open market operations to shorten the maturity of public debt in the open market. The action has subsequently been reexamined in isolation and found to have been more effective than originally thought. As a result of this reappraisal, similar action has been suggested as an alternative to quantitative easing by central banks.

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