Search for Income

Second Quarter 2013

Yield Ascent

The second quarter of 2013 witnessed a sharp increase in bond yields that led to broad-based price declines across the bond market. All sectors were impacted with only shorter-term securities faring better during a very difficult period for bond investors. From May 1, 2013 to July 5, 2013, bond yields witnessed one of the fastest increases ever for such a short period of time. The benchmark 10-year Treasury yield increased by more than 1% over that period as bond investors panicked over the prospect of an early reduction to Federal Reserve (Fed) bond purchases known as quantitative easing (QE).

On a positive note, the rise in yields has provided income-seeking investors an opportunity. Yields on most intermediate- and long-term bonds are at their highest levels of the past two years. Uncertainty over the future Fed policy may keep bond markets volatile, but higher yields mean better value for investors.

In addition to longer-term bonds, less liquid bond sectors such as municipal bonds and emerging market debt (EMD) bore the brunt of 2Q13 bond weakness. The municipal bond market was hit with a double whammy of broadly rising interest rates and a supply deluge both in the primary and secondary markets. Prices declined more than the broad taxable market as the municipal market struggled to find a balance. Municipal bond yields finished the quarter at their highest levels since the second quarter of 2011. However, the rise in yields coupled with underperformance relative to Treasuries has led to more attractive valuations. As the third quarter begins, municipal-to-Treasury yield ratios are at their highest levels of the past few years. In conjunction with now higher tax rates, the case for municipal bonds has become more compelling.

Slower-than-expected economic growth among emerging market (EM) countries and lingering concerns over China's economy continued to weigh on EMD during the second quarter of 2013. Both factors influenced disappointing first quarter performance, but weakness accelerated during the second quarter as fears over an earlier reduction of Fed stimulus intensified existing economic concerns. While yield spreads to Treasuries indicate valuations are near their most attractive levels of the past few years, EMD prices may remain volatile until further clarity develops on the extent and duration of the economic slowdown in EM countries.

Among income-producing sectors, high-yield bonds stand out as one of our favorite investments and offer a more favorable risk-reward compared to EMD. In general, we prefer to look domestically for income-generating investments

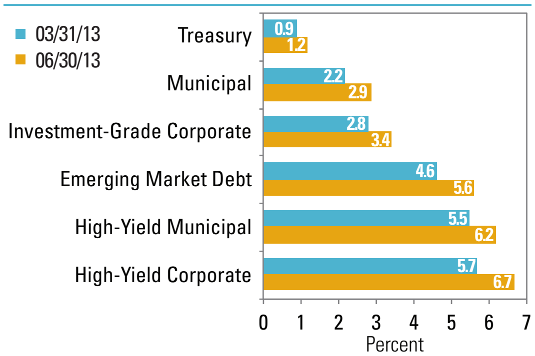
Overview

The *Search for Income* publication is a quarterly guide to our top 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 funds (ETFs). Many of the asset classes/sectors can be used individually or in a diversified portfolio, and several are currently employed in our model portfolios. This publication highlights the following sections:

- Favorite Sector/Asset Class Ideas
- Implementation

Please note: all return figures are as of June 30, 2013 unless otherwise stated.

1 The Second Quarter Witnessed Broad-Based Yield Increases



Source: Barclays Index data, LPL Financial 06/30/13

Indices: Barclays US Treasury Index, Barclays Municipal Bond Index, Barclays Capital U.S. Corporate Index, Barclays EM USD Aggregate, Barclays Capital High Yield Municipal Bond Index, Barclays US Corporate High Yield

All Barclays indexes mentioned herein are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges or expenses. Index performance is not indicative of any particular investment. Past performance is no guarantee of future results.

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

given the more favorable economic backdrop, which may continue to support credit quality. Currently, our ideas for income generation are:

- High-yield bonds (taxable and tax-free)
- Bank loans (floating rate funds)
- Preferred stocks
- Investment-grade corporate bonds (intermediate- and long-term)
- Emerging market debt (EMD)
- Build America Bonds (BAB)

High-yield bonds (taxable) remain one of our favorite ideas within fixed income, despite a volatile quarter. After briefly touching 7% in June 2013, the average yield of the high-yield market finished the second quarter at 6.7%, before dropping further to 6.1% by July 16, 2013, according to the Barclays US High-Yield Corporate Index. While the yield remains below average in a historical context, it stands out in a low-yield world. Most importantly, valuations remain attractive, in our view, with an average yield advantage, or spread, over comparable Treasuries of 5.1% as of July 16, 2013. Although below the long-term average of 5.8%, that yield spread remains attractive, since the average yield spread exceeds the current default rate by 2%. Therefore, we believe current yield spreads provide adequate compensation for investors, given the expected level of defaults for 2013.

Bank loans were one of the least impacted sectors during the second quarter bond market sell-off. The lack of interest rate sensitivity and above-average yield helped the sector weather rough fixed income markets. The yield differential between bank loans and high-yield bonds increased during the quarter, meaning that investors receive less interest income compared to high-yield bonds given the credit risk. However, bank loans have historically exhibited much less volatility than high-yield bonds and therefore may be an option for more conservative clients. Given the possibility of higher interest rates, bank loans can still play a role for investors seeking yield while avoiding interest rate risk at the same time.

Preferred stocks were impacted by broad fixed income market weakness during the second quarter of 2013. Although preferred stocks have exhibited little sensitivity to rising interest rates over the past few years, the second quarter was a reminder that the sector does possess interest rate risk. On a positive note, banks are continuing to bolster minimum capital buffers, a trend that remains intact following initial second quarter earnings reports, which helps to support credit quality. Yields increased over the second quarter by nearly a full percentage point to 5.7% (as of July 16, 2013 according to the BofA Merrill Lynch Hybrid Preferred Securities Index). Valuations also improved with an average 2.1% yield advantage relative to comparable Treasuries.

Investment-grade corporate bond prices declined, on average, during the first half of 2013 due to rising market interest rates. Valuations cheapened over the quarter, but initial strength to start the second half pushed the average yield advantage to comparable Treasury bonds back to 1.4% according to Barclays Index data, roughly unchanged from the end of the first quarter. Investment-grade corporate bonds remain an 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 makes them more sensitive to another bout of rising interest rates, as illustrated during the first half of 2013.

Emerging market debt. Although the sector has begun to stabilize, we believe concerns over the pace of economic growth in China and broader EM countries may lead to additional price swings and may be more suitable, at this juncture, for investors with a longer-term horizon. Furthermore, EMD has exhibited above-average sensitivity to a potential withdrawal of Fed stimulus. Fed uncertainty is also likely to keep the sector volatile. On a positive note, average yields have increased by over 1% during the second quarter of 2013 according to the JP Morgan Emerging Market Bond Index, and weakness has led to attractive valuations as the third quarter of 2013 begins. The average yield advantage of EMD increased from a low of 2.8% to 3.3% above comparable Treasuries as of July 16, 2013.

Build America Bonds are among the most interest rate sensitive of our income-producing ideas, which was evident by their second quarter performance. While we believe the bulk of bond market weakness is behind us, investors need to be aware of the greater interest rate risk. We believe BABs can still be used for income generation with high overall credit ratings and an average yield of roughly 5.0%, up by 0.8% over the past three months, according to Wells Fargo Build America Bond Index data as of July 16, 2013.

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

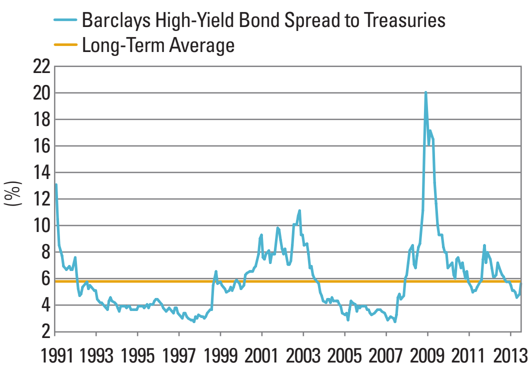
Favorite Sector/Asset Class Ideas

High-Yield Bonds (Taxable and Tax-Free): Our Preferred Asset Class Within Fixed Income

High-yield is an obvious asset class for income-seeking investors to consider. High-yield bond prices declined during the second quarter of 2013, in response to broad bond market weakness. At one point, average yields had increased by 2%, but a strong rebound to start the third quarter of 2013 has witnessed yields come back down. Higher yields combined with still-strong credit quality make the sector one of the more attractive considerations of income vehicles for investors.

The average yield advantage, or spread, of high-yield bonds to Treasuries increased to 5.8%, the long-term historic average, during the second quarter of 2013 before contracting to 5.1% as of July 16, 2013. We still find the sector attractive because such a yield level still compensates for the expected level of defaults. High-yield bonds remain viable given the low level of Treasury yields and other competing fixed income investments [Figure 2].

2 High-Yield Bond Valuations Cheapened During 2Q13 (as of 06/30/13)



Source: Barclays, Bloomberg, LPL Financial 06/30/13

The Barclays High-Yield Bond Index is an unmanaged index and cannot be invested into directly. The returns do not reflect fees, sales charges or expenses. Index performance is not indicative of any particular investment. Past performance is no guarantee of future results.

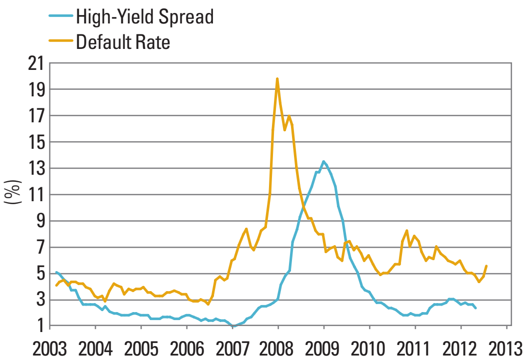
High-yield spread is the yield differential between the average yield of high-yield bonds and the average yield of comparable maturity Treasury bonds.

No strategy assures success or protects against loss.

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.

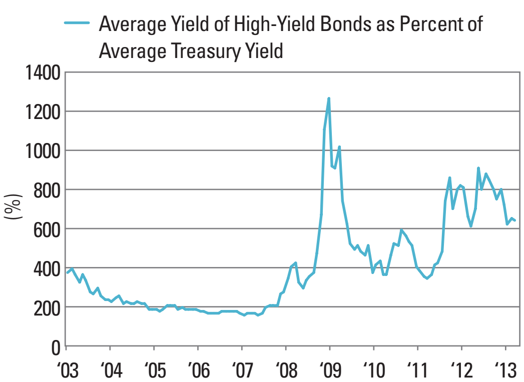
3 The Average Yield Advantage of High-Yield Bonds Compensates for Expected Defaults



Source: Barclays, Moody's, LPL Financial 06/30/13

The Moody's default rate represents the percentage of companies rated below investment-grade (Baa3) by Moody's, which have defaulted over the preceding 12 months. Default is defined as a failure to make an interest payment, repay principal at maturity, or debt exchanges where bondholders are forced to accept a reduced principal amount at maturity and terms of original debt are materially altered.

4 Yields Still Stand Out in a Low-Yield World



Source: Barclays, Bloomberg, LPL Financial 06/30/13

High-yield spread is the yield differential between the average yield of high-yield bonds and the average yield of comparable maturity Treasury bonds.

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.

An increase in interest rates may cause the price of bonds and bond mutual funds to decline.

Municipal bonds are subject to availability, price, and to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate rise. Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.

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.

We believe the current yield spread on high-yield bonds compensates for expected defaults [Figure 3]. The global high-yield default rate increased slightly over the first half of 2013 to 2.8%, up from 2.5% in December 2012. As a point of reference, Moody's Investor Service has publicly forecast a slight increase to 3.2% by the end of 2013 base upon their default rate forecasting model, which takes into account economic growth, the level of distressed issuers in the market, and the amount of maturing bonds for the time frame.

We find Moody's default forecast reasonable, given the tremendous amount of debt that high-yield companies have refinanced. High-yield issuers have taken advantage of low interest rates, and very few high-yield bonds mature between now and the end of 2013.

The average yield of high-yield bonds fluctuated notably over the second quarter but settled at 6.1% as of July 16, 2013, below the 7% peak of late June 2013 but above the 5–6% range that has existed for most of 2013. The average yield remains low by historical comparison but must be put in the context of what still is a low-yield environment and still is a notable advantage to Treasuries [Figure 4].

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.

Investors, regardless of tax bracket, may wish to consider municipal (tax-free) high-yield bonds. Municipal high-yield bonds tend to be more interest rate sensitive than their taxable counterparts, a risk worth noting should interest rates continue to rise. Credit quality trends, like that of the taxable market, are largely supportive of the sector in our view. According to Municipal Securities Rulemaking Board (MSRB) and Municipal Market Advisors data, the number of defaulted municipal issuers over the first half of 2013 fell by almost half compared to the year-ago period. However, the dollar volume of defaults has increased due to three, large troubled issuers finally failing to make payments. In general, municipal defaults that have occurred remain concentrated in the most speculative sectors, with the vast majority coming from issuers that did not have any rating at all. We continue to find the asset class attractive with an average yield of 6.2%, according to the Barclays High-Yield Municipal Index (as of 07/16/13).

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 use a fund to gain exposure. Please contact fund or ETP companies directly to obtain a copy of the prospectus for the percentage of income subject to AMT.

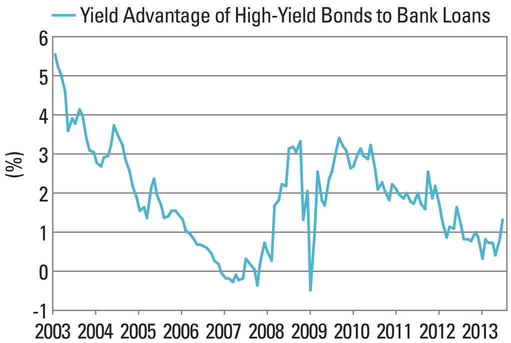
Floating Rate Bank Loans: More Conservative Approach to High-Yield

Companies rated below investment-grade issue loans via banks (hence the name "bank loans") for their short-term funding needs. Most bank loans are senior secured debt, as the companies generally pledge specific tangible assets for the loan, ranking them above traditional bonds and equities in a corporation's capital structure. These securities* typically pay a higher yield than short-term securities (generally 2.5–4.0% above Libor,

*Such as T-bills and Treasuries and corporate notes maturing within two years.

Floating rate 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.

5 The Yield Disparity Between Bank Loans and High-Yield Bonds Increased Notably During 2Q13 (as of 06/30/13)



Source: S&P Leveraged Loan Index, Barclays High-Yield Index, LPL Financial 06/30/13

All indices mentioned above are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges or expenses. Index performance is not indicative of any particular investment. Past performance is no guarantee of future results.

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

the London Interbank Offered Rate) and seek to provide protection against rising interest rates since the interest rate on bank loans adjusts at regular intervals to reflect changes in a short-term rate (usually 3-month Libor). Unlike traditional fixed-rate bonds where rising interest rates hurt their prices, when rates rise, bank loans pay a higher rate and their prices do not necessarily fall.

Bank loans have re-emerged as a potential income alternative as investors balance the need for income generation with interest rate risk. Bank loans were one of the least impacted sectors during the second quarter bond market sell-off due to their lack of interest rate sensitivity. Along with an above-average yield, the sector managed to weather rough fixed income markets in 2Q13.

The yield differential between bank loans and high-yield bonds increased during the quarter, meaning that investors receive less interest income given the credit risk [Figure 5]. However, bank loans have historically exhibited much less volatility than high-yield bonds and therefore may be an option for more conservative clients. Given the possibility of higher interest rates, bank loans can still play a role for investors seeking yield while trying to avoid interest rate risk.

Like high-yield bonds, credit quality metrics for bank loans are good, and defaults remain well below the historical average. Our outlook for sluggish but positive growth has traditionally been good for corporate debt obligations like bank loans.

Preferred Stocks: Shrinking Market With Attractive Yields

Preferred stocks are fixed income securities, and income-seeking investors may want to consider the asset class. Preferred stocks, which are primarily issued by financial companies, were not immune to fixed income market weakness and witnessed lower prices over the second quarter of 2013.

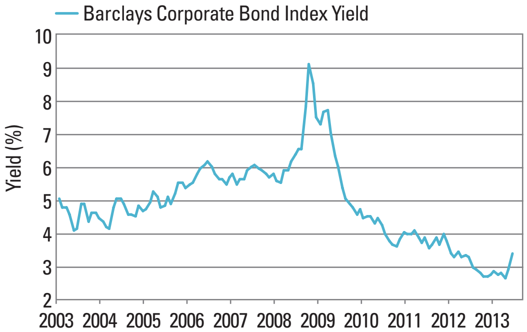
The tailwind of a shrinking preferred stock market remains in place, although it slowed during the second quarter due to market turbulence. Longer-term, the trend remains in place, even if it did not benefit the sector during the second quarter as fears over a reduction in Fed bond purchases pressured fixed income markets lower in 2Q13. In response, yields increased to an average yield of 5.7% (as of April 12, 2013),

Valuations improved with preferred stocks now yielding 2.1% more than comparable Treasuries, according to Merrill Lynch Index data. The yield advantage to Treasuries is near its highest level of the past two years. Again due to the varied nature of the preferred market, the yield advantage to comparable Treasuries may vary depending on the specific investment product.

Financial regulatory reform will continue to impact preferred stocks. Bank capital rules put in place in 2010 continue to push issuers to retire certain types of preferred securities. Redemptions over recent quarters have helped create a favorable supply-demand balance for investors, which may reassert itself in coming months. Redemptions may resume and coupled with lingering uncertainty as to when and by how much the Fed will reduce bond

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

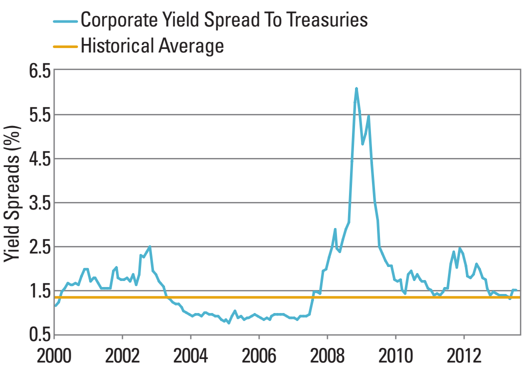
6 Average Corporate Bond Yields Increased Back Above 3% but Remain Near Historic Lows (as of 06/30/13)



Source: Barclays, Bloomberg, LPL Financial 06/30/13

The Barclays Corporate Bond Index is an unmanaged index and cannot be invested into directly. The returns do not reflect fees, sales charges or expenses. Index performance is not indicative of any particular investment. Past performance is no guarantee of future results.

7 Corporate Bond Yield Spreads Are Just Above the Historical Average (as of 06/30/13)



Source: Barclays, Bloomberg, LPL Financial 06/30/13

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.

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.

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.

Investment-grade corporate bonds: The risks associated with investment-grade corporate bonds are considered significantly higher than those associated with first-class government bonds. The difference between rates for first-class government bonds and investment-grade bonds is called investment-grade spread. The range of this spread is an indicator of the market's belief in the stability of the economy.

purchases, means that price gains, if any, are limited. Therefore, yield will be a primary driver of return. Nonetheless, we believe the above-average income coupled with gradually improving bank credit quality still make preferred securities a good income vehicle.

The second quarter was a reminder that interest rate risk is a characteristic of preferred stocks. The sector exhibited good resiliency over bouts of rising interest rates over the past three years, but second quarter weakness served as a reminder to investors. Since preferred stocks are perpetual, meaning they have extremely long 30- to 50-year maturities, they possess interest rate sensitivity. The yield advantage to Treasuries may help offset higher interest rate risk, but investors need to be aware of this risk.

Investment-Grade Corporate Bonds: Historically Stable in a Slow-Growth Environment

Investment-grade corporate bond yields increased by an average of 0.8% over May and June 2013 and finished above 3% for the first time in over a year. Yields increased more on longer-term bonds compared to a much more modest increase on short-term bonds, which were less affected by second quarter bond market weakness. Still, the average investment-grade bond yield remains near record-low territory [Figure 6]. For some investors, such yield levels may not be exciting, 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 MBS yields. As of July 16, 2013, the average investment-grade corporate bond yield spread to Treasuries was 1.4%, roughly in line with the historical average and a considerable advantage over Treasuries [Figure 7].

Corporate credit quality metrics plateaued in mid-2012 but remain stable and provide a firm underpinning. A slow-growth environment for the U.S. economy, which may continue for the foreseeable future, still allows for corporate credit quality to be maintained and not necessarily turn into a threat for bondholders.

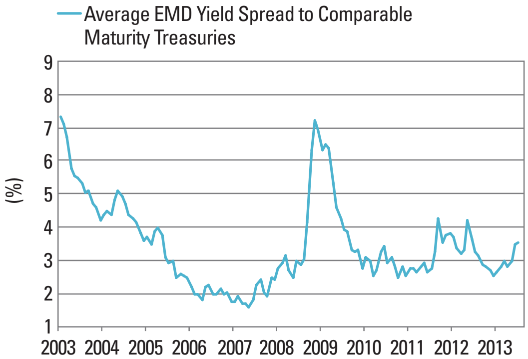
Emerging Market Debt: Benefited From Emerging Markets Growth

Concerns over the pace of economic growth in China, viewed as the engine of emerging Asia economic growth, and broader EM led to poor performance over the second quarter of 2013. The weak performance followed a difficult first quarter and was exacerbated by illiquid trading. Less liquid, less frequently traded bond markets can be susceptible to volatile swings in the broad bond market, and the second quarter provided an example.

Furthermore, EMD has exhibited above-average sensitivity to a potential withdrawal of Fed stimulus. A removal of Fed stimulus is viewed as additional threat to EM economies, which have been viewed as one of the global beneficiaries of Fed policy. Investors fear that removal of the Fed's accommodation may add to the deceleration in economic growth.

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

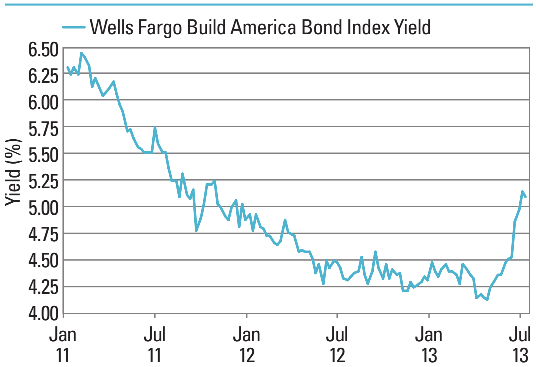
8 EMD Yield Spreads Continued To Increase During 2Q13, Leading To More Attractive Valuations (as of 06/30/13)



Source: JP Morgan, Bloomberg, LPL Financial 06/30/13

The JP Morgan Global Emerging Market Bond Index is an unmanaged index, which cannot be invested into directly. The returns do not reflect fees, sales charges or expenses. Index performance is not indicative of any particular investment. Past performance is no guarantee of future results.

9 Build America Bonds Yields Near Two-Year Highs



Source: Wells Fargo, Bloomberg, LPL Financial 07/16/13

The Wells Fargo Build America Bond Index is an unmanaged index and cannot be invested into directly. The returns do not reflect fees, sales charges or expenses. Index performance is not indicative of any particular investment. Past performance is no guarantee of future results.

On a positive note, valuations have become more attractive as the third quarter of 2013 begins. The average yield advantage of EMD increased from a low of 2.8% to 3.3% above comparable Treasuries as of July 16, 2013 [Figure 8]. Furthermore, average yields increased by over 1% during the second quarter of 2013, according to the JPM Morgan Emerging Market Bond Index.

Although yields and valuations improved, lingering uncertainties over both the pace of EM economic growth and the path of Fed policy is likely to keep volatility elevated, and therefore, the asset class remains more suitable for longer-term investors willing to ride out possible additional price swings. For this reason, we prefer domestic income-generating sectors such as high-yield bonds, which provide a better risk/reward profile for investors.

On a longer-term basis, we believe the fundamentals underpinning EMD remain intact and that growth will eventually re-accelerate. Faster growth dynamics relative to their developed country counterparts may help support credit quality over a longer horizon.

Build America Bonds: Insulated From Significant Credit Quality Deterioration

Born from the $787 billion American Recovery and Reinvestment Act (ARRA)—signed into law in 2009, Build America Bonds 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 and that was evident during the second quarter. Longer-term bonds were among the most impacted during the bond market pullback, and BABs were affected after showing good resilience during the first quarter of 2013. The vast majority of issuance is long term, with 87% of BABs maturing beyond 10 years, according to Bloomberg data. The longer-term maturities of BABs make them among the more sensitive to interest rate changes within the bond market. Price declines associated with rising interest rates may offset the benefit of higher interest income.

With the market adapting to an earlier start to a reduction in Fed bond purchases, we believe the bulk of recent bond market weakness is behind us. We expect bond yields to stabilize in a new higher range, as detailed in our *Mid-Year Outlook 2013* publication. Nonetheless, the prospect of a Fed progressing toward reducing purchases and interest rates gradually heading higher, the prospect of price gains, if any, is limited and therefore returns will be driven by interest income.

During the second quarter of 2013, the average yield of BABs increased above 5% for the first time since December 2011 [Figure 9]. BABs remain an option for income-seeking investors with an average yield advantage of 1.6% above comparable maturity Treasuries.

Federal spending cuts known as sequestration took effect on March 1, 2013, and pose two modest risks to BABs issuers. First, BAB issuers will see government subsidies, which are used to offset the higher interest cost of taxable debt, reduced by approximately 8% as a result of sequestration. The reduced revenue may adversely impact credit quality, as issuers are under slightly more stress to make payments. However, since the vast majority of BAB issuers are very large, with multiple revenue sources, we believe the reduced payments are manageable. However, smaller, less diversified issuers may be at risk of limited downgrades.

The second risk stems from redemption risk, since BABs may be redeemed in response to certain extraordinary events such as a reduction in government subsidies. So far, the amount of reductions has been relatively limited, but it remains a risk. The majority of BABs contain language that would require redemptions at significant premiums, even greater than current premium prices. Therefore, redemption risk to most bond investors is limited. However, a small percentage may be redeemed at par, well below current market prices for many BAB issuers. Such redemptions may subject investors to losses, but whether bonds will be redeemed or not depends on many factors, including whether a redemption is worth the cost of replacing existing bonds with new, tax-exempt debt.

BABs are among the highest-quality municipal bonds, and we expect they might be insulated from significant credit quality deterioration. We believe state revenues may continue to improve, but many local government budgets may remain tight in 2013 and likely beyond. Municipal defaults remain concentrated among the most speculative issues, a trend we expect to continue. Since most BABs are issued for qualifying infrastructure projects, the essential service nature may provide an extra level of security, and we do not believe sequestration-related risks are too onerous. ■

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.

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 $188 billion, according to *The Bond Buyer*.

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.

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 actual portfolio performance and relevant statistics of MWP Income Focused Models.

Income Focused Model Wealth Portfolio Performance, Annualized (Gross)

Model Portfolios	3-Months	YTD 2013	1-Year	3-Year	Since Inception 3/1/08
Aggressive Growth					
MWP Income Focused	0.87%	9.38%	16.16%	12.71%	2.34%
AG Benchmark	2.55%	13.33%	20.32%	17.69%	6.11%
+ / - Benchmark	**-1.68%**	**-3.94%**	**-4.16%**	**-4.98%**	**-3.77%**
Growth					
MWP Income Focused	0.41%	7.48%	14.97%	12.17%	2.64%
G Benchmark	1.80%	10.74%	16.79%	15.46%	5.90%
+ / - Benchmark	**-1.39%**	**-3.26%**	**-1.82%**	**-3.29%**	**-3.26%**
Growth With Income					
MWP Income Focused	-0.07%	5.71%	12.61%	11.45%	3.64%
GwI Benchmark	0.79%	7.37%	12.22%	12.46%	5.93%
+ / - Benchmark	**-0.86%**	**-1.66%**	**0.39%**	**-1.02%**	**-2.29%**
Income With Moderate Growth					
MWP Income Focused	-1.14%	3.16%	9.80%	9.36%	4.17%
IMG Benchmark	-0.16%	4.12%	7.81%	9.37%	5.52%
+ / - Benchmark	**-0.98%**	**-0.96%**	**1.98%**	**-0.01%**	**-1.35%**
Income With Capital Preservation					
MWP Income Focused	-2.00%	0.87%	7.22%	8.56%	5.05%
ICP Benchmark	-1.09%	0.96%	3.55%	6.22%	4.91%
+ / - Benchmark	**-0.90%**	**-0.10%**	**3.66%**	**2.34%**	**0.14%**

Source: LPL Financial 06/30/13

Benchmark Indices Weights (as of 06/30/13)

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%
Citigroup 3-month Tbill	5%	5%	5%	7%	10%

Source: FactSet 06/30/13

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

All indices are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges or expenses. Index performance is not indicative of any particular investment. Past performance is no guarantee of future results.

Performance data quoted represents past performance. Past performance does not guarantee future results. The models' investment return and principal value will fluctuate. Upon redemption, shares may be worth more or less than their original cost. The models' performance may be lower or higher than the performance data quoted. Your results may vary. To obtain current month-end performance information, please contact your advisor.

The volatility of the index is materially different from the model portfolio.

The gross of fees performance quoted reflects the reinvestment of dividends and capital gains.

Please refer to page 16 for index descriptions and investment objectives.

Income Focused Model Wealth Portfolio Performance, Annualized (Net)

Model Portfolios	3-Months	YTD 2013	1-Year	3-Year	Since Inception 3/1/08
Aggressive Growth					
MWP Income Focused	0.24%	8.03%	13.29%	9.93%	0.09%
AG Benchmark	2.55%	13.33%	20.32%	17.69%	6.11%
+ / - Benchmark	-2.31%	-5.29%	-7.02%	-7.75%	-6.02%
Growth					
MWP Income Focused	-0.22%	6.15%	12.14%	9.43%	0.39%
G Benchmark	1.80%	10.74%	16.79%	15.46%	5.90%
+ / - Benchmark	-2.01%	-4.59%	-4.66%	-6.03%	-5.51%
Growth With Income					
MWP Income Focused	-0.69%	4.40%	9.84%	8.72%	1.37%
GwI Benchmark	0.79%	7.37%	12.22%	12.46%	5.93%
+ / - Benchmark	-1.48%	-2.96%	-2.39%	-3.75%	-4.55%
Income With Moderate Growth					
MWP Income Focused	-1.76%	1.88%	7.09%	6.67%	1.87%
IMG Benchmark	-0.16%	4.12%	7.81%	9.37%	5.52%
+ / - Benchmark	-1.59%	-2.24%	-0.73%	-2.70%	-3.64%
Income With Capital Preservation					
MWP Income Focused	-2.61%	-0.39%	4.57%	5.89%	2.74%
ICP Benchmark	-1.09%	0.96%	3.55%	6.22%	4.91%
+ / - Benchmark	-1.52%	-1.35%	1.02%	-0.33%	-2.17%

Source: LPL Financial 06/30/13

Benchmark Indices Weights (as of 06/30/13)

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%
Citigroup 3-month Tbill	5%	5%	5%	7%	10%

Source: FactSet 06/30/13

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

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The volatility of the index is materially different from the model portfolio.

The net of fees performance quoted reflects the reinvestment of dividends and capital gains, is net of expenses and the maximum Advisory fee of 2.5%.

Please refer to page 16 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
Allianz NFJ Dividend Value	ADJPX	22.11	N/A	N/A	4.64	7/7/08	0.81	3.23	www.allianzinvestors.com
Delaware High-Yield Opportunities In	DHOIX	10.61	10.20	8.97	7.71	12/30/96	0.88	5.77	www.delawareinvestments.com
Eaton Vance National Municipals	EIHMX	-0.01	3.79	4.27	4.85	7/1/99	0.53	4.48	www.eatonvance.com
MainStay Epoch Global Equity Yield I	FLSRX	0.74	8.88	N/A	7.84	5/1/08	2.71	3.31	www.forwardinvesting.com
Forward Long/Short Credit Analysis	KGIYX	10.68	-1.06	N/A	-0.63	6/29/07	1.28	1.89	www.forwardinvesting.com
Pioneer Global High Yield	HACAX	14.16	6.85	7.78	10.77	12/29/87	0.68	0.36	www.harborfunds.com
Harbor Capital Appreciation	OMBIX	1.12	6.79	5.60	6.52	8/18/00	0.74	2.85	www.jpmorganfunds.com
Forward Global Infrastructure	EPSYX	15.22	6.05	N/A	6.61	12/27/05	0.88	2.99	www.mainstayinvestments.com
SteelPath MLP Select 40 Fund	NHMRX	3.58	3.98	4.20	4.92	6/7/99	0.65	6.14	www.nuveen.com
Nuveen High Yield Municipal Bond	OOSYX	7.83	6.53	N/A	5.11	11/28/05	0.91	4.96	www.oppenheimerfunds.com
JPMorgan Mortgage-Backed Sec Fund	MLPTX	23.97	N/A	N/A	13.26	3/30/10	5.08	5.79	www.steelpath.com
Oppenheimer Senior Floating Rate	GHYYX	10.93	7.62	N/A	6.93	12/27/05	0.80	6.83	www.pioneerinvestments.com
Principal Preferred Securities	PPSPX	9.94	N/A	N/A	7.90	9/27/10	0.85	5.21	www.principalfunds.com
Royce Dividend Value	RDVIX	24.04	10.05	N/A	7.42	9/14/07	1.22	1.47	www.roycefunds.com
Thornburg Investment Income Builder I	TIBIX	14.79	7.17	N/A	9.91	11/3/03	1.12	4.52	www.thornburg.com
Wells Fargo Advantage S/T Hi Yld Bd Adm	WDHYX	3.39	N/A	N/A	4.63	7/30/10	0.89	3.11	www.wellsfargo.com/advantagefunds

Source: Morningstar Direct, LPL Financial 06/30/13

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 the manager's websites displayed in the table above.

The performance data quoted reflects the reinvestment of dividends and capital gains, is net of expenses and reflects the maximum advisory fee of 2.5%.

The volatility of the benchmark used to compare performance is materially different from that of the portfolio.

Income Focused Model Wealth Portfolio Weights (as of 06/30/13)

Name	Ticker	LPL Financial Statement Asset Class	Aggressive Growth	Growth	Growth w/ Income	Income w/ Moderate Growth	Income w/ Capital Preservation
Allianz NFJ Dividend Value	ADJPX	Large Value	18.0%	14.0%	13.0%	9.0%	0.0%
Delaware High-Yield Opportunities In	DHOIX	High-Yield Bond	0.0%	6.5%	8.0%	9.0%	10.5%
Eaton Vance National Municipals	EIHMX	Long-Term Municipal Bond	0.0%	0.0%	0.0%	4.0%	4.0%
MainStay Epoch Global Equity Yield I	EPSYX	Global Stock	10.0%	9.0%	8.0%	5.0%	0.0%
Forward Long/Short Credit Analysis	FLSRX	Intermediate-/Long-Term Bond	0.0%	0.0%	5.0%	5.0%	5.0%
Pioneer Global High Yield	GHYYX	High-Yield Bond	0.0%	4.0%	0.0%	0.0%	5.0%
Harbor Capital Appreciation	HACAX	Large Growth	21.5%	15.0%	11.5%	6.0%	4.0%
Forward Global Infrastructure	KGIYX	Sector (Infrastructure)	6.0%	5.0%	5.0%	0.0%	0.0%
SteelPath MLP Select 40 Fund	MLPTX	Sector (Energy)	10.0%	8.0%	7.0%	6.0%	5.0%
Nuveen High Yield Municipal Bond	NHMRX	Tax-Free High-Yield Bond	0.0%	2.0%	3.0%	9.0%	12.0%
JPMorgan Mortgage-Backed Sec Fund	OMBIX	Mortgage-Backed Securities	0.0%	0.0%	9.0%	15.0%	20.0%
Oppenheimer Senior Floating Rate	OOSYX	Bank Loans	0.0%	5.0%	6.0%	5.0%	5.5%
Principal Preferred Securities	PPSPX	Preferred Securities	0.0%	4.0%	6.0%	8.0%	10.0%
Royce Dividend Value	RDVIX	Small Value	11.0%	10.5%	5.0%	4.0%	3.0%
Thornburg Investment Income Builder I	TIBIX	Balanced	11.0%	6.0%	5.0%	0.0%	0.0%
Wells Fargo Advantage S/T Hi Yld Bd Adm	WDHYX	High-Yield Bond	0.0%	0.0%	0.0%	3.0%	6.0%
Cash*	CASH	CASH	12.5%	11.0%	8.5%	12.0%	10.0%
TOTAL			100.0%	100.0%	100.0%	100.0%	100.0%

Source: LPL Financial 06/30/13

* 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

Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield
Artio Global High Income I	JHYIX	12.24	9.64	8.99	10.04	1/30/03	0.74	7.68
MainStay High-Yield Corporate Bond I	MHYIX	8.66	8.74	N/A	7.54	1/2/04	0.75	4.02
Pioneer Global High-Yield Y	GHYYX	10.93	7.62	N/A	6.93	12/27/05	0.80	6.83
Hotchkis and Wiley High-Yield A	HWHAX	11.39	N/A	N/A	14.74	5/29/09	1.01	6.06
PIMCO High-Yield P	PHLPX	8.01	8.79	N/A	7.72	4/30/08	0.65	4.16
Delaware High-Yield Opportunities A	DHOAX	10.55	9.87	8.64	7.41	12/30/96	1.18	5.22
Pax World High-Yield Bond Individual Inv	PAXHX	8.91	7.07	7.04	6.02	10/8/99	0.98	5.56
BlackRock High-Yield Bond Instl	BHYIX	10.60	10.16	8.86	7.92	11/19/98	0.64	6.09
Wells Fargo Advantage S/T Hi Yld Bd Adm	WDHYX	3.39	N/A	N/A	4.63	7/30/10	0.89	3.11
Fidelity Advisor High Income Advantage A	FAHDX	10.98	8.66	8.86	9.54	1/5/87	1.03	4.60
Barclays Capital U.S. High-Yield Bond		**9.49**	**10.94**	**8.91**	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 06/30/13

Taxable High-Yield Bond Exposure – ETPs

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
iShares iBoxx $ High-Yield Corporate Bd	HYG	7.61	8.24	N/A	6.28	4/4/07	0.50	5.67	8.63	8.61	N/A	5.96
SPDR Barclays High-Yield Bond	JNK	7.73	8.25	N/A	6.74	11/28/07	0.40	6.63	8.77	8.61	N/A	6.41
Barclays Capital U.S. High-Yield Bond		**9.49**	**10.94**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 06/30/13

All indices are unmanaged and cannot be invested into directly.

For the most recent month end performance please visit the respective fund's website: JHYIX: www.artiofunds.com; MHYIX: mainstayinvestments.com; GHYYX: www.pioneerinvestments.com; HWHAX: www.hwcm.com; PHLPX: www.pimco-funds.com; DHOAX: www.delawarefunds.com; PAXHX: www.paxworld.com; BHYIX: www.blackrock.com; WDHYX: www.wellsfargo.com/advantagefunds; FAHDX: www.advisor.fidelity.com; HYG: www.ishares.com; JNK: www.spdrs.com.

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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.

Tax-Free High-Yield Bond Exposure – Mutual Funds

Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield
Nuveen High-Yield Municipal Bond I	NHMRX	3.58	3.98	4.20	4.92	6/7/99	0.65	6.14
Franklin High-Yield Tax-Free Inc Adv	FHYVX	0.01	5.78	N/A	4.66	1/3/06	0.55	3.59
Oppenheimer Rochester National Muni A	ORNAX	3.52	2.99	2.94	4.15	10/1/93	1.07	6.34
Wells Fargo Advantage Interm T/AmtF Inv	SIMBX	0.88	4.91	4.32	5.07	7/31/01	0.85	1.79
Barclays High-Yield Municipal		**5.38**	**6.47**	**6.21**	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 06/30/13

Tax-Free High-Yield Bond Exposure – ETPs

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
Market Vectors High-Yield Muni ETF	HYD	0.90	N/A	N/A	10.81	2/4/09	0.35	4.58	-2.21	N/A	N/A	9.98
Barclays High-Yield Municipal		**5.38**	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 06/30/13

Emerging Market Debt Exposure – Mutual Funds

Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield
T. Rowe Price Emerging Markets Bond	PREMX	2.66	7.87	9.09	11.54	12/30/94	0.94	5.32
MFS Emerging Markets Debt A	MEDAX	2.53	8.58	9.41	11.23	3/17/98	1.13	4.15
PIMCO Emerging Local Bond P	PELPX	-1.41	6.52	N/A	5.91	5/30/08	1.00	4.07
JPM EMBI Global		**1.24**	**8.63**	**8.85**	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 06/30/13

Emerging Market Debt Exposure – ETPs

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
PowerShares Emerging Mkts Sovereign Debt	PCY	-0.34	8.51	N/A	7.26	10/11/07	0.50	5.00	-3.11	8.22	N/A	7.04
iShares JPMorgan USD Emerg Markets Bond	EMB	-0.26	7.69	N/A	6.82	12/17/07	0.60	4.95	-3.29	7.26	N/A	6.75
JPM EMBI Global		**1.24**	**8.63**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 06/30/13

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For the most recent month end performance please visit the respective fund's website: NHMRX: www.nuveen.com; FHYVX: www.franklintempleton.com; ORNAX: www.oppenheimerfunds.com; SIMBX: www.wellsfargo.com/advantagefunds; HYD: www.vaneck.com; PREMX: www.troweprice.com; MEDAX: www.mfs.com; PELPX: www.pimco-funds.com; PCY: www.invescopowershares.com; EMB: 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

Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield
Intermediate/Long High Quality Bond								
Loomis Sayles Investment Grade Bond Y	LSIIX	4.25	7.77	7.36	8.29	12/31/96	0.59	3.63
Dodge & Cox Income	DODIX	2.14	6.67	5.06	7.38	1/3/89	0.43	3.15
PIMCO Total Return P	PTTPX	1.10	7.15	N/A	6.55	4/30/08	0.56	1.42
Federated Total Return Bond Instl	FTRBX	0.47	5.81	5.02	6.24	10/1/96	0.47	2.77
Metropolitan West Total Return Bond I	MWTIX	4.76	8.68	6.99	7.15	3/31/00	0.41	2.61
Western Asset Core Plus Bond I	WACPX	1.54	8.46	5.86	6.61	7/8/98	0.46	2.43
Barclays Capital U.S. Aggregate		**-0.69**	**5.19**	**4.52**	N/A	N/A	N/A	N/A
Long High Quality Bond								
Vanguard Long-Term Investment-Grade Inv	VWESX	-1.80	8.91	6.04	8.54	7/9/73	0.22	4.69
Barclays Capital U.S. Govt Credit Long		**-4.69**	**8.50**	N/A	N/A	N/A	N/A	N/A
Eclectic Fixed Income								
Delaware Diversified Income A	DPDFX	-0.23	7.20	6.49	7.60	12/29/97	0.95	2.76
Franklin Strategic Income Adv	FKSAX	6.39	7.55	7.16	7.40	8/12/99	0.66	3.39
Loomis Sayles Bond Instl	LSBDX	8.88	8.27	8.40	10.12	5/16/91	0.63	3.84
Barclays Capital U.S. Aggregate		**-0.69**	**5.19**	**4.52**	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 06/30/13

Investment-Grade Corporate Bond Exposure – ETPs

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
Intermediate/Long High Quality Bond												
iShares Barclays Intermediate Credit Bd	CIU	1.70	5.92	N/A	5.42	1/5/07	0.20	2.22	0.97	5.81	N/A	5.40
iShares iBoxx $ Invest Grade Corp Bond	LQD	0.50	7.30	4.93	5.91	7/22/02	0.15	3.52	-0.99	7.49	5.03	5.92
SPDR Barclays Cap Interm Term Corp Bnd	ITR	2.10	N/A	N/A	6.57	2/10/09	0.15	3.02	0.85	N/A	N/A	6.02
Vanguard Intermediate-Term Bond ETF	BIV	-0.75	6.81	N/A	6.58	4/3/07	0.10	2.58	-2.34	6.70	N/A	6.52
Barclays Capital U.S. Aggregate		**-0.69**	**5.19**	**4.52**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Long High Quality Bond												
SPDR Barclays Capital Long CorpTerm Bd	LWC	-1.77	N/A	N/A	11.62	3/10/09	0.15	4.84	-5.91	N/A	N/A	11.14
Vanguard Long-Term Bond Index ETF	BLV	-4.72	8.44	N/A	7.61	4/3/07	0.10	4.42	-8.55	8.32	N/A	7.63
Barclays Capital U.S. Govt Credit Long		**-4.69**	**8.50**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 06/30/13

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For the most recent month end performance please visit the respective fund's website: LSIIX: www.funds.natixis.com; DODIX: www.dodgeandcox.com; PTTPX: www.pimco-funds.com; FTRBX: www.federatedinvestors.com; MWTIX: www.mwamllc.com; WACPX: www.leggmason.com; VWESX, BIV, & BLV: www.vanguard.com; DPDFX: www.delawarefunds.com; FKSAX: www.franklintempleton.com; LSBDX: www.loomissayles.com; CIU& LQD: www.ishares.com; ITR & LWC: www.spdrs.com.

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Preferred Stock Exposure – Mutual Funds

Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield
Principal Preferred Securities P	PPSPX	9.94	N/A	N/A	7.90	9/27/10	0.85	5.21
Nuveen Preferred Securities I	NPSRX	14.77	10.79	N/A	6.30	12/18/06	0.82	5.66
BofAML Preferred Stock Hybrid		**3.41**	**6.44**	N/A	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 06/30/13

Preferred Stock Exposure – ETPs

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
iShares S&P U.S. Preferred Stock Index	PFF	6.70	7.46	N/A	3.43	3/26/07	0.48	5.85	5.40	9.25	N/A	3.41
PowerShares Financial Preferred	PGF	5.49	7.34	N/A	2.57	12/1/06	0.66	6.42	4.05	9.12	N/A	2.45
PowerShares Preferred	PGX	4.83	4.00	N/A	1.09	1/31/08	0.50	6.46	3.10	5.49	N/A	0.91
BofAML Preferred Stock Hybrid		**3.41**	**6.44**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 06/30/13

Bank Loan Exposure – Mutual Funds

Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield
RidgeWorth Seix Floating RT High Inc I	SAMBX	6.97	5.23	N/A	4.67	3/1/06	0.65	3.98
Eaton Vance Floating Rate I	EIBLX	6.12	5.12	4.34	4.29	1/30/01	0.77	4.02
Oppenheimer Senior Floating Rate Y	OOSYX	7.83	6.53	N/A	5.11	11/28/05	0.91	4.96
Barclays Capital U.S. High-Yield Bond		**9.49**	**10.94**	**8.91**	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 06/30/13

Bank Loan Exposure – ETPs

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
PowerShares Senior Loan Port	BKLN	6.70	N/A	N/A	4.21	3/3/11	0.66	4.35	6.63	N/A	N/A	3.95
Barclays Capital U.S. High-Yield Bond		**9.49**	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 06/30/13

All indices are unmanaged and cannot be invested into directly.

For the most recent month end performance please visit the respective fund's website: PPSPX: www.principal.com; NPSRX: www.nuveen.com; PFF: www.ishares.com; PGF: www.powershares.com; PGX & BKLN: www.invescopowershares.com, SAMBX:www.ridgeworth.com; EIBLX: www.eatonvance.com; OOSYX:www.oppenheimerfunds.com.

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 the manager's websites 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 2.5%. Such fee, if taken into consideration, will reduce the performance quoted above. The volatility of the benchmark used to compare performance is materially different from that of the portfolio.

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.

Build America Bond Exposure – ETPs

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
PowerShares Build America Bond	BAB	-0.04	N/A	N/A	9.15	11/17/09	0.28	4.76	-2.93	N/A	N/A	8.91
Barclays Build America Bond Index		10.38	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 06/30/13

All indices are unmanaged and cannot be invested into directly.

For the most recent month end performance please visit the respective fund's website: BAB: www.invescopowershares.com.

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 the manager's websites 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 2.5%. Such fee, if taken into consideration, will reduce the performance quoted above. The volatility of the benchmark used to compare performance is materially different from that of the portfolio.

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.

Default rate is the rate in which debt holders default on the amount of money that they owe. It is often used by credit card companies when setting interest rates, but also refers to the rate at which corporations default on their loans. Default rates tend to rise during economic downturns, since investors and businesses see a decline in income and sales while still required to pay off the same amount of debt.

Municipal Market Advisors is an independent strategy, research and advisory firm.

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 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 involve risk, including possible loss of principal. Investments in specialized industry sectors have additional risks, which are outlines in the prospectus.

An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

Spread is the difference between the bid and the ask price of a security or asset.

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.

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

Investors should consider the investment objectives, risks, charges and expenses of the investment company carefully before investing. The prospectus, and if available, the summary prospectus contains this and other information about the investment company. You can obtain a prospectus from your financial representative. Read carefully before investing.

INDEX DESCRIPTIONS

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 Barclays Build America Bond Index is a subset of the Barclays Capital Taxable Municipal Bond Index. The Index consists of all direct pay Build America Bonds that satisfy the rules of the Barclays Capital Taxable Municipal Index. The Barclays Capital Taxable Municipal Bond Index represents securities that are SEC-registered, taxable, dollar denominated, and issued by a U.S. state or territory, and (i) have at least one year to final maturity regardless of call features, (ii) have at least $250 million par amount outstanding, (iii) are rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies.

The Barclays Capital Long Government/Credit Index measures the investment return of all medium and larger public issues of U.S. Treasury, agency, investment-grade corporate, and investment-grade international dollar-denominated bonds with maturities longer than 10 years. The average maturity is approximately 20 years.

The Barclays Capital U.S. High-Yield Municipal Bond Index is an unmanaged index made up of bonds that are non-investment grade, unrated, or rated below Ba1 by Moody's Investors Service with a remaining maturity of at least one year.

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 US dollar-denominated Brady Bonds, loans, and Eurobonds.

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.

The BofAML 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.

Citigroup 3-Month Tbill Index represents monthly return equivalents of yield averages of the last 3 month Treasury Bill issues.

The JPMorgan Emerging Markets Bond Index Global ("EMBI Global") tracks total returns for traded external debt instruments in the emerging markets, and is an expanded version of the JPMorgan EMBI+. As with the EMBI+, the EMBI Global includes U.S. dollar-denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least $500 million. It covers more of the eligible instruments than the EMBI+ by relaxing somewhat the strict EMBI+ limits on secondary market trading liquidity.

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 S&P/LSTA U.S. Leveraged Loan 100 Index is designed to reflect the largest facilities in the leveraged loan market. It mirrors the market-weighted performance of the largest institutional leveraged loans based upon market weightings, spreads, and interest payments. The index consists of 100 loan facilities drawn from a larger benchmark, the S&P/LSTA (Loan Syndications and Trading Association) Leveraged Loan Index (LLI).

The Wells Fargo Build America Bond Index is a comprehensive, rules-based index measuring the performance of certain types of municipal bonds issued under the American Recovery and Reinvestment Act of 2009.

MODEL DESCRIPTIONS

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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