

Portfolio Compass

September 1, 2010

The Portfolio Compass provides an easy-to-read snapshot of LPL Financial Research's views on the Economy, Equities and Fixed Income as well as our Current Conditions Index.

This publication illustrates our current views and will change as needed, and incorporates our biases over a 3- to 12-month time horizon.

The Portfolio Compass is comprised of five components:

- Current Conditions Index:** The LPL Financial Current Conditions Index is a weekly measure of the conditions that underline our outlook for the markets and economy.
- Economic Compass:** The Economic Compass illustrates how the U.S. economy, financial conditions, monetary and fiscal policy, and international economies are tracking to the consensus outlook for each of the indicators in the relevant period.
- Equity & Commodity Asset Class Compass:** Evaluates the asset classes such as Large Growth, Mid Value, Foreign Stocks, REITs, and Commodities.
- Equity Sector Compass:** Evaluates the 10 S&P 500 equity sectors.
- Fixed Income Compass:** Evaluates the fixed income asset classes.

Reading the Portfolio Compass

- In the Economic Compass the dots illustrate how each category is tracking to the consensus outlook.
- In the other compasses the dots illustrate our view for each category as negative, neutral, or positive, in addition to fundamental, valuation, and technical characteristics for the category.
- The bias, illustrated with a right or left facing arrow, provides an "early warning" that a change may be looming.
- The active manager performance column indicates whether active managers, as defined by the Morningstar category average, are beating the asset class benchmarks over the trailing three-month, and 1-year period.
- Rationales for our views are provided in the Comments section.

Broad Asset Class Views

	Negative	Neutral	Positive	Bias
★ Stocks	●	←	○	
Bonds		●		
★ Cash		○	→	
Alternatives	●			

Source: LPL Financial Research

★ Denotes change in tracking from last issue.



Current Conditions Index

September 1, 2010

Real-Time Tracking

The LPL Financial Current Conditions Index is a weekly measure of the conditions that underline our outlook for the markets and economy. The CCI provides real-time context and insight into the trends that shape our recommended actions to manage portfolios. This index has been a useful tool for investment decision making.

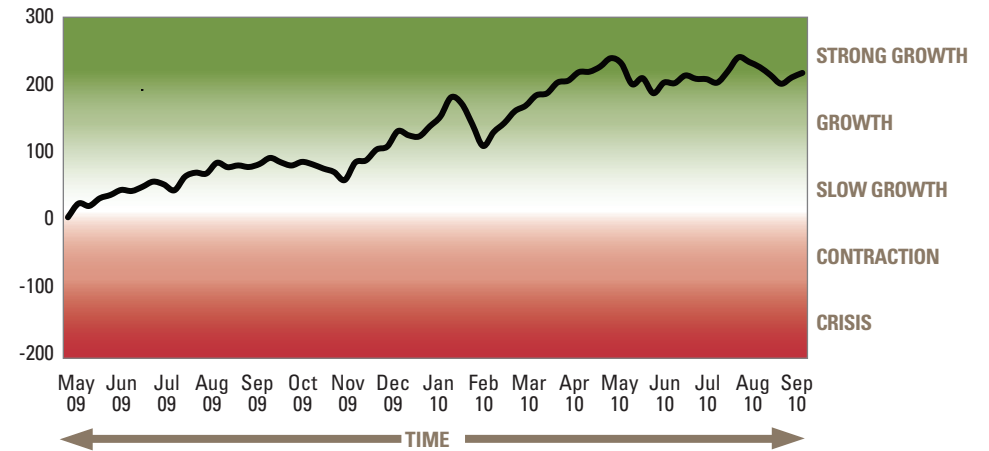
This weekly index is not intended to be a leading index or predictive of where conditions are headed, but a coincident measure of where they are right now. We want to track the conditions in real-time to aid in investment decision making. There are thousands of indicators-some lead the economy, some lag, while others merely offer a lot of statistical noise. We chose to create our own index tailored to the current environment to provide the clearest and most useful way to track conditions. The components of the CCI are periodically changed to retune the index to those factors most critical to the markets and economy so it may continue to be a valuable investment decision-making tool.

How are the Components Affecting the Index Right Now?

Over the past week, the LPL Financial Current Conditions Index was relatively unchanged at 218. The level of the CCI indicates an environment fostering growth in the economy and markets. We expect that the CCI may weaken later in 2010 to reflect an environment of slower growth.

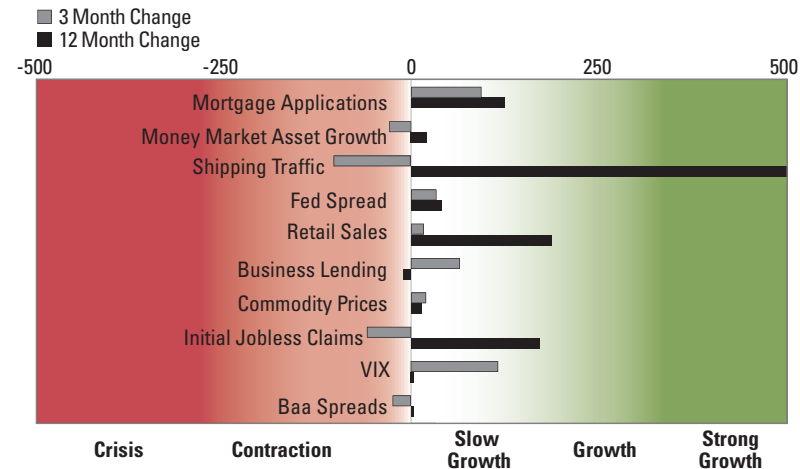
Most components remained positive over the past three and twelve months. The CCI component that demonstrated the most improvement during the week was Retail Sales. The pace of Retail Sales has slowed to a year-over-year gain of 3%, but shown no growth over the past three months. There was remarkably little change among the other components of the CCI over the past week. Over the past three months, Money Market Fund Assets, Shipping Traffic, Initial Jobless Claims, and BAA Spreads have shown some deterioration.

LPL Financial Research Current Conditions Index



Source: LPL Financial 9/01/10

LPL Financial Research Current Conditions Index Components



Source: LPL Financial 9/01/10



Economic Compass

September 1, 2010

Talk of A "Double Dip" Recession Has Increased, But Our View Remains A Slowdown in Growth, Not A Recession in 2H '10

In recent months, the U.S. economy's transition from recovery to sustainable growth has been called into question. In April and May, it was the flare-up of the European debt problem and its potential impact on global economic growth. A run of weaker than expected economic data since late May – typical of the pattern of data about one year into an economic recovery — has inevitably led to increased talk of a double-dip recession. In our view, while the odds of a double-dip have increased in the past few months, we don't think a double-dip is likely to occur given the current economic and policy backdrop. However, a sudden surge in commodity prices that leads to a dramatic rise in consumer energy costs, a sharp increase in global central bank policy rates, a collapse in overseas economic growth, a rapid reining in of fiscal stimulus in the United States and/or a dramatic flattening of the yield curve would cause us to consider changing our view. In addition, with the economy already slowing, the United States economy remains vulnerable to any sort of economic or geopolitical shock, which could tip the economy back into recession later this year or in early 2011. As always, we will continue to monitor the incoming data, events, and policy for signs that the U.S. economy is headed toward a double-dip. For now, slow growth is the base case outcome over the second half of 2010.

Economic Factors	Present Status*	Relative to The Consensus			Bias	Comment
		Below	In Line	Above		
ECONOMY	Consumer Spending	●		●		Consensus on the consumer sector moved higher in 1H to meet our view. Now consensus calls for slower growth.
	Business Spending	●		●		Business spending leading the economic recovery, but slowdown likely in 2H '10.
	Housing	●		●		Housing still bouncing along the bottom after expiration of homebuyers tax credit.
	Export Sector	●		●	←	Strong export growth continues to lead economy early in recovery. Weak Euro zone economies are a threat.
	Labor Market	●		●	←	Progress made in the labor market in 2010, but still a long way to go to recover 8.5 million lost jobs.
	Inflation	●		●		Expectations have been too high on core inflation forecasts thus far in 2010. Deflation a concern, but not a realistic threat.
POLICY	Fiscal	●		●	→	Remaining fiscal stimulus offsets looming tax increases. Fiscal woes at state and local level are a concern.
	Monetary	●			●	More quantitative easing by the Fed is now on the table.
	Government	●		●		09/'10 legislative wave may be ending; '10 Mid-term elections are next catalyst.
OVERSEAS	U.S. Dollar	●		●		Dollar rose from late '09 through mid '10 on Euro zone concerns. Now modest decline for dollar is consensus view.
	Overseas Economies – Developed	●		●		The brunt of the tax hikes and spending cuts won't be felt in Europe until later this year and early '11.
	Overseas Economies – Emerging Markets	●		●		Market still expects 5-6% real GDP growth in EM in '10, 9.5% in China; Stronger in 1H than in 2H
FINANCIAL CONDITIONS	Lending Conditions	●		●	→	Credit conditions have eased and loan demand from business and consumers is stabilizing, but still weak.
	Corporate Profits	●		●		Slower global growth will weigh on 2H10 but we believe +25% is still doable in 2010
	Overall Economy	●		●		Our forecast for 2-3% GDP growth in 2H 2010 is right at the consensus.

★ Denotes change in tracking from last issue. ● Negative ● Neutral ● Positive

* Present Status: Assessment of the current state of the various components of the economy listed. Where available, the assessment is taken from the most recent Federal Reserve's Federal Open Market Committee (FOMC) Beige Book or from the most recent FOMC statement. Where no assessment from the Federal Reserve is available, the assessment is that of the LPL Financial Research Department, based on economic data releases from various government agencies.

Equity & Commodity Asset Class Compass

September 1, 2010

Broadening and Expanding Commodities Exposure With Precious Metals Upgrade

We maintain our preference for Growth over Value due to better earnings trends, relative valuations and decelerating growth. Small Cap relative performance may stall out in the near term as the market awaits a catalyst to push equities broadly higher. Our preference for U.S. investments over Large Foreign reflects sluggish growth outlooks in Europe and Japan, while we continue to favor Emerging Markets equities, supported by solid fundamentals and reasonable valuations. Inflation, tightening monetary policy and the market's heightened risk aversion, however, argue for offsetting this risk. We remain positive on REITs for yield, but valuations and meager job growth are concerns. We expect Industrial Metals to move higher as the U.S. and China growth outlooks improve, while we have broadened and expanded Commodities exposure with Precious Metals and Agriculture. We bought Precious Metals mostly help to de-risk, while our positive Agricultural Commodities view is driven by tightening global supplies and the secular uptrend in demand.

	Fundamentals	Technicals	Valuation	View			Bias	Comment	Active Manager Performance (trailing)	
				Negative	Neutral	Positive			3 mo.	1 yr.
STYLE / CAPITALIZATION	Large Growth	●	●	●		●			-	-
	Large Value	●	●	●	●				+	-
	Mid Growth	●	●	●			●		-	-
	Mid Value	●	●	●			●		-	-
	★ Small Growth	●	●	●			● ← ○		+	+
	★ Small Value	●	●	●			● ← ○		+	+
REGION	★ U.S. Stocks	●	●	●			● ← ○			
	Large Foreign	●	●	●	●				-	+
	Small Foreign	●	●	●	●				-	+
	Emerging Markets	●	●	●			●		+	+
REITS	●	●	●			●			+	-
COMMODITIES	Commodities - Industrial Metals	●	●				●			
	★ Commodities - Precious Metals	●	●				○ → ●			
	Commodities - Energy	●	●				●			
	Commodities - Agricultural	●	●				●			

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Real Estate/REITs may result in potential illiquidity and there is no assurance the objectives of the program will be attained. The fast price swings of commodities will result in significant volatility in an investor's holdings. International and emerging markets involve special risks such as currency fluctuation and political instability. Small-cap stocks may be subject to a higher degree of risk than more established companies and due to illiquidity of their market it may adversely affect them. Mid capitalization companies are subject to a higher volatility than those of large-capitalized companies. Precious metal investing involves greater fluctuation and potential for loss. These securities may not be suitable for all investors.



Equity Sector Compass

September 1, 2010

Continue to Favor Business-Led Cyclical Sectors; Telecom and Utilities Yields Hard to Ignore

We maintain our positive views of the business-driven cyclical sectors, including Industrials, Materials and Technology, as discussed in our just-published Sector Strategy report. For the near term, we recommend pairing volatility-dampening investments, such as bonds, precious metals, with these sector allocations until catalysts emerge and the market's double-dip fears abate. Our positive Materials view reflects our desire for leverage to global growth, notably China. We expect Industrials and Technology may benefit as markets reassess growth outlooks. Minimal job growth and muted spending keep us at neutral on Consumer Discretionary. We would consider a more positive Energy view closer to the low end of crude's trading range near \$70. A lack of loan growth continues to weigh on Financials, despite improving credit trends. We have upgraded our Telecom and Utilities views to neutral due to the increasing attractiveness of dividend yields. Sluggish growth and our cyclical tilt steer us away from Consumer Staples and Health Care.

	Fundamentals	Technicals	Valuation	View			Bias	S&P 500 Weight (%)	Comment	Industry Views	
				Negative	Neutral	Positive				Most Favored	Least Favored
CYCLICAL	Materials	●	●	●				3.6	Global economic pessimism still overdone; may take a month or two to become apparent.	Metals & Mining	none
	Energy	●	●	●			●	10.9	Would consider getting more constructive at lower end of range near \$70 a barrel.	Integrated	Equipment & Services
	Industrials	●	●	●				10.6	Business spending and export rebounds still supportive; likely leader post-spot spot.	Transportation, Machinery	Aerospace & Defense
	Consumer Discretionary	●	●	●			●	10.2	Uneven spending and tepid job growth offset strong earnings, keeping us neutral.	Media	Consumer Durables
	Technology	●	●	●			●	18.4	Earnings, semiconductor outlooks have deteriorated, but good risk-reward at market P/E.	Hardware, Software, Communications Equipment	IT Services
	Financials	●	●	●			●	15.8	Weak loan growth keeps us sidelined despite credit improvement and attractive valuation.	Diversified Financials	Insurance
DEFENSIVE	★ Utilities	●	●	●			○→●	3.9	Defensive and fully valued, but yields too attractive to ignore and earnings have held up.	Regulated	none
	Health Care	●	●	●			●	11.7	We continue to favor cyclical sectors; reform and lack of growth remain headwinds.	Biotech	Managed Care
	Consumer Staples	●	●	●			●	11.7	Lackluster growth, defensive characteristics and likely continued margin pressures.	Household & Personal Products	Food & Staples Retailing
	★ Telecom	●	●	●			○→●	3.2	Defensive and fully valued and, like Utilities, yields tough to ignore.	Diversified	none

★ Denotes change in view from last issue. ● Negative ● Neutral ● Positive

Investing in sectors may be more volatile than diversifying across many industries.

Fixed Income Compass

September 1, 2010

Wide Spreads and Improving Economic Data Favors Taking Risk in High Yield and Emerging Markets Debt

Treasuries have rallied recently on weak U.S. economic data, low inflation, and a Fed on hold for longer and yields are likely to remain at the low end of the range over the near-term. Mortgage-Backed Securities (MBS) have underperformed on fears of a refinancing wave. Spread sectors have lagged although Q2 earnings results show improving credit metrics. We maintain our overweights to High-Yield Bonds, Emerging Market Debt (EMD) and Investment-Grade Corporate Bonds, given improving fundamentals and attractive valuations. High-Yield issuers have benefitted from lower interest rates to refinance debt and default rates continue to decline. EMD will benefit from faster growth among developing countries and favorable credit trends. Despite the recent European Union/International Monetary Fund aid package, sovereign risk concerns among developed European nations are likely to persist, given sluggish growth prospects, and we remain cautious on Foreign Bonds.

	Fundamentals	Technicals	Valuation	View			Bias	Comment	Active Management Performance (trailing)			
				High		Low			3 mo.	1 yr.		
									Short	Long		
				Negative	Neutral	Positive						
Credit Quality	●		●				●	Credit spreads still wide; prefer Corporate Bonds to Government Bonds.				
Duration	●		●			●		Expect short rates to stay low and the yield curve to remain steep; favor intermediate maturities; prefer sector exposure.				
TAXABLE BONDS	U.S.	Treasuries	●	●	●		●	←	The Fed's decision to purchase additional Treasuries has pushed yields into a lower range.	+	+	
		TIPS	●	●	●		●	←	Breakeven inflation rates declined but, like Treasuries, valuations still high.	-	-	
		Agency Debt	●	●	●		●			Prefer to Treasuries but yields low.		
		Investment-Grade Corporates	●	●	●			●		Yield Spreads wider on sharp decline in Treasury yields; earnings results show improving fundamentals.		
		Agency Mortgages	●	●	●		●			Spreads wider over uncertain future of GSEs and refinancing fears sparked by lower Treasury yields.		
		Non-Agency Mortgages	●	●	●			●	←	Valuations have increased but opportunity still exists.		
		Preferred Stocks	●	●	●			●	←	Yields still attractive. Financial regulatory reform modest positive.		
		High-Yield Corporates	●	●	●			●		Yield spreads wider on selloff in risk assets; investor demand remains robust.	-	-
		Bank Loans	●	●	●			●		Still trade at discount to par; High-Yield issuance used to pay off bank loans a positive.	+	-
		Foreign Bonds - Hedged	●	●	●			●		Sovereign risks still a concern but interest rate risk lower relative to U.S.		
TAX-FREE BONDS	FOREIGN	Foreign Bonds - Unhedged	●	●	●		●	←	Yen and Euro exposure poses risk versus US Dollar.			
		Emerging Market Debt	●	●	●			●		Valuations now more attractive, further economic improvement, and favorable supply/demand bolster sector.	-	-
		Munis - Short-Term	●	●	●		●			Muni curve is steep, and short-term yields are very low.	+	-
TAX-FREE BONDS	U.S.	Munis - Intermediate-Term	●	●	●		●		Steady Build America Bond issuance in 2010 benefits supply/demand backdrop.	-	-	
		Munis - Long-Term	●	●	●			●		Valuations attractive as yield ratio to Treasuries has increased.	-	-
		Munis - High-Yield	●	●	●			●	→	Valuations still attractive and offset defaults among most speculative issuers.		

★ Denotes change in view from last issue. ● Negative ● Neutral ● Positive

All bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. High yield/junk bonds are not investment grade securities, involve substantial risks and generally should be part of the diversified portfolio of sophisticated investors. Municipal interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply. Preferred stock investing involves risk including loss of principal. Mortgage Backed Securities are subject to credit, default risk, prepayment risk that acts much like call risk when you get your principal back sooner than the stated maturity, extension risk, the opposite of prepayment risk, and interest rate risk. International and emerging market investing involves risks such as currency fluctuation and political instability and may not be suitable for all investors. Bank loans are loans issued by below investment grade companies for short term funding purposes with higher yield than short-term debt and involve risk. Treasury inflation-protected securities (TIPS) help eliminate inflation risk to your portfolio as the principal is adjusted semiannually for inflation based on the Consumer Price Index - while providing a real rate of return guaranteed by the U.S. Government. Duration: A measure of the sensitivity of the price (the value of the principal) of a fixed-income investment to a change in interest rates.

Appendix - CCI Components

To create the index we found 10 indicators that provided a weekly, real-time measure of the conditions in the economic and market environment. Each component is important and measures a different driver of the environment. The 10 components of the CCI are described below:

1. **Initial Claims Filed for Unemployment Benefits** – Measures the number of people filing for unemployment benefits. A rise in the number of new claims acts as a negative on the CCI.
2. **Fed Spread** – A measure of future monetary policy, the futures market gives us the difference between the current federal funds rate and the expected federal funds rate six months from now. Typically, a rise in rate hike expectations weighs on the markets since higher rates increase the cost of bank borrowing and have tended to slow the growth in the economy and profits. A rise in the Fed Spread acts as a negative for the CCI.
3. **Baa Spreads** – The yield on corporate bonds above the rate on comparable maturity Treasury debt is a market based estimate of the amount of fear in the bond market. Baa-rated bonds are the lowest quality bonds still considered investment grade, rather than high-yield. Therefore, they best reflect the stresses across the quality spectrum. A rise in Baa spreads acts as a negative for the CCI.
4. **Retail Sales** – International Council of Shopping Centers tabulates data on major retailer's sales compared to the same week a year earlier. This measures the current pace of consumer spending. Consumer spending makes up two-thirds of GDP. Rising retail sales acts as a positive for the CCI.
5. **Shipping Traffic** – A measure of trade, the Association of American Railroads tracks the number of carloads of cargo that moves by rail in the U.S. each week. A growing economy moves more cargo. A rise in railroad traffic acts as a positive for the CCI.
6. **Business Lending** – A good gauge of business' willingness to borrow to fund growth, the Federal Reserve tabulates demand for Commercial & Industrial loans at U.S. commercial banks. More borrowing reflects increasing optimism by business leaders in the strength of demand. A rise in loan growth acts as a positive for the CCI.
7. **VIX** – The VIX is a measure of the volatility implied in the prices of options contracts for the S&P 500. It is a market based estimate of future volatility. While this is not necessarily predictive it does measure the current degree of fear present in the stock market. A rise in the VIX acts as a negative on the CCI.
8. **Money Market Asset Growth** – A measure of the willingness to take risk by investors, the year-over-year change in money market fund assets tracked by Investment Company Institute shows the change in total assets in cash equivalent money market funds. A rise in money market asset growth acts as a negative for the CCI.
9. **Commodity Prices** – While retail sales captures end user demand for goods, commodity prices reflect the demand for the earliest stages of production of goods. Commodity prices can offer an indicator of the pace of economic activity. The CRB Commodity Index includes copper, cotton, etc. A rise in commodity prices acts as a positive on the CCI.
10. **Mortgage Applications** – The weekly index measuring mortgage applications provides an indication of housing demand. With much of the credit crisis tied to housing, keeping tabs on real time buying activity can offer insight on how the crisis is evolving. A rise in the index of mortgage applications acts as a positive on the CCI.

Portfolio Compass Definitions

ECONOMIC DEFINITIONS

Consumer Spending: Real Personal Consumption Expenditures from the U.S. Government's National Income and Product Accounts.

Business Spending: Business Investment in Equipment and Inventories from the U.S. Government's National Income and Product Accounts.

Housing: Amalgamation of housing prices and housing construction activity.

Export Sector: Real Net Exports from the U.S. Government's National Income and Product Accounts.

Labor Market: Unemployment Rate and Nonfarm Payroll job count from the U.S. Bureau of Labor Statistics.

Inflation: Consumer Price Index, overall and excluding food and energy, from the U.S. Bureau of Labor Statistics.

Fiscal Policy: The U.S. Federal government's spending and tax policies.

Monetary Policy: The U.S. Federal Reserve's policies on interest rates and the money supply.

Government Policy: Overall U.S. government policy as it relates to the banking and housing crises.

US dollar: Broad measure of the US dollar versus the currencies of its major trading partners (Canada, Eurozone, Japan, UK, etc.)

International Economies – Developed: Proxy for economic, fiscal, and monetary health of major developed international economies (Canada, Eurozone, Japan, UK, etc.)

International Economies – Emerging: Proxy for economic, fiscal, and monetary health of major emerging international economies (China, India, Russia, Brazil, Eastern Europe, Latin America, etc.)

Financial Conditions: A measure of the health of the financial system relative to "normal" times. Indicators include, but are not limited to: short term credit spreads, overnight bank lending rates, spreads on corporate debt, willingness of banks to lend to each other, willingness of banks to lend to customers, and the ability of corporations to finance themselves in the short-and long-term debt and equity markets

Yield Curve: Difference in basis points between the 10-year Treasury note and the 3-month T-Bill.

Corporate Profits: S&P 500 Operating profits as compiled by Thomson Financial.

Present Status: Assessment of the current state of the various components of the economy listed. Where available, the assessment is taken from the most recent Federal Reserve's Federal Open Market Committee (FOMC) Beige Book or from the most recent FOMC statement. Where no assessment from the Federal Reserve is available, the assessment is that of the LPL Financial Research Department, based on economic data releases from various government agencies.

Earnings Per Share (EPS): The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

EQUITY AND COMMODITY ASSET CLASSES

Large Growth: Stocks in the top 70% of the capitalization of the U.S. equity market are defined as Large Cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

Large Value: Stocks in the top 70% of the capitalization of the U.S. equity market are defined as Large Cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

Mid Growth: The U.S. mid-cap range for market capitalization typically falls between \$1 billion and \$8 billion and represents 20% of the total capitalization of the U.S. equity market. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

Mid Value: The U.S. Mid Cap range for market capitalization typically falls between \$1 billion and \$8 billion and represents 20% of the total capitalization of the U.S. equity market. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

Small Growth: Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as Small Cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

Small Value: Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as Small Cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

Portfolio Compass Definitions (CONT.)

EQUITY AND COMMODITY ASSET CLASSES (CONT.)

U.S. Stocks: Stock of companies domiciled in the U.S.

Large Foreign: Large-cap foreign stocks have market capitalizations greater than \$5 billion. The majority of the holdings in the large foreign category are in the MSCI EAFE Index.

Emerging Markets: Stocks of a single developing country or a grouping of developing countries. For the most part, these countries are in Eastern Europe, Africa, the Middle East, Latin America, the Far East and Asia.

REITs: REITs are companies that develop and manage real-estate properties. There are several different types of REITs, including apartment, factory-outlet, health-care, hotel, industrial, mortgage, office, and shopping center REITs. This would also include real-estate operating companies.

Commodities – Industrial Metals: Stocks in companies that mine base metals such as copper, aluminum and iron ore. Also included are the actual metals themselves. Industrial metals companies are typically based in North America, Australia, or South Africa.

Commodities – Precious Metals: Stocks of companies that do gold- silver-, platinum-, and base-metal-mining. Precious-metals companies are typically based in North America, Australia, or South Africa.

Commodities – Energy: Stocks of companies that focus on integrated energy, oil & gas services, oil & gas exploration and equipment. Public energy companies are typically based in North America, Europe, the UK, and Latin America.

Small Foreign – Small - cap foreign stocks typically have market capitalizations of \$250M to \$1B. The majority of the holdings in the small foreign category are in the MSCI Small Cap EAFE Index.

EQUITY SECTORS

Consumer Discretionary: Companies that tend to be the most sensitive to economic cycles. Its manufacturing segment includes automotive, household durable goods, textiles and apparel, and leisure equipment. The service segment includes hotels, restaurants and other leisure facilities, media production and services, consumer retailing and services and education services.

Consumer Staples: Companies whose businesses are less sensitive to economic cycles. It includes manufacturers and distributors of food, beverages and tobacco, and producers of non-durable household goods and personal products. It also includes food and drug retailing companies.

Energy: Companies whose businesses are dominated by either of the following activities: The construction or provision of oil rigs, drilling equipment and other energy-related service and equipment, including seismic data collection or the exploration, production, marketing, refining and/or transportation of oil and gas products, coal and consumable fuels.

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

Health Care: Companies in two main industry groups: Health Care equipment and supplies or companies that provide health care-related services, including distributors of health care products, providers of basic health care services, and owners and operators of health care facilities and organizations or companies primarily involved in the research, development, production and marketing of pharmaceuticals and biotechnology products.

Industrials: Companies whose businesses: Manufacture and distribute capital goods, including aerospace and defense, construction, engineering and building products, electrical equipment and industrial machinery; provide commercial services and supplies, including printing, employment, environmental and office services; provide transportation services, including airlines, couriers, marine, road and rail, and transportation infrastructure.

Technology: Companies that primarily develop software in various fields such as the Internet, applications, systems and/or database management and companies that provide information technology consulting and services. Technology hardware & equipment include manufacturers and distributors of communications equipment, computers and peripherals, electronic equipment and related instruments, and semiconductor equipment and products.

Materials: Companies that engage in a wide range of commodity-related manufacturing. Included in this sector are companies that manufacture chemicals, construction materials, glass, paper, forest products and related packaging products, metals, minerals and mining companies, including producers of steel.

Telecommunications: Companies that provide communications services primarily through a fixed line, cellular, wireless, high bandwidth and/or fiber-optic cable network.

Utilities: Companies considered electric, gas or water utilities, or companies that operate as independent producers and/or distributors of power.

Portfolio Compass Definitions (CONT.)

FIXED INCOME ASSET CLASSES

Credit Quality: An individual bond's credit rating is determined by private independent rating agencies such as Standard & Poor's, Moody's and Fitch. Their credit quality designations range from high ('AAA' to 'AA') to medium ('A' to 'BBB') to low ('BB', 'B', 'CCC', 'CC' to 'C').

Duration: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. The bigger the duration number, the greater the interest-rate risk or reward for bond prices.

Treasuries: A marketable, fixed-interest U.S. government debt security. Treasury bonds make interest payments semi-annually and the income that holders receive is only taxed at the federal level.

TIPS (Treasury Inflation Protected Securities): A special type of Treasury note or bond that offers protection from inflation. Like other Treasuries, an inflation-indexed security pays interest every six months and pays the principal when the security matures. The difference is that the underlying principal is automatically adjusted for inflation as measured by the consumer price index (CPI).

Agencies: Securities issued by corporations and agencies created by the U.S. government, such as the Federal Home Loan Bank Board and Fannie Mae.

Investment-Grade Corporates: Securities issued by corporations with a credit rating of BBB- or higher. Bond rating firms, such as Standard & Poor's, use different designations consisting of upper- and lower-case letters 'A' and 'B' to identify a bond's investment grade credit quality rating. 'AAA' and 'AA' (high credit quality) and 'A' and 'BBB' (medium credit quality) are considered investment grade.

Mortgage-Backed Securities: A Mortgage Backed Security (MBS) is an asset-backed security whose cash flows are backed by the principal and interest payments of a set of mortgage loans. Payments are typically made monthly over the lifetime of the underlying loans.

Agency MBS: These are issued by agencies created by the U.S. Government. Non-agency MBS are issued by private companies and include jumbo, Alt-A, and sub-prime mortgages.

Preferred Stocks: A class of ownership in a corporation that has a higher claim on the assets and earnings than common stock. Preferred stock generally has a dividend that must be paid out before dividends to common stockholders and the shares usually do not have voting rights.

High-Yield Corporates: Securities issued by corporations with a credit rating of BB+ and below. These bonds generally offer higher yields than investment grade bonds, but they are also more vulnerable to economic and credit risk.

Bank Loans: In exchange for their credit risk, these floating-rate bank loans offer interest payments that typically float above a common short-term benchmark such as the London interbank offered rate, or LIBOR.

Foreign Bonds – Hedged: Non-U.S. fixed income securities generally from investment grade issuers in developed countries, with hedged currency exposure.

Foreign Bonds – Unhedged: Non-U.S. fixed income securities normally denominated in major foreign currencies.

Emerging Market Debt: The debt of sovereigns, agencies, local issues, and corporations of emerging markets countries and subject to currency risk.

Munis – Short-term: Bonds issued by various state and local governments to fund public projects. The income from these bonds is generally free from federal taxes. These bonds generally have maturities of less than three years.

Munis – Intermediate: Bonds issued by various state and local governments to fund public projects. The income from these bonds is generally free from federal taxes. These bonds generally have maturities of between 3 and 10 years.

Munis – Long-term: Bonds issued by various state and local governments to fund public projects. The income from these bonds is generally free from federal taxes. These bonds generally have maturities of more than 10 years.

Munis – High Yield: Bonds issued by various state and local governments to fund public projects. The income from these bonds is generally free from federal taxes. These bonds generally offer higher yields than other types of bonds, but they are also more vulnerable to economic and credit risk. These bonds are rated BB+ and below.



IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide or be construed as providing specific investment advice or recommendations for any individual. To determine which investments may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested in directly.

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.

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.

Investing in alternative investments may not be suitable for all investors and involve special risks such as risk associated with leveraging the investment, potential adverse market forces, regulatory changes, and potential illiquidity. There is no assurance that the investment objective will be attained.

Long positions may decline as short positions rise, thereby accelerating potential losses to the investor.

Stock investing involves risk including loss of principal.

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

The European Union is a group of European countries that participates in the world economy as one economic unit and operates under one official currency, the euro. The EU's goal is to create a barrier-free trade zone and to enhance economic wealth by creating more efficiency within its marketplace.

The International Monetary Fund (IMF) is an organization of 186 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

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