



January 2011

# The Search for Income

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## Summary

The *Search for Income* publication is a quarterly guide to our best ideas for income-producing securities and strategies. This publication offers active and passive income suggestions from our current mutual fund recommended list, along with suggested exchange-traded products (ETPs). Many of the asset classes/sectors can be used individually or in a diversified portfolio, and several are currently employed in our model portfolios.

## A Bittersweet Reprieve

The end of 2010 was bittersweet for investors. Yields finished the quarter notably higher, easing the task of income-seeking investors, but the higher yields came at the expense of price declines for all but one of our favorite income-producing ideas. On a positive note though, higher risk the extra income provided by our favorite income-producing sectors helped each outperform comparable maturity Treasury bonds. Despite fourth quarter weakness, all of our income-producing ideas enjoyed good performance for all of 2010 as the improving economy boosted the prices of more economically sensitive fixed income sectors, such as High-Yield Bonds, Emerging Market Debt (EMD), Investment-Grade Corporate Bonds, and Preferred Stocks.

Yields rose during the fourth quarter but remain below year-ago levels, suggesting income investors should anticipate lower total returns in 2011. Furthermore, we believe valuations on High-Yield Bonds, EMD, Investment-Grade Corporate Bonds, and Preferred Stocks are approaching fair value. Therefore, further improvement in valuations is likely to be limited, leaving the bulk of performance to income generation. We realize that most income-seeking investors remain focused on yield, but acknowledging lower total returns is important to help set investor expectations.

Among more economically sensitive bond sectors, High-Yield Bonds stand out as one of our favorite investments and a source of income generation. Currently, our best ideas for income generation are the following:

- High-Yield Bonds (Taxable and Tax-Free)
- Emerging Market Debt (EMD)
- Investment-Grade Corporate Bonds (intermediate- and long-term)
- Preferred Stocks
- Build America Bonds (BABs)

Our bias within fixed income remains High-Yield Bonds as the sector has provided a good combination of yield and price stability. Taxable High-Yield Bonds bucked the trend of falling high-quality bond prices and actually increased, helping the broad high-yield bond market return 3.2% during the fourth quarter, as measured by the Barclays High-Yield Bond Index. This is in contrast to a 1.3% decline for the Barclays Aggregate Bond Index, which is considered a proxy for the entire bond market. High-yield issuers also benefited from good earnings growth, which further improved key credit metrics. In addition, defaults continued to decline, and we expect them to decline further in 2011. Additionally, high-yield issuers have done an excellent job of refinancing near-term maturities and hold substantial cash on hand—we do not expect a near-term pick up in defaults, even if the domestic economy continues to grow slowly.

EMD issuers continued to benefit from another quarter of strong economic growth, but the asset class was impacted by rising interest rates. We believe EMD valuations have approached fair value. Since the beginning of 2009, both higher interest income and cheap valuations enabled EMD to absorb

The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

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

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

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.

Preferred Stock investing involves risk which may include loss of principal.

any jump in interest rates. However, with valuations at roughly fair value, interest income provides the main buffer to interest rate risk. Emerging Market (EM) countries are expected to lead global economic growth in 2011, suggesting valuations will likely remain firm while investors continue to reap an attractive yield that exceeds comparable Treasuries by 2.0%.

Investment-Grade Corporate Bond valuations are attractive but approaching fair value. Still, with an average yield advantage of 1.6% to comparable Treasury bonds (as of January 13, 2011), they remain the best income-producing option among high-quality domestic bonds, especially considering the low yields on other high-grade bond sectors, such as Treasuries and Mortgage-Backed Securities (MBS). The high-quality nature of Investment-Grade Corporate Bonds make them more sensitive to future rises in interest rates, and this remains a risk going forward. We do not expect bond yields to soar higher in 2011, and still expect positive total returns in the low-to mid-single-digit range.

We continue to find Preferred Stocks attractive, and the asset class has continued to be a good income generator. Like other sectors, valuations improved over the quarter and yields remain attractive compared to similarly rated Investment-Grade Corporate Bonds. Financial regulatory reform posed a challenge to preferred stockholders in 2010, but the final legislation was a positive for Preferred Stocks. Financial institutions, which comprise the bulk of preferred issuers, have few incentives to issue Preferred Stock under new regulation and, at the same time, will be required to hold more regulatory capital. The higher capital buffer, which reduces the risk of dividend suspension, provides a favorable fundamental tailwind, while limited new issuance creates a favorable supply-demand balance for existing investors. Furthermore, Preferred Stock prices exhibited surprising resilience to rising bond yields during the quarter and we view the sector in a more favorable light.

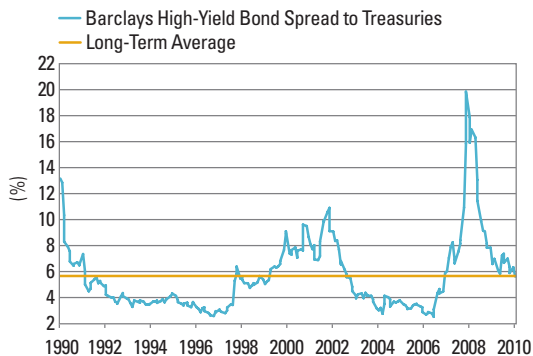
Build America Bonds (BABs) remain a viable income option after a difficult quarter and the expiration of the BABs program on December 31, 2010. Due to their longer-term nature, BABs are among the most interest rate sensitive of our income-producing ideas. However, with high overall credit ratings and an average yield of roughly 6.5%, according to Wells Fargo Index data, we believe BABs can still be considered for income generation.

Another strategy to consider would be the income-focused theme in Model Wealth Portfolios, which combines multiple asset classes and sectors. The goals of this portfolio are to seek excess total return and, secondarily, to generate significantly higher overall yields than the LPL Financial Research blended benchmarks.

### Build America Bonds (BABs)

BABs originated from the American Recovery and Reinvestment Act (ARRA) to allow municipalities to issue taxable bonds for qualifying infrastructure projects. By expanding the investor base to taxable investors, BAB issuance was intended to facilitate municipalities' ability to obtain funding for important infrastructure projects given still uncertain markets in the wake of the financial crisis. BABs have been a success and the market has grown to \$184 billion, according to *The Bond Buyer*.

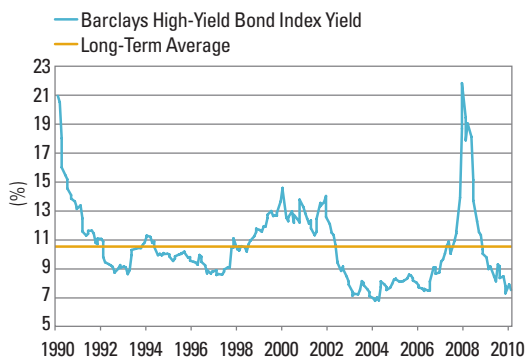
**1 A Declining Default Rate Bodes Well for Narrower Yield Spreads and Thus Higher Valuations**



Source: Barclays, Bloomberg, LPL Financial 12/31/10

The Barclays High-Yield Bond Index is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.

**2 Yields Are Low by Historical Comparison but High Relative to Low High-Grade Bond Yields**



Source: Barclays, Bloomberg, LPL Financial 12/31/10

The Barclays High-Yield Bond Index is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.

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.

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 a fund shares is not guaranteed and will fluctuate.

## Favorite Sector/Asset Class Ideas

### High-Yield Bonds (Taxable And Tax-Free)

High-Yield is an obvious asset class to consider for income-seeking investors. After a strong 2009, taxable High-Yield Bonds performed well in 2010. Valuations improved during the fourth quarter, but we continue to find High-Yield Bonds attractive. The average yield advantage, or spread relative to Treasuries, stood at 5.6% as of January 11, 2011, roughly in line with the historical average of 5.8%. Declining defaults continue to support valuations, however. The global default rate declined to 3.1% at the end of 2010, from a peak of 13% at the end of 2009, and Moody's has forecast a further decline to 1.9% by year-end 2011. A projected decline in the default rate, which we agree with, provides a favorable backdrop for High-Yield Bonds. Furthermore, high-yield issuers have taken advantage of low interest rates and done an excellent job of refinancing existing debt obligations. With few maturing bonds coming due in 2011, we believe the risk of an unexpected surge in defaults is limited.

Since default rates and High-Yield Bond spreads are highly correlated, the average High-Yield Bond spread to Treasuries, at 5.6%, is attractive. In our view, this spread level more than compensates for the level of defaults [Chart 1].

The average yield of High-Yield Bonds (7.2% as of January 11, 2011) is below the 20-year average of 10.6% [Chart 2]. In a fixed income world where many bonds offer historically low yields, High-Yield Bonds still stand out. Like Investment-Grade Corporate Bonds, High-Yield Bond issuers have posted better-than-expected earnings and benefited from economic improvement. We anticipate this trend may continue to provide a favorable fundamental backdrop for high-yield investors in 2011.

For diversification purposes and to reduce individual security risk, LPL Financial Research strongly recommends investors use a mutual fund or ETP (Exchange-Traded Product) for exposure to this asset class. In general, high-yield funds have provided yields between 5.5% and 8.5% (according to Morningstar data as of 12/31/10), but, of course, entail greater credit risk relative to Investment-Grade Bonds.

Higher-tax-bracket investors may wish to consider Tax-Free High-Yield Bonds. High-Yield Municipal Bonds declined during the fourth quarter as the sector could not escape the broader sell-off in the broad municipal bond market. Thanks to a strong start to 2010, however, High-Yield Municipal Bonds still finished 2010 firmly in positive territory, and we continue to find the asset class attractive. Yield spreads, a measure of valuation, remain wide on a historical basis. Municipal High-Yield Bonds are also trading cheaper relative to Taxable High-Yield, given historical defaults and after taking into account tax effects. Unlike the taxable market, we expect municipal defaults to continue to increase. However, the pace of defaults has begun to decline with \$1.5 billion in municipal bonds defaulting over the first half of 2010 compared to \$4.5 billion over the first half of 2009, according to the *Distressed Debt Newsletter*, (year-end 2010 data

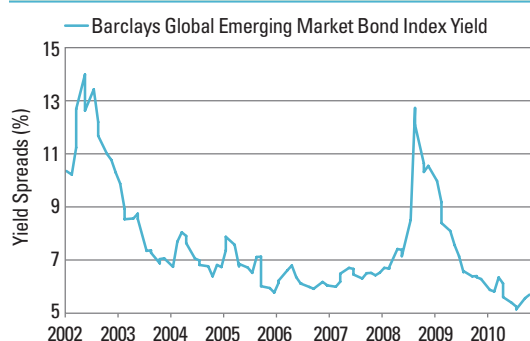


This information is not intended to be a substitute for specific individualized tax, legal or investment planning advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

is not available yet). Furthermore, we believe defaults will continue to be concentrated in more speculative issues allowing an investment manager ample room to find attractive investments. According to *Municipal Market Advisors*, 80% of defaults since July 1, 2009, have come from bonds that did not have any rating at all (non-rated). Furthermore, housing-related bond issues comprise 72% of all defaults. Given the speculative excesses in the housing market, the fact that housing-related issues represent the largest number of defaults is no surprise.

Please be aware that the vast majority of tax-free high-yield funds generate income that is subject to AMT (Alternative Minimum Tax). Again, we recommend investors consider a mutual fund to gain exposure. Please contact fund companies directly or obtain a copy of the prospectus for the percentage of income subject to AMT.

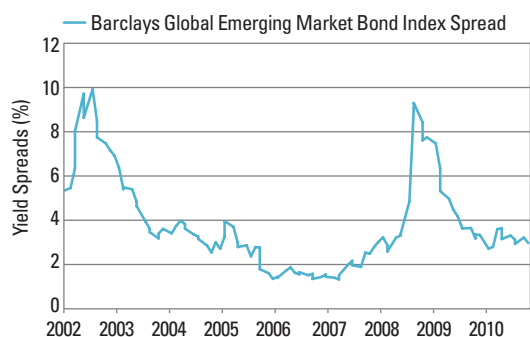
### 3 EMD Yields Imply Lower Returns Going Forward



Source: Barclays, Bloomberg, LPL Financial 12/31/10

The Barclays Global EM Bond Index is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.

### 4 Yield Spreads Remain Above the Narrowest Levels of the Past Decade



Source: Barclays, Bloomberg, LPL Financial 12/31/10

The Barclays Global EM Bond Index is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.

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

## Emerging Market Debt (EMD)

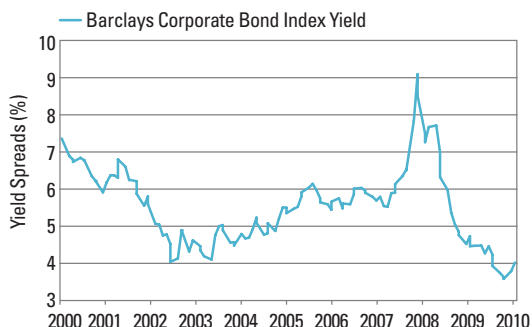
Emerging market economies weathered the financial crisis better than most developed countries and continue to exhibit the strongest economic growth globally. Investor interest in EMD has increased as the European debt problem highlighted the rising debt burdens facing many developed European countries, as well as the United States. Most EMD issuers have very manageable debt burdens and continue to benefit from stronger domestic economic growth.

EMD outperformed Treasuries over the fourth quarter of 2010, but still witnessed price declines as the sector could not escape the sharp bond market sell-off during the quarter. Still, investors were drawn to improving fundamentals, attractive valuations, and higher yields as evidenced by the higher valuations. We find current valuations fair to modestly attractive, and therefore we believe EMD performance will slow going forward [Charts 3 and 4].

As of January 11, 2011, the current yield of the Barclays Global Emerging Markets Bond Index is 5.7%. This is attractive for income generation, particularly given still improving fundamentals. EMD issuers are likely to continue to benefit from faster economic growth than their developed nation counterparts. EMD issuers also possess better credit characteristics: debt-to-GDP ratios are lower than developed nations and most EMD issuers possess large currency reserves. A potential risk is that stronger economic growth may result in emerging market central banks increasing interest rates, but so far emerging market central banks that have raised rates are taking a gradual approach. However, active fund managers have some latitude to offset this risk by taking select emerging market currency exposure, which may benefit from a weaker US dollar as the Federal Reserve (Fed) attempts to stimulate the economy with large-scale bond purchases. In addition, select emerging market countries are likely to revalue their currency modestly higher rather than use interest rate increases to keep local economies from overheating.



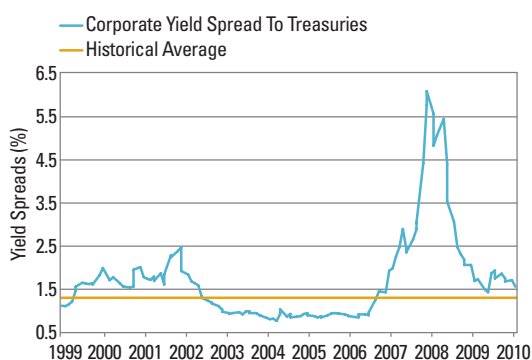
**5 Average Corporate Bond Yields Are Near Record Lows but Remain a High-Quality Income Option**



Source: Barclays, Bloomberg, LPL Financial 12/31/10

The Barclays Corporate Bond Index is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.

**6 Corporate Bond Yield Spreads Are Attractive in Our View and Above the Historical Average**



Source: Barclays, Bloomberg, LPL Financial 12/31/10

The market value of Corporate Bonds will fluctuate, and if the bond is sold prior to maturity, the investor's yield may differ from the advertised yield.

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 a fund shares is not guaranteed and will fluctuate.

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.

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

**Investment-Grade Corporate Bonds**

The average Investment-Grade Corporate Bond yield increased over the fourth quarter of 2010, but still remains low by historical comparison [Chart 5]. Such a yield level may not be exciting for many investors, but yields vary depending on the specific investment used. We believe Investment-Grade Corporate Bonds can still be used as an income-producing option in fixed income markets considering historically low Treasury and Mortgage-Backed Securities (MBS) yields. As of January 11, 2011, the average Investment-Grade Corporate Bond yield spread to Treasuries was 1.6%, still above the 1.3% historical average, a considerable advantage over Treasuries [Chart 6]. We believe further gains to corporate credit quality will be difficult to achieve but expect corporations to maintain credit quality achievements of the past two years.

**Preferred Stocks**

Preferred Stocks provide higher current yields than comparably rated Corporate Bonds. Although called "stocks," Preferred Stocks have bond characteristics, and income-seeking investors should consider the asset class. Like other credit-sensitive sectors, Preferred Stocks followed up a strong 2009 rebound with an impressive 2010. Nonetheless, both yields and valuations remain attractive. As of January 11, 2011, the preferred market, as measured by the Merrill Lynch Hybrid Securities Index, had an average yield of 5.9%.

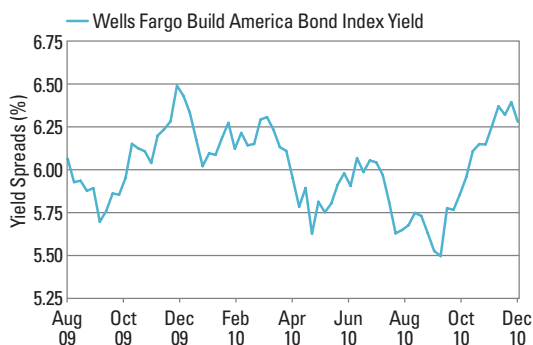
Previous concerns about Preferred Stocks regarding dividend deferral and conversion to common stock diminished substantially over the past two years and may no longer be an issue. Financial companies, which comprise roughly 80% of the preferred market, have been steadily improving capital ratios. The higher capital ratios, in turn, create a bigger buffer against potential capital losses. Third quarter earnings season revealed that large financial institutions, on balance, saw a decline in non-performing assets on their loan books, suggesting the first quarter of 2010 might have witnessed the peak in credit losses. Higher capital ratios, in conjunction with decreased credit risk, have benefited preferred securities and suggest forced conversion into Common Stock may no longer be as much of a risk.

Financial regulatory reform has turned out to be a modest positive for Preferred Stocks. New bank capital rules require some financial institutions to retire some preferred securities over the coming five years. Retiring the issues will require companies to redeem preferred securities at par value. Since issuance of new Preferred Stocks has been minimal, the potential reductions could create a favorable supply-demand balance. The demand for yield should help support a shrinking base of preferred securities.

Over the longer term, however, investors should realize that interest rate increases remain a risk even though Preferred Stocks exhibited good resiliency during the fourth quarter of 2010. Since Preferred Stocks are perpetual or have extremely long 30- to 50-year maturities, they possess interest rate sensitivity. The current yield advantage to Treasuries will help offset higher interest rate risk, but investors need to be aware of this risk.



## 7 Build America Bonds Can Offer Diversification and Yield to Income-Seeking Investors



Source: Wells Fargo, Bloomberg, LPL Financial 01/13/11

The Wells Fargo Build America Bond Index is an unmanaged index, which cannot be invested into directly. All indices are unmanaged and cannot be invested into directly. Past performance is no

## Build America Bonds

The BABs program expired at the end of 2010 after exclusion from tax-cut extension legislation that was signed into law in late 2010. Despite the expiration, BABs prices have proven resilient in early 2011 as a scarcity premium has begun to develop. Born from the \$787 billion ARRA, BABs have been well received as taxable bond investors have embraced BABs as a diversification investment to existing holdings of Corporate, Treasury, and Mortgage-Backed Bonds in their portfolios. BABs are included in the widely followed Barclays Capital Bond Indexes, and therefore are subject to regular purchases from passive investors who closely mimic benchmark positions.

BABs are not without risks, and interest rate risk remains the greatest potential threat. The vast majority of issuance is long-term, with 90% of BABs maturing beyond 10 years according to The Bond Buyer data. The longer-term maturities of BABs make them among the more sensitive to interest rate changes within the bond market. The Barclays Build America Bond Index declined 6.6% during the fourth quarter of 2010 as interest rates rose, tempering gains for BABs for the full year of 2010. We do not expect such a sharp and rapid rise in interest rates in 2011, but price declines associated with rising interest rates will offset the benefit of higher interest income.

In addition, the lack of new issuance may increase BABs volatility in 2011. Bond dealers may be less willing to participate in actively trading BABs without a steady flow of new bonds. This may lead to illiquid trading conditions that may exacerbate price fluctuations in both up and down markets.

In a low-yield world, BABs remain an attractive option for income-seeking investors. Following recent bond market weakness, the 6.3% average yield of BABs, according to Wells Fargo index data, remains near the 6.5% all-time high set in December 2009 [Chart 7]. The yield advantage to Treasuries, although now narrower, remains substantial at over 2.0% above comparable maturity Treasuries. Municipal budgets, and therefore credit quality, will likely remain under pressure for most of 2011, but we do not foresee widespread defaults. Municipal defaults remain concentrated among the most speculative issues, a trend we expect to continue. BABs are among the highest quality municipal bonds and we expect them to be insulated from significant credit quality deterioration. Since most BABs are issued for qualifying infrastructure projects, the essential service nature may provide an extra level of security.

The issuance of Build America Bonds began in April of 2009. They were authorized by the ARRA economic stimulus of 2009 and can be issued for qualifying infrastructure projects. They are taxable municipal bonds and are considered a category of bonds.

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

## Implementation

### Model Wealth Portfolios (MWP) – Income Focused

In this publication, we highlight our favorite individual sector and asset class ideas for income. However, with Model Wealth Portfolios (MWP), LPL Financial Research combines multiple asset classes and sectors to create a complete portfolio that seeks excess return and, secondarily, generates significantly higher overall yields than the LPL Financial blended benchmarks.

Within these Income Focused Models, we modify our asset allocation models to increase their income-generating ability. Fund selection is focused on identifying those mutual funds that have historically performed very well with a good portion of their performance coming from income. The following table highlights relevant statistics of MWP Income Focused Models.

#### Income Focused Model Wealth Portfolio Performance

Model Portfolios	3-Months	YTD	1-Year	2-Year	Annualized Since 3/1/08
<b>Aggressive Growth</b>					
MWP Income Focused	5.85%	9.34%	13.69%	13.69%	-1.56%
AG Benchmark	6.44%	11.00%	16.13%	16.13%	1.28%
<b>+ / - Benchmark</b>	<b>-0.60%</b>	<b>-1.67%</b>	<b>-2.44%</b>	<b>-2.44%</b>	<b>-2.84%</b>
<b>Growth</b>					
MWP Income Focused	8.40%	13.72%	13.72%	20.33%	-1.33%
G Benchmark	9.02%	14.81%	14.81%	19.13%	2.23%
<b>+ / - Benchmark</b>	<b>-0.63%</b>	<b>-1.08%</b>	<b>-1.08%</b>	<b>1.21%</b>	<b>-3.56%</b>
<b>Growth With Income</b>					
MWP Income Focused	6.51%	12.50%	12.50%	20.36%	0.24%
G&I Benchmark	6.41%	12.89%	12.89%	15.98%	3.32%
<b>+ / - Benchmark</b>	<b>0.09%</b>	<b>-0.40%</b>	<b>-0.40%</b>	<b>4.38%</b>	<b>-3.08%</b>
<b>Income With Moderate Growth</b>					
MWP Income Focused	4.62%	11.73%	11.73%	20.50%	2.43%
IMG Benchmark	3.86%	10.68%	10.68%	12.60%	4.10%
<b>+ / - Benchmark</b>	<b>0.76%</b>	<b>1.05%</b>	<b>1.05%</b>	<b>7.90%</b>	<b>-1.67%</b>
<b>Income With Capital Preservation</b>					
MWP Income Focused	3.51%	12.76%	12.76%	20.88%	4.58%
ICP Benchmark	1.36%	8.26%	8.26%	9.05%	4.62%
<b>+ / - Benchmark</b>	<b>2.15%</b>	<b>4.50%</b>	<b>4.50%</b>	<b>11.83%</b>	<b>-0.04%</b>

Source: FactSet, LPL Financial 12/31/10

Benchmark Indices	Aggressive Growth	Growth	Growth with Income	Income with Moderate Growth	Income with Capital Preservation
Russell 3000 Index	95%	80%	60%	40%	20%
Barclays Aggregate Bond Index	0%	15%	35%	53%	70%
Cash	5%	5%	5%	7%	10%

For further information about the model portfolios, please contact your LPL Financial advisor.

All indices are unmanaged and cannot be invested into directly.

\*Please refer to pages 14 & 15 for index descriptions and investment objectives.



Income Focused Model Wealth Portfolio Mutual Funds

Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Expense Ratio	30-Day SEC Yield	Web Address
Columbia Marsico 21st Century Z	NMYAX	17.13	3.49	5.60	3.69	4/10/00	1.06	N/A	www.columbiainvestments.com
MainStay Large Cap Growth I	MLAIX	15.65	5.35	N/A	7.46	4/1/05	0.99	N/A	www.mainstayfunds.com
Oppenheimer Rising Dividends Y	OYRDX	13.54	4.10	3.44	6.02	12/16/96	0.80	N/A	www.oppenheimerfunds.com
Parnassus Equity Income - Inv	PRBLX	8.87	7.17	6.87	9.92	9/1/92	0.99	N/A	www.parnassus.com
Allianz NFJ Dividend Value Instl	NFJEX	13.57	1.42	6.72	7.10	5/8/00	0.70	N/A	www.allianzinvestors.com
Eagle Mid Cap Stock I	HMCJX	20.86	5.07	N/A	4.70	6/6/06	0.79	N/A	www.eagleasset.com
Royce Dividend Value Invmt	RDVIX	30.46	8.23	N/A	6.12	9/14/07	1.69	N/A	www.roycefunds.com
Cohen & Steers Realty Income A	CSEIX	26.63	2.85	9.84	8.64	9/2/97	1.39	N/A	www.cohenandsteers.com
Oppenheimer Developing Markets Y	ODVYX	27.39	15.35	N/A	18.05	9/7/05	1.04	N/A	www.oppenheimerfunds.com
T. Rowe Price Emerging Markets Bond	PREMX	13.28	8.20	11.67	12.52	12/30/94	0.97	6.12	www.troweprice.com
Loomis Sayles Bond Instl	LSBDX	13.58	8.03	9.89	10.43	5/16/91	0.64	4.77	www.loomissayles.com
Principal Preferred Securities Inst	PPSIX	16.49	5.47	N/A	5.64	5/1/02	0.75	6.40	www.principal.com
Federated Income Instl	FICMX	4.18	5.54	5.33	7.84	3/30/82	0.70	3.51	www.federatedinvestors.com
Pioneer Global High Yield Y	GHYYX	18.51	7.50	N/A	7.50	12/27/05	0.73	9.11	www.pioneerinvestments.com
RS Global Natural Resources A	RSNRX	25.52	7.34	16.38	11.86	11/15/95	1.50	N/A	www.rsim.com

Source: Morningstar Direct, LPL Financial 12/31/10

30-day yield: The fund's 30-day yield is based on yield to maturity of a fund's investments over a 30-day period and not on the dividends paid by the fund, which may differ.

Gross Expense Ratio: The gross expense ratio is the fund's total annual operating expense ratio. It is gross of any fee waivers or expense reimbursements.

The performance data quoted represents past performance. Past performance is not an indicator of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted. To obtain current month-end performance information, please refer to manager's website displayed in the table above.

The performance data quoted reflects the reinvestment of dividends and capital gains, is net of expenses and does not reflect the maximum advisory fee of 3.0%. Such fee, if taken into consideration, will reduce the performance quoted above.

Income Focused Model Wealth Portfolio Weights (As of 12/31/10)

Fund Name	Ticker	LPL Financial Statement Asset Class	Aggressive Growth (%)	Growth (%)	Growth w/ Income (%)	Income w/ Moderate Growth (%)	Income w/ Capital Preservation (%)
Columbia Marsico 21st Century	NMYAX	Large Growth	11.5	11	8.5	5	3.5
Mainstay Large Growth	MLAIX	Large Growth	11.5	11	8.5	5	3.5
Oppenheimer Rising Dividends	OYRDX	Large Blend	20	10	9	3	0
Parnassus Equity Income	PRBLX	Large Value	3	3.5	3	3	0
Allianz NFJ Dividend Value	NFJEX	Large Value	18	19	13	7	6
Heritage Mid Cap Stock	HMCJX	Mid Growth	4	3	0	0	0
Royce Dividend Value	RDVIX	Small Value	4	4	0	0	0
Cohen and Steers Realty Income	CSEIX	REITs	7	7	7	5	5
Oppenheimer Developing Markets	ODVYX	Emerging Markets	2	0	0	0	0
T. Rowe Price Emerging Markets Bond	PREMX	Emerging Market Bond	0	3	9	11	13
Loomis Sayles Bond	LSBDX	Intermediate/Long Bond	0	2	5	11	20
Principal Preferred Securities	PPSIX	Intermediate/Long Bond	0	1	2	4	8
Federated Income	FICMX	Mortgage-Backed Securities	0	0	0	9	3
Pioneer Global High Yield	GHYYX	High-Yield Bond	0	9	16	20	30
RS Investments Global Natural Resources	RSNRX	Sector	5	5.5	5	4	0
Cash*		Cash	14	11	14	13	8
<b>TOTAL</b>			<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

\* The cash portion of this portfolio is represented by money market instruments.

## Mutual Fund and ETP Income Producing Ideas

The following list comprises our suggestions for mutual funds and ETPs that provide exposure to the income-producing sectors we have outlined in this report.

### Taxable High-Yield Bond Exposure – Mutual Funds

Fund/Model Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield
<b>Intermediate/Long High-Yield Bond</b>								
Artio Global High Income I	JHYIX	12.55	9.05	N/A	10.89	1/30/03	0.75	N/A
MainStay High Yield Corporate Bond I	MHYIX	12.45	6.94	N/A	7.27	1/2/04	0.83	5.72
Pioneer Global High Yield Y	GHYYX	18.51	7.50	N/A	7.50	12/27/05	0.73	9.11
PIMCO High Yield Instl	PHIYX	14.24	7.35	7.71	8.34	12/16/92	0.56	5.86
Delaware High-Yield Opportunities A	DHOAX	16.31	8.07	8.26	7.27	12/30/96	1.25	6.83
Pax World High Yield	PAXHX	10.35	7.20	6.96	5.89	10/8/99	1.04	N/A
<b>Barclays Capital US High Yield Bond</b>		<b>15.12</b>	<b>8.91</b>	<b>8.88</b>	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 12/31/10

### Taxable High-Yield Bond Exposure – ETPs

Exchange-Traded Product	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield	Mkt Ret Annlzd 1-Year	Mkt Ret Annlzd 5-Year	Mkt Ret Annlzd 10-Year	Mkt Ret Annlzd Since Incep
<b>Taxable High-Yield Bonds</b>												
iShares iBoxx \$ High Yield Corporate Bd	HYG	12.08	N/A	N/A	5.23	4/4/07	0.50	7.15	11.25	N/A	N/A	5.09
SPDR Barclays Capital High Yield Bond	JNK	13.99	N/A	N/A	6.13	11/28/07	0.40	8.39	11.65	N/A	N/A	5.21
<b>Barclays Capital US High Yield Bond</b>		<b>15.12</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 12/31/10

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For the most recent month end performance please visit the respective fund's website: JHYIX: [www.artioglobal.com](http://www.artioglobal.com); MHYIX: [www.nylim.com/portal/site/MainStay](http://www.nylim.com/portal/site/MainStay); GHYYX: [www.pioneerinvestments.com](http://www.pioneerinvestments.com); PHIYX: [www.pimcofunds.com](http://www.pimcofunds.com); DHOAX: [www.delawarefunds.com](http://www.delawarefunds.com); PAXHX: [www.paxfund.com](http://www.paxfund.com); HYG: [www.ishares.com](http://www.ishares.com); JNK: [www.spdrs.com](http://www.spdrs.com).

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Gross Expense Ratio: The gross expense ratio is the fund's total annual operating expense ratio. It is gross of any fee waivers or expense reimbursements.

### Tax-Free High-Yield Bond Exposure – Mutual Funds

Fund/Model Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield
<b>Tax Free High-Yield Bonds</b>								
Nuveen High Yield Municipal Bond I	NHMRX	3.81	-1.83	3.89	3.58	6/7/99	0.69	7.92
Franklin High Yield Tax-Free Inc Adv	FHYVX	2.90	3.26	4.75	3.22	1/3/06	0.53	5.32
Oppenheimer Rochester National Muni A	ORNAX	1.76	-4.84	1.95	3.27	10/1/93	1.25	7.40
<b>Barclays High Yield Municipal</b>		<b>7.79</b>	<b>2.48</b>	N/A	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 12/31/10

### Tax-Free High-Yield Bond Exposure – ETPs

Exchange-Traded Product	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield	Mkt Ret Annlzd 1-Year	Mkt Ret Annlzd 5-Year	Mkt Ret Annlzd 10-Year	Mkt Ret Annlzd Since Incep
<b>Tax Free High-Yield Bonds</b>												
Market Vectors High-Yield Muni ETF	HYD	2.62	N/A	N/A	14.03	2/4/09	0.65	N/A	-0.93	N/A	N/A	11.38
<b>Barclays High Yield Municipal</b>		<b>7.79</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 12/31/10

### Emerging Market Debt Exposure – Mutual Funds

Fund/Model Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield	Mkt Ret Annlzd 1-Year	Mkt Ret Annlzd 5-Year	Mkt Ret Annlzd 10-Year	Mkt Ret Annlzd Since Incep
<b>Emerging Market Bonds</b>												
T. Rowe Price Emerging Markets Bond	PREMX	13.28	8.20	11.67	12.52	12/30/94	0.97	6.12				
MFS Emerging Markets Debt A	MEDAX	11.20	8.70	13.32	12.23	3/17/98	1.19	4.50				
<b>JPM EMBI Global</b>		<b>12.04</b>	<b>8.36</b>	<b>10.29</b>	N/A	N/A	N/A	N/A				

Source: Morningstar Direct, LPL Financial 12/31/10

### Emerging Market Debt Exposure – ETPs

Exchange-Traded Product	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield	Mkt Ret Annlzd 1-Year	Mkt Ret Annlzd 5-Year	Mkt Ret Annlzd 10-Year	Mkt Ret Annlzd Since Incep
<b>Emerging Market Bonds</b>												
PowerShares Emerging Mkts Sovereign Debt	PCY	11.72	N/A	N/A	7.92	10/11/07	0.50	4.96	10.83	N/A	N/A	8.50
iShares JPMorgan USD Emerg Markets Bond	EMB	11.47	N/A	N/A	7.85	12/17/07	0.60	5.09	10.39	N/A	N/A	7.71
<b>JPM EMBI Global</b>		<b>12.04</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 12/31/10

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For the most recent month end performance please visit the respective fund's website: NHMRX, ORNAX: [www.oppenheimerfunds.com](http://www.oppenheimerfunds.com); FHYVX: [www.franklin-templeton.com](http://www.franklin-templeton.com); PREMX: [www.troweprice.com](http://www.troweprice.com); MEDAX: [www.mfs.com](http://www.mfs.com); HYD: [www.ishares.com](http://www.ishares.com); PCY: [www.powershares.com](http://www.powershares.com); EMB: [www.ishares.com](http://www.ishares.com)

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Gross Expense Ratio: The gross expense ratio is the fund's total annual operating expense ratio. It is gross of any fee waivers or expense reimbursements.

### Investment-Grade Corporate Bond Exposure – Mutual Funds

Fund/Model Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield
<b>Intermediate/Long High Quality Bond</b>								
Loomis Sayles Investment Grade Bond Y	LSIIX	11.52	8.36	8.96	8.72	12/31/96	0.56	4.28
Dodge & Cox Income	DODIX	7.17	6.45	6.46	7.71	1/3/89	0.43	3.60
Federated Total Return Bond Instl	FTRBX	7.35	6.38	6.16	6.63	10/1/96	0.45	3.59
Metropolitan West Total Return Bond I	MWTIX	11.65	8.10	7.13	7.37	3/31/00	0.51	3.96
Columbia Intermediate Bond Z	SRBFX	7.91	5.79	6.05	8.03	12/5/78	0.65	3.89
Loomis Sayles Bond Instl	LSBDX	13.58	8.03	9.89	10.43	5/16/91	0.64	4.77
<b>Barclays Capital Aggregate</b>		<b>6.54</b>	<b>5.80</b>	<b>5.84</b>	N/A	N/A	N/A	N/A
<b>Long High Quality Bond</b>								
Vanguard Long-Term Investment-Grade	VWESX	10.71	5.62	7.09	8.56	7/9/73	0.26	5.52
<b>Barclays Capital Govt Credit Long</b>		<b>10.16</b>	<b>5.92</b>	<b>7.11</b>	N/A	N/A	N/A	N/A
<b>Eclectic Fixed Income</b>								
Delaware Diversified Income A	DPDFX	7.75	8.45	8.38	8.33	12/29/97	0.98	3.65
Franklin Strategic Income Adv	FKSAX	11.24	7.53	8.14	7.71	8/12/99	0.63	5.33
<b>Barclays Capital Aggregate</b>		<b>6.54</b>	<b>5.80</b>	<b>5.84</b>	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 12/31/10

### Investment-Grade Corporate Bond Exposure – ETPs

Exchange-Traded Products	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield	Mkt Ret Annlzd 1-Year	Mkt Ret Annlzd 5-Year	Mkt Ret Annlzd 10-Year	Mkt Ret Annlzd Since Incep
<b>Intermediate/Long High Quality Bond</b>												
iShares Barclays Intermediate Credit Bd	CIU	7.49	N/A	N/A	6.11	1/5/07	0.20	3.00	6.48	N/A	N/A	6.07
iShares iBoxx \$ Invest Grade Corp Bond	LQD	9.15	5.63	N/A	5.89	7/22/02	0.15	4.29	8.90	5.55	N/A	5.86
SPDR Barclays Capital Interm Credit Bond	ITR	7.34	N/A	N/A	9.21	2/10/09	0.15	2.95	6.35	N/A	N/A	7.50
Vanguard Intermediate-Term Bond ETF	BIV	9.53	N/A	N/A	7.34	4/3/07	0.12	3.28	9.14	N/A	N/A	7.28
<b>Barclays Capital Aggregate</b>		<b>6.54</b>	<b>5.80</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Long High Quality Bond</b>												
SPDR Barclays Capital Long Credit Bond	LWC	9.80	N/A	N/A	18.10	3/10/09	N/A	5.50	6.19	N/A	N/A	14.85
Vanguard Long-Term Bond ETF	BLV	10.36	N/A	N/A	7.08	4/3/07	0.12	5.04	10.01	N/A	N/A	7.06
<b>Barclays Capital Govt Credit Long</b>		<b>10.16</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 12/31/10

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Preferred Stock Exposure – ETPs

Exchange-Traded Product	Ticker	1- Year	5- Year	10- Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield	Mkt Ret Annld 1-Year	Mkt Ret Annld 5-Year	Mkt Ret Annld 10-Year	Mkt Ret Annld Since Incep
<b>Preferred Securities</b>												
iShares S&P U.S. Preferred Stock Index	PFF	13.97	N/A	N/A	1.45	3/26/07	0.48	6.57	13.19	N/A	N/A	1.27
PowerShares Financial Preferred	PGF	16.57	N/A	N/A	-0.32	12/1/06	0.65	6.74	16.00	N/A	N/A	-0.48
PowerShares Preferred	PGX	12.22	N/A	N/A	-3.91	1/31/08	0.50	6.42	11.56	N/A	N/A	-4.12
<b>Merrill Lynch Preferred Stock Hybrid</b>		<b>13.97</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 12/31/10

Build America Bond Exposure – ETPs

Exchange-Traded Product	Ticker	1- Year	5- Year	10- Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield	Mkt Ret Annld 1-Year	Mkt Ret Annld 5-Year	Mkt Ret Annld 10-Year	Mkt Ret Annld Since Incep
<b>Build America Bond</b>												
PowerShares Build America Bond	BAB	9.25	N/A	N/A	5.88	11/17/09	N/A	5.13	9.38	N/A	N/A	5.73
<b>Wells Fargo Build America Bond Index</b>		<b>8.10</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 12/31/10

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For the most recent month end performance please visit the respective fund's website: PFF: [www.ishares.com](http://www.ishares.com); BAB, PGF & PGX: [www.powershares.com](http://www.powershares.com); EIBLX: [www.eatonvance.com](http://www.eatonvance.com).

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## IMPORTANT DISCLOSURES

This report has been prepared by LPL Financial from sources believed to be reliable but no guarantee can be made as to its accuracy or completeness. The opinions expressed herein are or general information only, are subject to change without notice, and are not intended to provide specific advice or recommendations for any individuals.

LPL Financial does not engage in investment banking services nor has LPL Financial or the analyst(s) been compensated during the previous 12 months by any company mentioned in this report for any non-investment banking securities-related services and non-securities services nor has any company mentioned been a client of LPL Financial within the past 12 months.

Principal risk: An investment in Exchange Traded Funds (ETFs), structured as a mutual fund or unit investment trust, involves the risk of losing money and should be considered as part of an overall program, not a complete investment program. An investment in ETFs involves additional risks: not diversified, the risks of price volatility, competitive industry pressure, international political and economic developments, possible trading halts, Index tracking error.

Investing in mutual funds involves risk, including possible loss of principal. Investments in specialized industry sectors have additional risks, which are outlined in the prospectus.

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.

International and emerging markets investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

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

Non-rated bonds have not been issued a rating by bond rating agencies such as Standard and Poors and Moody's. Bonds that have not been rated by an agency are usually considered to be junk bonds or fall below investment grade.

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

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.

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 funds shares is not guaranteed and will fluctuate.

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

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

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

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

Credit Quality: One of the principal criteria for judging the investment quality of a bond. As the term implies, credit quality informs investors of a bond or bond portfolio's credit worthiness, or risk of default.

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.

**Investors should consider the investment objectives, risks, charges and expenses of the investment company carefully before investing. The prospectus contains this and other information about the investment company. They can obtain a prospectus from you. Read carefully before investing.**

## INDEX DESCRIPTIONS

Barclays High Yield Bond Index is an unmanaged index of corporate bonds rated below investment grade by Moody's, S&P or Fitch Investor Service. The index also includes bonds not rated by the ratings agencies.

Barclays Corporate Bond Index is an unmanaged index of investment grade rated bonds issued by corporations and quasi-government agencies. Corporate bonds issued by foreign entities but denominated in US dollars are also included in the index.

The Barclays Global Emerging Markets Bond Index is an unmanaged index of external debt instruments of the emerging market nations. This includes U.S. dollar-denominated Brady Bonds, loans, and Eurobonds.

Russell 3000® Index: measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. As of the latest reconstitution, the average market capitalization was approximately \$4.8 billion; the median market capitalization was approximately \$944.7 million. The index had a total market capitalization range of approximately \$386.9 billion to \$182.6 million.

The Russell 3000 Growth Index is an unmanaged index comprised of those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000 Value Index measures the performance of those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

Barclays Aggregate Bond Index is comprised of the Barclays Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, including securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least \$100 million.

The Merrill Lynch Preferred Stock Hybrid Securities Index is an unmanaged index consisting of a set of investment-grade, exchange-traded preferred stocks with outstanding market values of at least \$50 million that are covered by Merrill Lynch Fixed Income Research. The Index includes certain publicly issued, \$25- and \$100-par securities with at least one year to maturity.

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.





## INVESTMENT OBJECTIVES

**Aggressive Growth:** Aggressive Growth will essentially be fully invested in equity assets at all times (with the exception of a 5% cash position). Investors in this portfolio should have a long time horizon of 10 years or more, an understanding of the volatile history of equity investments, and a propensity to add money to the account on a systematic basis. This portfolio is very aggressive by nature and should not be considered by anyone unwilling to take on significant risk.

**Growth:** Growth will be targeted to an allocation of 80% in equity assets and 20% in fixed income assets (including a 5% cash position). Investors in this portfolio should have a long time horizon, an understanding of the volatile history of equity investments, and a propensity to add money to the account on a systematic basis. This portfolio is aggressive by nature and should not be considered by anyone unwilling to take on significant risk.

**Growth With Income:** Investors in this portfolio should have a long time horizon and an understanding of the volatile history of equity investments. The primary investment objective of this portfolio is growth of principal. Fixed income assets are included to generate income and reduce overall volatility.

**Income With Moderate Growth:** Income With Moderate Growth will be targeted to a normal allocation of 40% in equity assets and 60% in fixed income assets (including a 7% cash position). Investors in this portfolio should have a time horizon of more than five years, and be comfortable with the volatile history of equity investments. The primary investment objective of this portfolio is income, with growth of principal an important consideration. Fixed income assets form the core of the portfolio, generating income and lowering the portfolio's overall volatility. Equity assets provide the opportunity for long-term growth of principal.

**Income With Capital Preservation:** Income With Capital Preservation will be targeted to a normal allocation of 21% in equity assets and 79% in fixed income assets (including a 10% cash position). Investors in this portfolio should have a time horizon of more than five years, and be comfortable with the volatility that will occur within the modest equity portion of their investment portfolio. The primary investment objective of this portfolio is income, with growth of principal as a secondary concern. Fixed income assets form the core of the portfolio, generating a steady income stream. A small investment in equity assets provides the opportunity for modest long-term growth of principal.



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