Portfolio Compass

July 11, 2012

The Portfolio Compass provides a snapshot of LPL Financial Research 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.

Navigating the Markets

Compass Changes

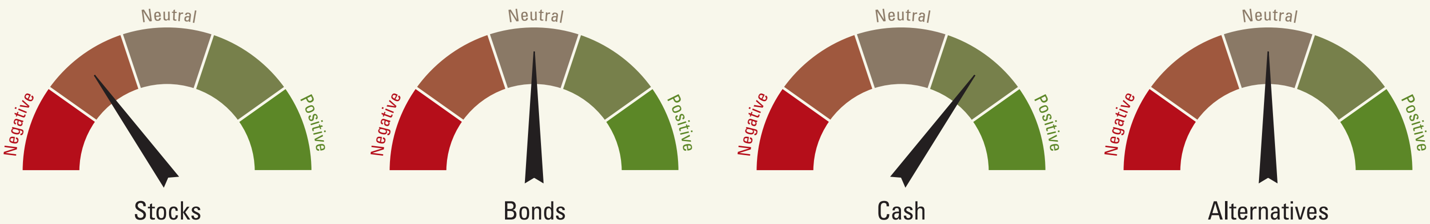
- No changes.

Investment Takeaways

- With the S&P 500 having returned 8% this year (as of July 10, 2012), consistent with our forecast for the year view as discussed in our *2012 Mid-Year Outlook,* our near-term stock market view remains cautious.
- Within equities, we favor Growth over Value, the business-spending driven Technology and Industrials sectors over defensive sectors and Financials. Recent soft economic data increases the near-term risk profile for Industrials.
- We continue to favor economically sensitive fixed income sectors in general over interest rate sensitive sectors such as Treasuries, although our near-term view of economically sensitive fixed income, such as high-yield bonds, is more cautious as Europe's problems linger.
- Our recently upgraded view of Agriculture Commodities reflects adverse U.S. weather and favorable seasonality. We continue to favor precious metals.
- The S&P 500 remains in between its 100-day moving average (1360) and 200-day (1304). A sustained close above 1360 would establish a new trading range between 1360 and 1420.

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.



Equity & Alternative Asset Classes

Maintaining Cautious Stock Market View, Favor Precious Metals and Agriculture Commodities

- With the S&P 500 having returned 8% this year (as of July 10, 2012), consistent with our forecast for the year view as discussed in our *2012 Mid-Year Outlook,* our near-term stock market view remains cautious.
- Large Caps held up better than Mid and Small Caps during the second quarter as the broad equity market benchmark, the Russell 3000, lost nearly 4%. We have a slight preference for Mid and Large over Small but our views are generally balanced across capitalization.
- We continue to favor Growth due to its tendency to outperform in slow-growth environments and to our preference for Technology, the biggest Growth sector, over Financials, the biggest Value sector. Value outperformed Growth during the second quarter but trails for the year, based on Russell 3000 Indexes.
- International equities fell more than their U.S. counterparts during the second quarter and the MSCI Emerging Markets and EAFE Indexes both trail U.S. stocks year-to-date. The Russell 1000 has returned 8% so far in 2012 (as of July 10, 2012), compared to 2% and 4% returns for the MSCI EAFE and MSCI Emerging Markets Indexes.
- Our Large Foreign view remains negative as much of Europe is in or entering recession and much work remains to resolve their fiscal crisis.
- Our recently upgraded Agriculture Commodities view reflects adverse Midwest U.S. weather and favorable seasonality. Our Precious Metals view is positive due to the Gold Commodity's increasingly non-correlated behavior with stocks and the US dollar, and prospects for more Federal Reserve stimulus. We see value in the Oil Commodity around $80 per barrel.

		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. Growth leading in 2012.				
	Mid Growth				
	Mid Value				
	Earnings trends and merger & acquisition activity are positive for Mid Caps, although we have tempered optimism some in anticipation of stock market volatility. Worst cap performer in Q2 and 2012.				
	Small Growth				
	Small Value				
	Same positives hold for Small as Mid (acquisitions, earnings growth) but risk of further stock market volatility temper our near-term view. Best cap performer in 2012, edging out Large.				
Region	U.S. Stocks				
	Large Foreign				
	Small Foreign				
	Emerging Markets				
	The European fiscal crisis is far from over as much of the region is in or entering recession. Japan's recovery from last year's natural disasters has been uneven. China's latest rate cut is supportive of our "soft landing" thesis. The U.S. outperformed the Emerging Markets and EAFE benchmarks in Q2 and year-to-date.				
REITs	REITs				
	Interest rate risk is contained for now, but credit markets may be due for a pause, job data is mixed.				
Commodities	Industrial Metals				
	Precious Metals				
	Energy				
	Agricultural				
	Our recently upgraded Agriculture Commodities view reflects adverse Midwest U.S. weather and favorable seasonality. We continue to favor Precious Metals Commodities, reflecting the Gold commodity's increasingly non-correlated behavior with stocks and the US dollar and prospects for more Federal Reserve stimulus. We see value in the Oil Commodity closer to $80 a barrel.				
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.				

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. 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. Stock investing may involve risk including loss of principal.

Equity Sectors

Latest Weak Economic Data Increases Near-term Risk Profile for Industrials

- We continue to favor cyclical sectors in general, which we find attractively valued relative to the overall market and defensive sectors.
- Our Industrials and Technology views remain positive, although recent softer economic data, including the latest Institute for Supply Management (ISM) and jobs reports, and seasonality have caused us to temper our still positive Industrials view in recent weeks. 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 have warmed up to Consumer Staples some recently on improving technicals, lower commodity costs, favorable seasonality and the potential for further stock market weakness.
- The Health Care sector has slightly underperformed the S&P 500 since the Supreme Court largely upheld the Affordable Care Act on June 28, 2012. The sector outperformed during the second quarter but trailed the other defensive sectors.
- We remain cautious on Financials amid regulatory challenges, a sluggish revenue growth outlook and Europe's debt problems. The sector's 7% loss during the second quarter was worst among S&P sectors.
- So far in July, the S&P 500 is down 1.5% (as of July 10, 2012), and only two defensive sectors, Consumer Staples and Telecom, have produced positive returns, while the cyclical Financials, Industrials, Energy, and Materials sectors have each fallen 2% or more.

		Fundamentals	Technicals	Valuations	Negative / Neutral / Positive	S&P 500 Weight (%)
Cyclical	Materials					3.4
	Still expect only a modest slowdown and more stimulus from China; Europe risks remain high.					
	Energy					10.8
	Mideast tensions have pushed crude oil up to mid $80s, China, Europe, US dollar remain headwinds.					
	Industrials					10.4
	Seasonality, soft U.S. data are concerns, still expect business spending to pick up as year goes on.					
	Consumer Discretionary					11.0
	Despite rich valuations, best cyclical sector in 2012 on lower gas prices, stabilizing housing market.					
	Technology					19.8
	Solid 2012 performer on solid earnings, attractive valuations, powerful mobility trend.					
	Financials					14.3
	Europe, regulatory risks remain high, growth outlook is sluggish though valuations remain attractive.					
Defensive	Utilities					3.7
	Earnings declines, natural gas weakness and valuations remain concerns.					
	Health Care					12.0
	Sector has underperformed slightly since Supreme Court Affordable Care Act ruling on June 28.					
	Consumer Staples					11.4
	Less negative view on easing margin pressure, favorable seasonals and positive relative strength.					
	Telecommunications					3.2
	Top sector in 2012 on positive earnings revisions, attractive dividend yield; valuations are lofty.					

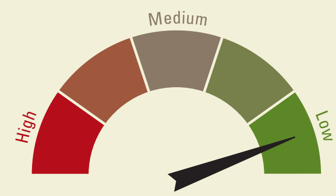
* For more detailed information, please refer to the quarterly *Sector Strategy* publication.

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

Fixed Income

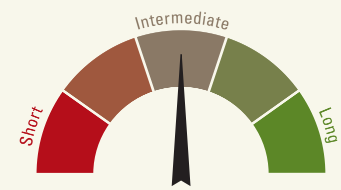
Favor Economically Sensitive Sectors to Help Take Advantage of Higher Yields

- A sluggish economy, lingering European debt problems, upcoming election and policy uncertainty and a Fed on hold augur for a stable rate environment and favors intermediate bonds which possess a substantial yield advantage relative to short-term bonds.
- Municipal bond valuations remain attractive and reduction of new issuance in coming weeks may provide a boost.



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 near record lows.				
	Munis–High-Yield				
	Yield to be bigger driver of return. Defaults to remain isolated.				

continued on next page

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

- European concerns, including Spain and its banking system, continue to exert downward pressure on yields, keeping Treasuries expensive.
- Economic growth is likely to be sluggish but remain positive, which provides a favorable backdrop for more economically sensitive bonds such as corporate bonds.
- Higher yielding, fundamentally sound segments of the bond market become more attractive with Treasury yields back to near-record lows.
- Among government related sectors, we prefer Mortgage-Backed Securities, given their yield advantage, a favorable supply-demand backdrop, and potential to be included in future purchases.

		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 banks risks manageable.						
	High-Yield Corporates						
	Earnings season should support fundamentals and 6.5% yield spread is attractive.						
	Bank Loans						
	Prefer High-Yield for income, with rising rate catalyst delayed with FOMC on hold until late-2014.						
Taxable Bonds–Foreign	Foreign Bonds–Hedged						
	Sovereign risks and low yields 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.

Correlation is a statistical measure of how two securities move in relation to each other. Correlations are used in advanced portfolio management.

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.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of May 27, 2010 the MSCI Emerging Markets Index consisted of the following 21 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

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 1000 Index consists of the 1,000 largest securities in the Russell 3000 Index, which represents 90% of the total market capitalization of the Russell 3000 Index. It is a large-cap, market oriented index and is highly correlated with the S&P 500 Index.

The Institute for Supply Management (ISM) index is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders, and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys.

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