

April 19 2017

# NAVIGATING THE MARKETS

## COMPASS CHANGES

- No changes.

## INVESTMENT TAKEAWAYS

- We expect mid-single-digit returns for the S&P 500 in 2017, consistent with historical mid-to-late economic cycle performance.\*
- Small caps may get a policy boost from corporate tax reform, while our style views (growth/value) are generally aligned.
- Economic and corporate fundamentals for emerging market equities have improved and valuations remain attractive, although uncertain U.S. trade policy is a risk.
- Recent upgrades to our large and small foreign views reflect meaningful increases in earnings growth in late 2016 and 2017 expectations.
- Expensive valuations in sectors like investment-grade corporates, high yield, and emerging market debt suggest moving up slightly in credit quality.
- Expected gradual Federal Reserve (Fed) rate hikes and slow economic growth are supportive of bonds near term, though rising interest rates may be a headwind longer term as growth and inflation expectations rise.
- For fixed income allocations, we emphasize a blend of high-quality intermediate bonds and a small allocation to less interest rate-sensitive sectors, such as bank loans or high-yield bonds, for suitable investors.
- From a technical perspective, the S&P 500 price continues to operate above its 200-day moving average, increasing the likelihood of a sustained long-term bullish trend.

The *Portfolio Compass* provides a snapshot of LPL Financial Research’s views on equity, equity sectors, fixed income, and alternative asset classes. This monthly publication illustrates our current views and will change as needed over a 3- to 12-month time horizon.

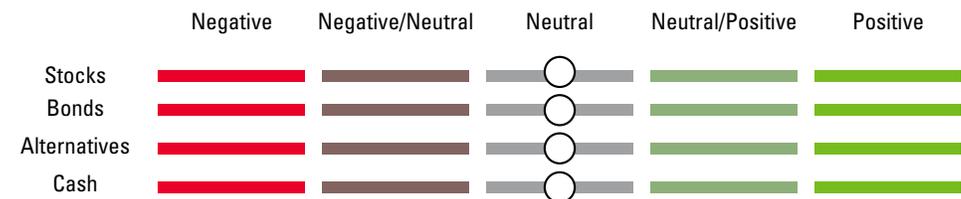
The top down is an important part of our asset allocation process. As a result, we have a macro section including our views of the global economy and key drivers of those views, and a section on what we are watching that might change those views.

## CONTENTS

Compass Changes.....1  
 Macroeconomic Views.....2  
 What We’re Watching.....3  
 Asset Class & Sector Top Picks.....4  
 Equity Asset Classes.....5  
 Equity Sectors.....6  
 Fixed Income.....7  
 Commodities & Alternative Asset Classes.....9

## BROAD ASSET CLASS VIEWS

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



All performance referenced herein is as of April 18, 2017, unless otherwise noted.

\*As noted in our *Outlook 2017: Gauging Market Milestones*, we expect mid-single-digit returns for the S&P 500 in 2017 and the continuation of the nearly eight-year-old bull market, consistent with historical mid-to-late economic cycle performance. We expect S&P 500 gains to be driven by: 1) a pickup in U.S. economic growth partly due to fiscal stimulus; 2) mid- to high-single-digit earnings gains; 3) an expansion in bank lending; and 4) a stable price-to-earnings ratio (PE) of 18–19. Gains will likely come with increased volatility as the economic cycle ages.

# MACROECONOMIC VIEWS

	Economic Factor	Outlook	Investing Impact
ECONOMY	<b>U.S. GDP Growth</b>	We expect gross domestic product (GDP) growth near 2.5% in 2017.*	Absence of a recession would likely support equity markets.
	<b>Consumer Spending</b>	Possible tax stimulus, strong labor market, stock gains should help.	Supports consumer cyclicals, but potential growth in business spending may be more important.
	<b>Business Spending</b>	Tax reform, infrastructure spending may help but uncertainty around trade.	Industrials would be most likely to benefit; upside for tech but some policy risks.
	<b>Housing</b>	Tight supply, years of underbuilding may help but higher rates a potential headwind.	A stronger turnaround could support housing and financials stocks.
	<b>Import/Export</b>	Stabilizing dollar helps; service sector exports strong; uncertainty around trade.	Supports technology, business services; some uncertainty for multinationals.
	<b>Labor Market</b>	Steadily improving overall. Early signs of wage pressure appearing.	May put modest pressure on margins.
	<b>Inflation</b>	Wages, economic growth, election outcome have raised expectations.	Interest rates likely to rise but only gradually. May help financials.
	<b>Business Cycle</b>	Still mid-cycle but have likely moved into latter half.	Equity markets may have room to run, but expect more volatility.
	<b>Dollar</b>	Monitoring post-election strength but looks to be stabilizing.	Modest potential drag on earnings.
	<b>Global GDP Growth</b>	Improvement likely in 2017, led by U.S. and EM. Trade uncertainty remains a risk.	Upside with risks for global multinationals; global diversification may provide benefits.
POLICY	<b>Fiscal</b>	Infrastructure spending and tax reform likely post-election, but timeline unclear.	May provide a welcome economic lift, but government debt still a potential long-term headwind.
	<b>Monetary</b>	Market adjusting to prospects of increased pace of rate hikes.	Interest rates may be a modest headwind for quality bonds.
	<b>Government</b>	Republican president and Congress reduces gridlock but awaiting policy clarification.	May contribute to volatility; concerns persist around trade.
RISKS	<b>Financial</b>	Election may loosen credit standards, accelerate deregulation.	Net positives in the short term, but higher volatility would still be normal for this point in business cycle.
	<b>Geopolitical &amp; Other</b>	Monitoring Chinese economy, North Korea, Islamic State, trade tensions.	May contribute to higher stock volatility.
OVERSEAS	<b>Developed Overseas</b>	Monetary policy supportive, but Brexit, upcoming elections increase uncertainty in Europe.	May increase currency volatility; may favor U.S. equities.
	<b>Emerging Markets</b>	Oil rebound, better policy mix in China providing some relief but currency volatility may increase.	Faster growth ex-China may help lift low valuations.
FINANCIAL CONDITIONS	<b>Corporate Profits</b>	Earnings recession ended in Q3 2016; earnings could potentially accelerate in 2017 based on better economic growth, stable profit margins, and rebounding energy sector profits.	May be supportive of modest stock market gains.
	<b>Main Street</b>	Fed Beige Book depicts optimistic economic outlook despite below-trend growth.	Supports cyclical sector performance.

Source: LPL Research, U.S. Department of Energy, Haver Analytics 04/18/17

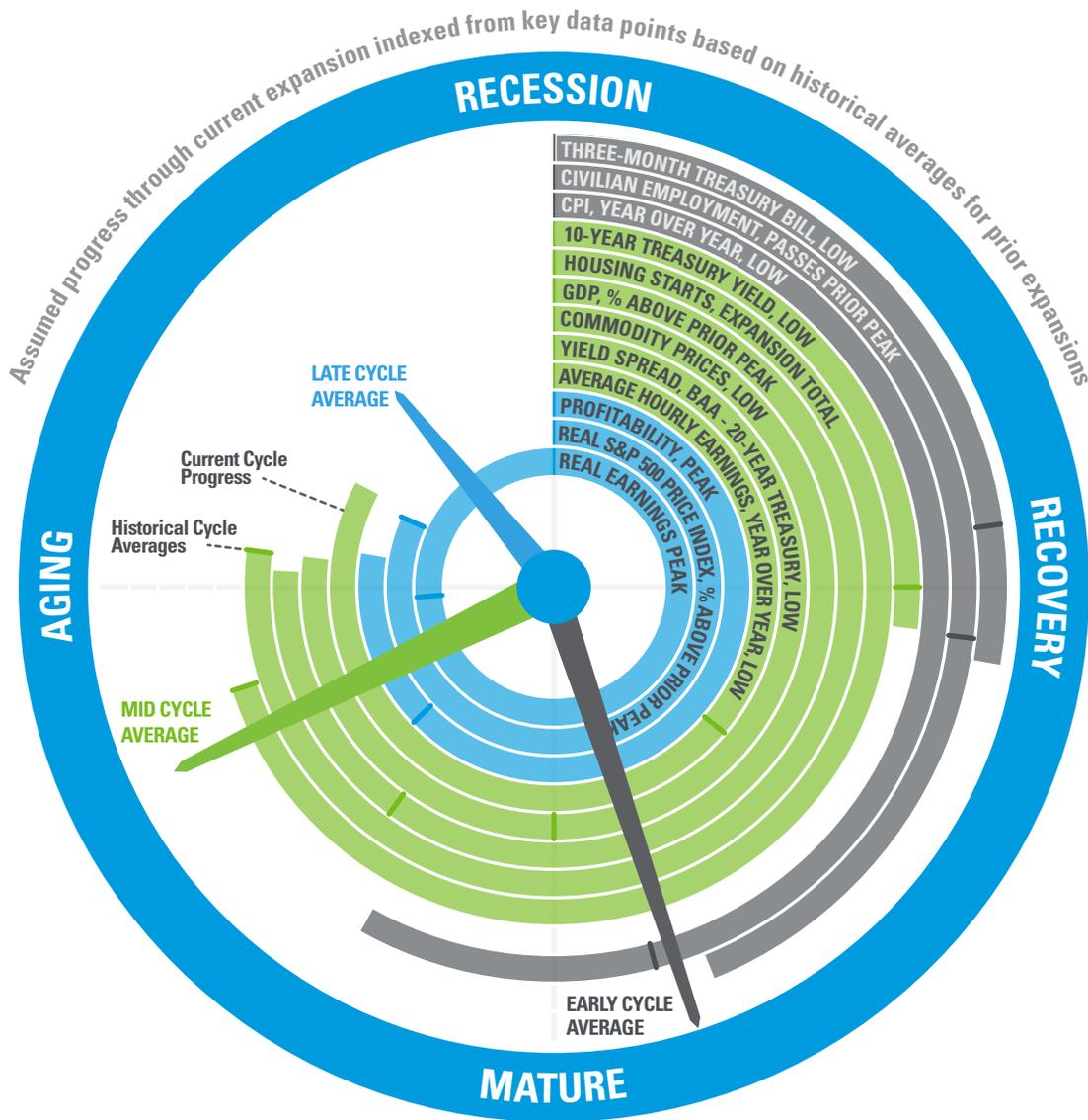
\*Our forecast for GDP growth near 2.5% is based on the historical mid-cycle growth rate of the last 50 years. Economic growth is affected by changes to inputs such as: business and consumer spending, housing, net exports, capital investments, and government spending. Fiscal stimulus potentially offers upside.

The opinions voiced in this material are for general information only and are not intended to provide or be construed as providing specific investment advice or recommendations for your clients. Any economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

## WHAT WE'RE WATCHING

The Cycle Clock suggests we are in the mid-to-late stage of the current expansion. Monetary policy is still exhibiting early cycle behavior, with lows from yields still relatively recent. Some items relating to corporate profits are showing late cycle behavior, although they may reset if profits improve.

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



Sources: LPL Research, Federal Reserve, U.S. Bureau of Economic Analysis (BEA), U.S. Bureau of Labor Statistics, U.S. Bureau of the Census, Standard & Poor's, Robert Shiller, National Bureau of Economic Research, Haver Analytics 04/18/17

The 10-year Treasury yield hit a new low for the current cycle in July 2016 (based on the daily average), shifting us to earlier in the cycle by that metric.

Data for all series are as of April 18, 2017. Starting point for all series is June 1954 except housing starts (March 1961), hourly earnings (December 1970), and commodity prices (December 1970). Real prices and real earnings determined using the Consumer Price Index for all urban consumers (CPI-U). Commodity prices are based on the GSCI Total Return Index. Profitability is based on real profit per unit value added for non-financial corporate business based on current production as calculated by the BEA.

## ASSET CLASS & SECTOR TOP PICKS

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

Characteristics	EQUITY ASSET CLASSES	EQUITY SECTORS	FIXED INCOME	Characteristics	ALTERNATIVE ASSET CLASSES
<b>BEST OVERALL IDEAS</b>	U.S. Stocks Emerging Markets (EM)	Technology	Investment-Grade Corporates Mortgage-Backed Securities (MBS) Bank Loans	<b>BEST OVERALL IDEAS</b>	Long/Short Equity
<b>Fundamentals</b>	U.S. Stocks U.S. Small Caps Master Limited Partnerships	Technology Industrials Financials	Treasury Inflation-Protected Securities (TIPS) Bank Loans	<b>Catalysts</b>	Managed Futures Global Macro Long/Short Equity
<b>Technicals</b>	U.S. Stocks U.S. Large Caps EM	Technology Healthcare Consumer Discretionary	Bank Loans High-Yield Bonds TIPS	<b>Trading Environment</b>	Long/Short Equity
<b>Valuations</b>	Large Foreign EM	Healthcare Telecom	MBS	<b>Volatility</b>	Global Macro Long/Short Equity Managed Futures

## READING THE PORTFOLIO COMPASS

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

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

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

Long/short equity strategies are subject to normal alternative investment risks, including potentially higher fees; while there is additional management risk, as the manager is attempting to accurately anticipate the likely movement of both their long and short holdings. There is also the risk of "beta-mismatch," in which long positions could lose more than short positions during falling markets.

## EQUITY ASSET CLASSES

We expect mid-single-digit returns for the S&P 500 in 2017, consistent with historical mid-to-late economic cycle performance. We forecast mid- to high-single-digit earnings growth in 2017, driven by better economic growth, energy’s recovery, a stable U.S. dollar, and resilient corporate profit margins. We see similar performance between growth and value, with accelerating economic and profit growth and potentially improved financial sector performance favoring value, while relative valuations and our favorable technology sector view favor growth. We expect small and midcap underperformance early in 2017 to potentially reverse as prospects for corporate tax reform begin to improve. Geographically, we favor U.S. and emerging markets.

	Sector	F	T	V	⊖	○	⊕	Rationale
Style/Capitalization	Large Growth	■	■	■	—	●	—	Mid-to-late stages of economic cycle, potential repatriation of overseas cash at lower tax rates, and technicals are positive for large, but small caps generally benefit more from Trump’s policy agenda. Our style views are generally aligned; our views of leading value sector financials and leading growth sector technology are both positive, while growth is relatively cheaper but the macro environment slightly favors value.
	Large Value	■	■	■	—	●	—	
	Mid Growth	■	■	■	—	●	—	Mid cap valuations have become attractive relative to large caps. We may see more merger and acquisition activity in 2017, which may help mid caps. Positive bias.
	Mid Value	■	■	■	—	●	—	
	Small Growth	■	■	■	—	●	—	Small caps benefit from a potentially lower corporate tax rate and are more insulated—and may even benefit—from potential protectionist trade policy. An aging business cycle and tax reform stumbles are key risks.
	Small Value	■	■	■	—	●	—	
Region	U.S. Stocks	■	■	■	—	●	—	Among developed markets, we remain U.S. focused and are monitoring U.S. trade policy, currencies, and European elections to assess international opportunities.
	Large Foreign	■	■	■	—	●	—	We are seeing meaningful increases in earnings growth for the end of the year and rising 2017 expectations. There have also been fundamental reforms in Japan that appear to be working. U.S. trade and tax policies, with their potential impact on currency, and European elections are key risks.
	Small Foreign	■	■	■	—	●	—	
	Emerging Markets	■	■	■	—	●	—	U.S. trade policy risk has eased some, while economic and corporate fundamentals have improved and valuations remain attractive. Other risks include higher U.S. interest rates with attendant dollar strength.
MLPs	MLPs	■	■	■	—	●	—	Trump’s energy-friendly stance and potentially higher crude prices could lift U.S. production and spark pipeline construction. Valuations are attractive and distributions are growing; watching interest rate risk.

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

## EQUITY SECTORS

We maintain our preference for cyclical sectors as the U.S. economic expansion continues and potentially picks up some speed should pro-growth policies be enacted in Washington, D.C. Better economic growth could help technology, which remains attractively valued, and industrials, which may benefit from more infrastructure and defense spending. We continue to like financials on prospects for deregulation and a steeper yield curve later this year. We continue to believe healthcare valuations discount an overly pessimistic regulatory climate.

	Sector	F	T	V	⊖	○	⊕	S&P*	Rationale
Cyclical	Materials	■	■	■				2.8	Stable, or slightly better growth in China, prospects for infrastructure spending, and a gradual rise in inflation are supportive, although U.S. dollar strength, trade policy, and China's transition to a service economy are risks.
	Energy	■	■	■				6.6	We see modest near-term upside to oil prices potentially to the mid-\$50s; increased U.S. production may limit upside but we maintain a positive bias on likely extension of OPEC-plus production caps.
	Industrials	■	■	■				10.1	Slightly above-average valuations but positives include potential stronger global growth, potential for more infrastructure and defense spending and energy stability; awaiting capital spending pickup.
	Consumer Discretionary	■	■	■				12.3	Slowing earnings momentum, higher inflation, the age of the business cycle, and e-commerce disruption in retail are among concerns.
	Technology	■	■	■				22.1	Strong near-term earnings outlook, higher business confidence on policy optimism, technology's role as productivity enabler, and valuations all supportive; trade policy risk has abated some.
	Financials	■	■	■				14.1	Deregulation, expanded credit access, and strong near-term earnings outlook are all supportive; recent yield curve flattening likely to reverse later this year, supporting outlook.
Defensive	Utilities	■	■	■				3.2	Forward price-to-earnings ratio (PE) slightly above S&P 500 looks expensive; we continue to favor cyclical sectors at this stage of the cycle while interest rate risk suggests caution.
	Healthcare	■	■	■				13.9	Valuations are compelling and demographics are favorable; we continue to believe regulatory risk is being overly discounted although failed healthcare reform effort creates uncertainty.
	Consumer Staples	■	■	■				9.5	Interest rate risk and our preference for cyclical sectors drive cautious view. Risk of being underweight is a potential stock market correction that would likely lead to a period of defensive sector outperformance.
	Telecommunications	■	■	■				2.4	Sluggish sector growth outlook and interest rate risk drive caution despite rich yields, attractive valuations, and potential for deregulation.
	Real Estate	■	■	■				3.0	Positives include steady job gains, rich yields, lack of overbuilding, and addition as an S&P 500 sector; interest rate risk and weakening technicals are concerns but potential buy the dip opportunity.

\* S&P 500 Weight (%)

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

Because of its narrow focus, specialty sector investing, such as healthcare, financials, or energy, will be subject to greater volatility than investing more broadly across many sectors and companies.

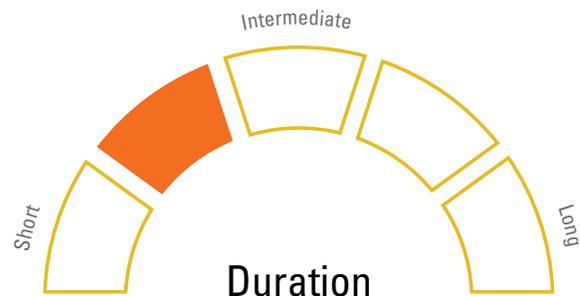
There is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Diversification does not ensure against market risk.

# FIXED INCOME

Municipal bonds (as measured by the Bloomberg Barclays Municipal Bond Index) returned 0.2% in March, with higher yields luring investors back into the sector as seasonal supply did not materialize. Month-to-date returns in April have been stronger (0.9%), which has made valuations slightly less attractive in the intermediate part of the curve. Markets are still waiting more details on the Trump administration’s policy impacts with particular focus on tax policy and infrastructure spending. Municipal bonds’ credit quality remains generally good; problem issuers remain isolated and have not impacted the broader market.



Maintaining a cautious approach as valuations richen further, but still prefer corporate bonds to government bonds.



Interest rate sensitivity is less defensive but still lower than the benchmark due to expensive valuations.

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

Sector	F	T	V	⊖	○	⊕	Rationale
Munis–Short-Term	■	■	■	—●—	○	—	Recent outperformance has led to expensive relative valuations.
Munis–Intermediate-Term	■	■	■	—●—	○	—	Valuations have richened over the past month and remain slightly above the 5-year average.
Munis–Long-Term	■	■	■	—●—	○	—	Long-term yields are more attractive than short-term, though longer duration may be a headwind if rates rise.
Munis–High-Yield	■	■	■	—●—	○	—	Valuations remain elevated, though additional yield remains a factor. Long duration may be a headwind with long-term rates at the bottom of their recent range.

Continued on next page.

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

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

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

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

Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate, and credit risk, as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

## FIXED INCOME (CONTINUED)

For fixed income allocations, we continue to emphasize a blend of high-quality intermediate bonds coupled with a small allocation to less interest rate-sensitive sectors such as bank loans or high-yield bonds for suitable investors. Expectations for pro-business policies from the incoming Trump administration have led to expensive valuations across spread sectors like investment-grade corporates, high yield, and emerging market debt. We maintain a cautious approach with credit-sensitive areas of the market, but a “coupon-clipping” environment may still aid suitable investors.

Sector	F	T	V	+	○	+	Rationale
Taxable Bonds – U.S.	Treasuries	■	■	■	●		Yields have fallen over the last month. Yield spread to overseas alternatives remains elevated relative to history, which may continue to keep a lid on rates in the near term.
	TIPS	■	■	■		●	TIPS may outperform Treasuries if inflation expectations rise, though interest rate sensitivity remains a headwind.
	Mortgage-Backed Securities (MBS)	■	■	■		●	Fed comments about potentially ending reinvestment of maturing MBS on the Fed balance sheet is a risk, though likely not an immediate one. Duration has extended further, but yield per unit of duration remains attractive relative to other high-quality options at this time.
	Investment-Grade Corporates	■	■	■		●	Spreads remain close to multi-year lows, but we still find incremental value in corporate bonds.
	Preferred Stocks	■	■	■		●	Fundamentals are firm for U.S. banks, but low yields, above-average valuations, and strong year-to-date performance warrant caution. Post-election bond sell-off and subsequent recovery showed the sector’s sensitivity to interest rates.
	High-Yield Corporates	■	■	■		●	Average yield spread remains near 3.9%. Spreads largely price in lowered default expectations and leave little room for error, but yields remain attractive. Oil weakness could be another negative driver.
	Bank Loans	■	■	■		●	Libor is now above 1%, the rate floor for many bank loans, making floating rates more attractive. Less energy exposure compared with high yield.
Taxable Bonds – Foreign	Foreign Bonds – Hedged	■	■	■		●	A move downward in yields over the last month has richened valuations. However, given easing bias of foreign central banks, the sector may be more resilient if U.S. rates move higher.
	Foreign Bonds – Unhedged	■	■	■	●		Potential currency volatility, low yields, and unattractive valuations are negatives.
	Emerging Market Debt	■	■	■		●	Spreads are near 5-year lows, and remain well below the 4% spread level where buying interest has emerged in the past. Potential for trade reform from the Trump administration remains a risk, as does profit taking from strong year-to-date performance.

Investing in foreign and emerging markets debt securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards.

Mortgage-backed securities are subject to credit, default, prepayment risk that acts much like call risk when you get your principal back sooner than the stated maturity, extension risk, the opposite of prepayment risk, market and interest rate risk.

Bank loans are loans issued by below investment-grade companies for short-term funding purposes with higher yield than short-term debt and involve risk.

Treasury Inflation-Protected Securities (TIPS) help eliminate inflation risk to your portfolio, as the principal is adjusted semiannually for inflation based on the Consumer Price Index (CPI)—while providing a real rate of return guaranteed by the U.S. government. Investing in foreign and emerging markets debt securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical, and regulatory risk, and risk associated with varying settlement standards.

## COMMODITIES & ALTERNATIVE ASSET CLASSES

Commodities have pulled back broadly in recent weeks as the markets balance the potential impacts of pro-growth policies out of Washington, D.C. and global supply-demand prospects. Domestic energy production has trended slightly higher as rig counts have risen in response to higher prices. Precious and industrial metals have reversed some of their recent gains amid a stronger U.S. dollar and rising Fed rate hike expectations. Long/short equity strategies have recently benefited from increasing levels of dispersion between sectors, as well as lower asset class correlations.

	Sector	F	T	V	⊖	○	⊕	Rationale
Commodities	Industrial Metals	■	■					Base metals may benefit from pro-growth policy proposals from Washington, D.C. as well as higher growth expectations and inflation, and firming Chinese demand.
	Precious Metals	■	■					Recent increase in interest rates and the potential for a quicker Fed rate hike campaign pose risks in the near term. However, the probability of higher inflation increases gold's attractiveness.
	Energy	■	■					Deregulation and higher crude prices could lead to further increases in domestic production. The agreement by OPEC and certain non-OPEC nations to cut production is helping to bring markets back into balance.
	Agricultural	■	■					Many crops' outlooks have been hurt by strong supply and inventory builds. Trade policy and currency are important factors to watch for agricultural prices.

	Sector	T E	C T	V O	⊖	○	⊕	Rationale
Alternatives	Long/Short Equity	■	■	■				The opportunity set in long/short equity investing has improved in 2017, as the decline in correlations between S&P 500 sector returns has provided a more favorable stock-picking environment. We continue to be cautious on more directional equity managers and favor those with conservative net exposures and a history of generating alpha from their short positioning.
	Event Driven	■	■	■				Corporate activity remains healthy, while an increase in interest rates has historically led to more attractive merger spreads. Change in political leadership should be closely followed for future impact on regulatory risks. Corporate cash repatriation may stimulate domestic deal activity. Prefer managers with ability to hedge equity beta and focus on idiosyncratic risk.
	Managed Futures	■	■	■				Maintain positive view on the benefits of managed futures within a broader portfolio. As current long-term trend systems favor long equity exposure; we prefer strategies employing counter and short-term trend following programs to balance risk.
	Global Macro	■	■	■				We maintain a constructive view of the global macro investing environment, as the potential for shifts in fiscal policy, increasing global political uncertainty, and economic divergences are all constructive components of an increasingly attractive opportunity set.

### LEGEND

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

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

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

**IMPORTANT DISCLOSURES**

All performance referenced is historical and is no guarantee of future results.

There is no assurance that the techniques and strategies discussed are suitable for all investors or will yield positive outcomes. The purchase of certain securities may be required to affect some of the strategies.

**Stock and Pooled Investment Risks**

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

**Bond and Debt Equity Risks**

Government bonds and 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. However, the value of fund shares is not guaranteed and will fluctuate.

**Alternative Risks**

Currency risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

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

Event driven strategies, such as merger arbitrage, consist of buying shares of the target company in a proposed merger and fully or partially hedging the exposure to the acquirer by shorting the stock of the acquiring company or other means. This strategy involves significant risk as events may not occur as planned and disruptions to a planned merger may result in significant loss to a hedged position.

Managed futures strategies use systematic quantitative programs to find and invest in positive and negative trends in the futures markets for financials and commodities. Futures and forward trading is speculative, includes a high degree of risk that the anticipated market outcome may not occur, and may not be suitable for all investors.

**DEFINITIONS**

The simple moving average is an arithmetic moving average that is calculated by adding the closing price of the security for a number of time periods and then dividing this total by the number of time periods. Short-term averages respond quickly to changes in the price of the underlying, while long-term averages are slow to react.

The Beige Book is a commonly used name for the Federal Reserve's (Fed) report called the Summary of Commentary on Current Economic Conditions by Federal Reserve District. It is published just before the Federal Open Market Committee (FOMC) meeting on interest rates and is used to inform the members on changes in the economy since the last meeting.

Technical Analysis is a methodology for evaluating securities based on statistics generated by market activity, such as past prices, volume and momentum, and is not intended to be used as the sole mechanism for trading decisions. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns and trends. Technical analysis carries inherent risk, chief amongst which is that past performance is not indicative of future results. Technical Analysis should be used in conjunction with Fundamental Analysis within the decision making process and shall include but not be limited to the following considerations: investment thesis, suitability, expected time horizon, and operational factors, such as trading costs are examples.

London Interbank Offered Rate (Libor): An interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market. The Libor is fixed on a daily basis by the British Bankers' Association. The Libor is derived from a filtered average of the world's most creditworthy banks' interbank deposit rates for larger loans with maturities between overnight and one full year.

The PE 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 PE ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower PE ratio.

Alpha measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive (negative) Alpha indicates the portfolio has performed better (worse) than its Beta would predict.

Beta measures a portfolio's volatility relative to its benchmark. A Beta greater than 1 suggests the portfolio has historically been more volatile than its benchmark. A Beta less than 1 suggests the portfolio has historically been less volatile than its benchmark.

**INDEX DEFINITIONS**

All indexes are unmanaged and cannot be invested into directly.

The S&P 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 Bloomberg Barclays U.S. Municipal Bond Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

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