Portfolio Compass

September 11, 2013

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 three- 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.

* As noted in our *Mid-Year Outlook 2013: Investors' Trail Map to the Markets* publication.

Navigating the Markets

Compass Changes

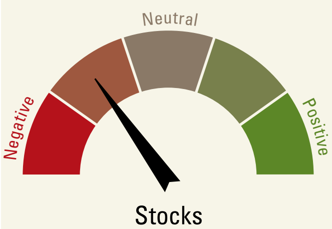
- Downgraded consumer staples view to neutral/negative from neutral.

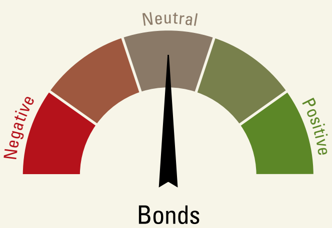
Investment Takeaways

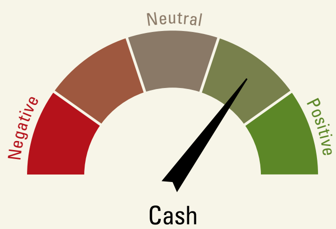
- We expect the S&P 500 Index to grind higher in the second half of the year with increased volatility.*
- Fed uncertainty and stronger global growth backdrop remain negative overhangs for bonds. Nonetheless, the bond market has gone a long way to price in stronger growth and greater Fed interest rate risk.
- High-yield bond valuations are fair after recouping most of May–June underperformance but remain resilient to higher interest rates.
- Supply issues have diminished but have continued to weigh on municipal bonds in August. Challenges persist, but attractive valuations bode well longer term.
- We favor U.S. stocks relative to emerging markets (EM) and developed foreign, as Europe's struggles continue and EM growth slows.
- Precious metals' technicals have improved, while technical and seasonal considerations point to a short-term opportunity in agriculture commodities.
- From a technical perspective, the S&P 500 has closed back above resistance at its 50-day simple moving average at 1668, which establishes a bullish price objective at 1710.

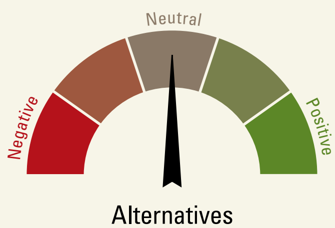
Broad Asset Class Views

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

Remained Focused on the U.S. Though Chinese Stabilization Worth Noting

- We expect the S&P 500 to grind higher in the second half of the year with increased volatility, supported by mid-single-digit earnings growth, buybacks, and wide profit margins, as noted in our *Mid-Year Outlook 2013: Investors' Trail Map to the Markets.*
- We favor U.S. stocks relative to EM and developed foreign, as Europe struggles to emerge from recession, and the growth trajectory in several key EM countries has deteriorated. Recent signs of stabilization in China are noteworthy.
- In terms of market cap, large caps offer lower valuations and higher yields, but small caps may benefit from greater U.S. focus and may provide an attractive buy-the-dip opportunity.
- Our views of growth and value are more balanced due to our improving outlook for financials, although growth's tendency to outperform in slow-growth environments and our positive view of consumer discretionary are positives for growth.
- A pullback in the oil commodity amid elevated inventories and soft global demand may have to wait for resolution in Syria, but we continue to believe the commodity is above its fair value.
- After struggling with prospects for reduced bond purchases by the Fed, low inflation, higher interest rates, and slowing demand from China and India, the gold commodity has stabilized and technicals have become attractive.
- We believe a short-term opportunity has emerged in agriculture commodities based on seasonal and technical factors.

		Fundamentals	Technicals	Valuations	Negative / Neutral / Positive
Style/Capitalization	Large Growth	Neutral	Neutral	Positive	Neutral/Positive
	Large Value	Neutral	Neutral	Neutral	Neutral
	Slight preference for growth, which tends to perform better in slow-growth environments, but with less conviction due to a more balanced sector mix. We have a slight small bias in terms of market cap.				
	Mid Growth	Neutral	Positive	Neutral	Neutral
	Mid Value	Neutral	Positive	Neutral	Neutral
	Greater U.S. focus, faster earnings growth than large caps, and a likely pickup in acquisition activity help, although above-average valuations and potentially higher stock market volatility are risks.				
	Small Growth	Positive	Positive	Neutral	Neutral
	Small Value	Neutral	Positive	Negative	Neutral
	Risk of increased stock market volatility remains and valuations are on the high side, but with their U.S. focus, we believe small caps represent an attractive buy-the-dip opportunity.				
Region	U.S. Stocks	Neutral	Positive	Neutral	Neutral
	Large Foreign	Neutral	Neutral	Neutral	Negative/Neutral
	Small Foreign	Neutral	Neutral	Neutral	Negative/Neutral
	Emerging Markets	Neutral	Neutral	Neutral	Negative/Neutral
	We favor the U.S. over large foreign and EM. Europe's growth outlook remains challenged, while growth trajectories in several key EM economies are deteriorating, although recent signs of stabilization in China are worth noting.				
REITs	REITs	Neutral	Negative	Neutral	Neutral
	Job growth, housing, and yield are offset by interest rate risk; valuations have become more reasonable.				
Commodities	Industrial Metals	Neutral	Positive		Neutral
	Precious Metals	Neutral	Positive		Neutral/Positive
	Energy	Negative	Neutral		Negative/Neutral
	Agricultural	Neutral	Neutral		Neutral/Positive
	A pullback in the oil commodity may have to wait for resolution in Syria, but we continue to believe oil (WTI Crude) is above fair value. The gold commodity has stabilized and technicals have improved. We believe a short-term opportunity has emerged in agriculture commodities.				
Other	Non-Correlated Strategies				Neutral
	Favor long/short equity vehicles as the market is rewarding fundamentals. High corporate cash levels and industry shifts create opportunities for shareholder activism. Global macro strategies have been underperforming but may provide diversification benefits in the event of a pullback.				

Global Macro strategies risk include but are not limited to imperfect knowledge of macro events, divergent movement from macro events, loss of principal, and related geopolitical risks.

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

Maintain Preference for Consumer-Focused Cyclical Sectors for Balance of 2013

- As highlighted in our *Mid-Year Outlook 2013* publication, we favor the more U.S.- and consumer-oriented sectors over the more global, export-focused sectors as EM growth slows.
- Our consumer discretionary view remains positive as spending continues to increase, albeit modestly, and the housing recovery continues, although the recent rise in oil prices and mortgage rates raises the risk profile.
- Our financials view has become incrementally more positive due to our focus on the United States, the steeper yield curve, and still-attractive valuations.
- Our modestly positive health care view reflects our U.S. focus, gradually improving sector growth outlook, and robust pace of product innovation.
- Our modestly negative materials and energy views reflect deteriorating growth trajectories throughout many EM economies and our bearish view of crude oil prices.
- We expect a potential pickup in business spending to help industrials sector performance, while early signs of stabilization in China are encouraging.
- We remain cautious on the yield sectors (telecom and utilities) due to their interest rate sensitivity, while utilities valuations still look rich despite the sector's losses since May 2013.
- Above-average valuations, EM exposure, high oil prices and weakening technicals temper our near-term enthusiasm for consumer staples, although U.S. consumers have been resilient and seasonality is favorable.

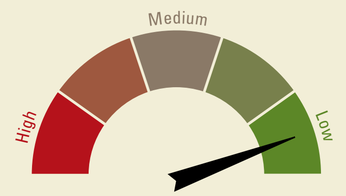
	Sector	S&P 500 Weight (%)
Cyclical	Materials	3.5
	Slower EM growth and shift toward more consumer-led economy in China temper the growth outlook.	
	Energy	10.6
	Uneven growth in EM and our forecast for a pullback in oil drive our cautious view.	
	Industrials	10.4
	Housing and U.S. energy renaissance help, but EM growth is slowing and businesses remain cautious.	
	Consumer Discretionary	12.3
	Wealth effect benefit (housing, stocks), improving labor market, and domestic focus offset rich valuations.	
	Technology	18.1
	Positive bias amid attractive valuations, improving technicals, and favorable seasonality.	
	Financials	16.5
	Earnings gains, U.S. focus, steeper yield curve, and valuations offset regulatory risk and slow loan growth.	
Defensive	Utilities	3.1
	Weakness in latest bond market sell-off highlights interest rate risk; valuations are still high.	
	Health Care	12.9
	U.S. focus, gradually improving growth outlook amid policy clarity, and innovation are supportive.	
	Consumer Staples	10.1
	Valuations, EM exposure, and high oil prices are concerns, but seasonals are attractive.	
	Telecommunications	2.5
	Valuations now fair, but interest rate sensitivity, competition, and mature wireless market are concerns.	

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

Fixed Income

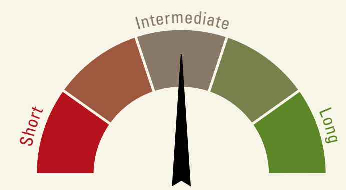
Waiting for the Fed

- Fed uncertainty and a stronger global growth backdrop remain a negative overhang for bonds. Nonetheless, the bond market has gone a long way to price in stronger economic growth and greater interest rate risk from the Fed in coming months.
- We believe intermediate maturity bonds provide a better risk/return trade-off compared to short-term bonds.
- Supply issues have diminished but nonetheless continued to weigh on municipal bonds in August. Challenges persist, but attractive valuations bode well for longer-term improvement.
- We find high-yield municipal bonds attractive, but high-quality municipal bonds possess more attractive valuations and compelling taxable-equivalent yields.



Credit Quality

Credit yield spreads attractive; 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 valuations are unattractive.				
	Munis–Intermediate-Term				
	Supply pressures are easing, and valuations are attractive.				
	Munis–Long-Term				
	Supply pressures are easing, and valuations are attractive.				
	Munis–High-Yield				
	Defaults remain isolated despite Detroit.				

continued on next page

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

All bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to 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.)

Waiting for the Fed

- High-yield bond valuations are fair after recouping most of May–June underperformance but remain resilient to higher interest rates.
- Higher-yielding, fundamentally sound segments of the bond market such as bank loans and preferred securities remain among the more attractive fixed income options.
- Among high-quality bonds, we favor investment-grade corporate bonds due to the combination of higher yields and good fundamentals.

		Fundamentals	Technicals	Valuations	Negative Neutral Positive
Taxable Bonds–U.S.	Treasuries				
	Valuations fair with yields near top of range and several Fed rate hikes priced in.				
	TIPS				
	Unappealing due to deceleration in inflation and greater interest rate sensitivity.				
	Mortgage-Backed Securities				
	Valuations attractive. Shorter duration a positive.				
	Investment-Grade Corporates				
	Yield spreads fair. Credit quality stable.				
	Preferred Securities				
	Good income generator. Bank credit quality improving.				
	High-Yield Corporates				
	Credit quality metrics good, valuations fair, and defaults on pace to be low in 2013.				
	Bank Loans				
	Attractive due to short-term nature and attractive yield.				
Taxable Bonds–Foreign	Foreign Bonds–Hedged				
	Yields are low compared to domestic bonds.				
	Foreign Bonds–Unhedged				
	Still-low yields and euro currency risk are concerns.				
	Emerging Market Debt				
	Economic data improving. Valuations attractive.				

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.

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

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.

Health Care: 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.

Stock investing involves risk including loss of principal.

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

Distressed investing involves significant risks, including a total loss of capital. The risks associated with distressed investing arise from several factors including: limited diversification, the use of leverage, limited liquidity, and the possibility that investors may be required to accept cash or securities with a value less than their original investment and/or may be required to accept payment over an extended period of time.

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

This research material has been prepared by LPL Financial.

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

Not FDIC or NCUA/NCUSIF Insured | No Bank or Credit Union Guarantee | May Lose Value | Not Guaranteed by any Government Agency | Not a Bank/Credit Union Deposit

LPL Financial