

Portfolio Compass

JULY 7, 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.

Broad Asset Class Views

| | Negative | Neutral | Positive | Bias |
|--------------|----------|---------|----------|------|
| Stocks | ★ | ● | | |
| Bonds | | ● | | |
| Cash | | ● | | |
| Alternatives | | ● | | |

Source: LPL Financial Research

★ Denotes change in tracking from last issue.

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 Asset Class & Commodity 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.



Current Conditions Index

July 7, 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.

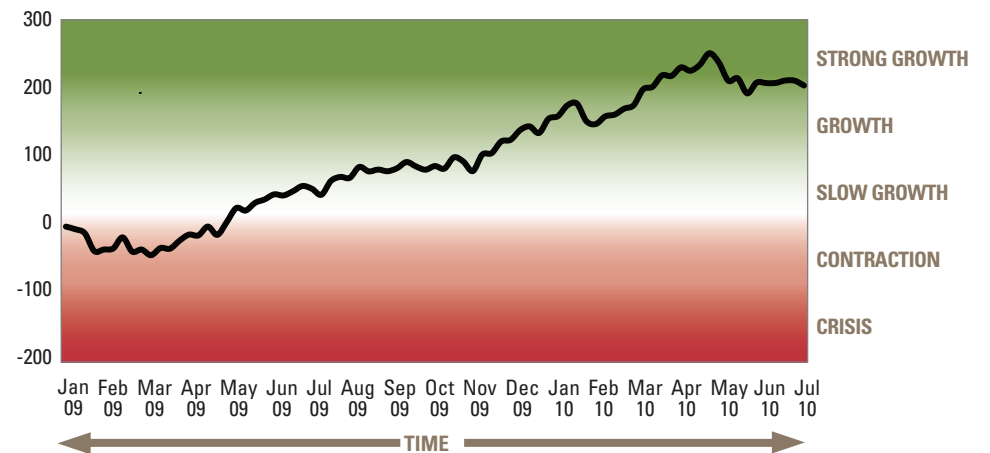
This weekly index is not intended to be a leading index or predictive of where conditions are headed, but a coincident measure of where they are right now. We want to track the conditions in real-time to aid in investment decision making. There are thousands of indicators-some lead the economy, some 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 remained essentially unchanged, dipping slightly to 205. The level of the CCI indicates an environment fostering solid growth in the economy and markets. We expect that the CCI may weaken in the latter half of 2010 to reflect an environment of slow growth.

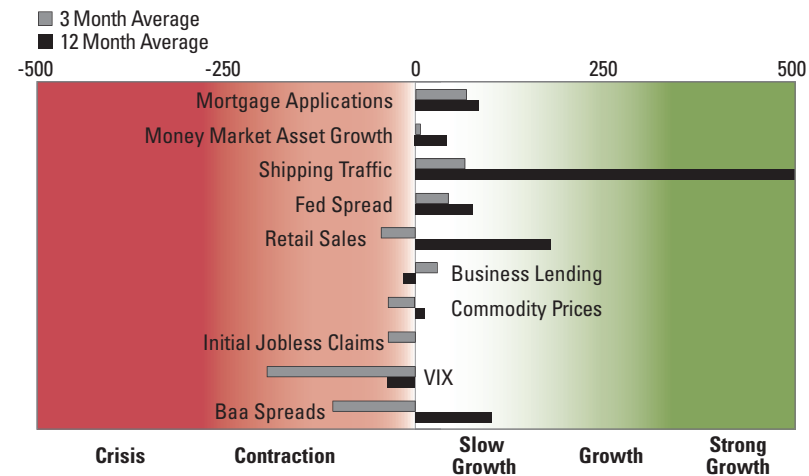
The CCI component that demonstrated the most deterioration during the week was Shipping Traffic. On the positive side, Retail Sales improved.

LPL Financial Research Current Conditions Index



Source: LPL Financial

LPL Financial Research Current Conditions Index Components



Source: LPL Financial

Economic Compass

July 7, 2010

Talk of a Double-Dip Recession Has Increased, but Our View Remains a Slowdown in Growth, Not a Recession in 2H '10

The U.S. economy's transition from recovery to sustainable growth has been called into question by the flare-up of the European debt problem and its potential impact on global economic growth. A run of weaker than expected economic data over the past month—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, a sharp increase in global central bank policy rates, a collapse in overseas economic growth, a rapid reigning in of fiscal stimulus in the United States and/or a dramatic flattening of the yield curve would cause us to change our view.

| Economic Factors | Present Status* | Relative to The Consensus | | | Bias | Comment | |
|----------------------|---------------------------------------|---------------------------|---------|-------|------|---------|-------------------------------------------------------------------------------------------------------------------------|
| | | Below | In Line | Above | | | |
| ECONOMY | Consumer Spending | ● | | ● | | ← | Consensus on the consumer sector has moved higher to meet our view. |
| | Business Spending | ● | | ● | | | Business spending leading the economic recovery. Slowdown in Europe is a risk. |
| | Housing | ● | | ● | | | We will continue to monitor the housing market now that the first time homebuyer tax credit has expired. |
| | Export Sector | ● | | ● | | ← | Strong export growth continues to lead economy early in recovery. Weak Eurozone economies are a threat. |
| | Labor Market | ● | | ● | | ← | Disappointing jobs reports in May and June, good progress made the labor market thus far in 2010. |
| | Inflation | ● | | ● | | | We, and the consensus, have been too high on core inflation forecasts thus far in 2010. |
| POLICY | Fiscal | ● | | ● | | → | Remaining fiscal stimulus offsets looming tax increases. Fiscal woes at state and local level are a concern. |
| | Monetary | ● | | ● | | → | Consensus view is that Fed won't tighten until early 2011; we concur with that view. |
| | Government | ● | | ● | | | Oil spill in the Gulf of Mexico presents risks to overregulation in energy sector. |
| OVERSEAS | U.S. Dollar | ● | | ● | | | Consensus calling for the dollar to post modest gains vs. Yen and Euro in '10. Has been in rising trend since late '09. |
| | Overseas Economies – Developed | ● | | ● | | | Economies in developed Europe and Japan still tracking to below US growth rates in '10. |
| | Overseas Economies – Emerging Markets | ● | | ● | | | Market expects 5-6% real GDP growth in EM in '10, 9.5% in China; May be stronger in 1st half than in 2H. |
| FINANCIAL CONDITIONS | Lending Conditions | ● | | ● | | → | Credit conditions have eased and loan demand from business and consumers may have bottomed. |
| | Corporate Profits | ● | | ● | | | Europe/euro may weigh on 2H10 but we believe +25% is still doable in 2010. |
| ★ Overall Economy | | ● | | ● | | | Our forecast for 3-4% GDP growth in 2010 is now only slightly above consensus forecast of 3.2%. |

★ 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

July 7, 2010

Maintain Positive Views of Small Caps, REITs and Commodities; Favor U.S. Over International

We continue to favor Growth over Value for the medium term due to favorable earnings trends, attractive relative valuations and expectations for decelerating economic and profit growth. Our Growth tilt is modest, however, in anticipation of better Value performance in the near-term as stocks retrace the recent correction. We expect Small Caps to beat Large as equities move higher and credit markets improve. Our preference for U.S. investments over Large Foreign reflects Europe's enormous challenges and Japan's lackluster outlook. Although Emerging Market valuations are attractive and China's currency flexibility helps, tightening monetary policy raises the risk profile. Dividends are supportive of the REIT outlook, especially in light of recent further declines in market interest rates. Our positive Commodities views reflect our desire for sensitivity to global growth. We expect crude to move back toward the high end of its recent trading range in the low-to-mid \$80s. An improved China outlook is supportive of crude and base metals, while natural gas fundamentals are favorable.

| | | Fundamentals | Technicals | Valuation | View | | | Bias | Comment | Active Manager Performance (trailing) | |
|------------------------|---------------------------------|--------------|------------|-----------|----------|---------|----------|------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|-------|
| | | | | | Negative | Neutral | Positive | | | 3 mo. | 1 yr. |
| | | | | | | | | | | | |
| STYLE / CAPITALIZATION | Large Growth | ● | ● | ● | ★ | ★ | ● | → | Our models are generally balanced between Growth and Value in anticipation of improved Value performance in a near-term market rebound. Medium term, earnings outlooks, decelerating growth expectations, valuation and our positive Technology view still favor Growth. | - | - |
| | Large Value | ● | ● | ● | ★ | ★ | ● | | Our models are generally balanced between Growth and Value in anticipation of improved Value performance in a near-term market rebound. Medium term, earnings outlooks, decelerating growth expectations, valuation and our positive Technology view still favor Growth. | - | - |
| | Mid Growth | ● | ● | ● | ★ | ★ | ● | | We expect Mid Cap stocks to outpace Large Caps but trail Small Caps in a market rebound. Mid cap stocks are well positioned to benefit from improved economic growth and Merger & Acquisition (M&A), and valuations are more attractive following the recent pullback. | + | - |
| | Mid Value | ● | ● | ● | ★ | ★ | ● | | We expect Mid Cap stocks to outpace Large Caps but trail Small Caps in a market rebound. Mid cap stocks are well positioned to benefit from improved economic growth and Merger & Acquisition (M&A), and valuations are more attractive following the recent pullback. | - | - |
| | Small Growth | ● | ● | ● | ★ | ★ | ● | | We believe Small Caps will lead the market as stocks recover recent losses in the coming weeks. Though the transition from recovery to sustainable growth brings volatility, we expect credit market healing, M&A and upward repricing of risk to help Small Caps. | + | + |
| | Small Value | ● | ● | ● | ★ | ★ | ● | | We believe Small Caps will lead the market as stocks recover recent losses in the coming weeks. Though the transition from recovery to sustainable growth brings volatility, we expect credit market healing, M&A and upward repricing of risk to help Small Caps. | + | + |
| REGION | U.S. Stocks | ● | ● | ● | ★ | ★ | ● | | Our negative view of Large Foreign reflects Europe's daunting challenges in the aftermath of its debt crisis. The necessary austerity measures and accompanying market skepticism will likely cause these issues to linger. Japan's recovery is also likely to be more sluggish than that in the U.S. and the rest of Asia. Emerging Markets still enjoy solid growth outlooks, budget surpluses, and reasonable valuations, and China's currency flexibility helps. But more restrictive monetary policy across many of these economies increases the risk profile. | | |
| | Large Foreign | ● | ● | ● | ★ | ★ | ● | | Our negative view of Large Foreign reflects Europe's daunting challenges in the aftermath of its debt crisis. The necessary austerity measures and accompanying market skepticism will likely cause these issues to linger. Japan's recovery is also likely to be more sluggish than that in the U.S. and the rest of Asia. Emerging Markets still enjoy solid growth outlooks, budget surpluses, and reasonable valuations, and China's currency flexibility helps. But more restrictive monetary policy across many of these economies increases the risk profile. | + | + |
| | Small Foreign | ● | ● | ● | ★ | ★ | ● | | Our negative view of Large Foreign reflects Europe's daunting challenges in the aftermath of its debt crisis. The necessary austerity measures and accompanying market skepticism will likely cause these issues to linger. Japan's recovery is also likely to be more sluggish than that in the U.S. and the rest of Asia. Emerging Markets still enjoy solid growth outlooks, budget surpluses, and reasonable valuations, and China's currency flexibility helps. But more restrictive monetary policy across many of these economies increases the risk profile. | + | + |
| | Emerging Markets | ● | ● | ● | ★ | ★ | ● | | Our negative view of Large Foreign reflects Europe's daunting challenges in the aftermath of its debt crisis. The necessary austerity measures and accompanying market skepticism will likely cause these issues to linger. Japan's recovery is also likely to be more sluggish than that in the U.S. and the rest of Asia. Emerging Markets still enjoy solid growth outlooks, budget surpluses, and reasonable valuations, and China's currency flexibility helps. But more restrictive monetary policy across many of these economies increases the risk profile. | + | + |
| REITS | REITs | ● | ● | ● | ★ | ★ | ● | | Dividends remain supportive, although higher cash flows are required to justify current valuations. | + | - |
| COMMODITIES | Commodities - Industrial Metals | ● | ● | ● | ★ | ★ | ● | | We favor Commodities asset classes levered to global growth including base metals and crude to take advantage of the market's overly pessimistic global outlook. We expect crude prices to move back to the high end of its recent trading range in the low-to-mid \$80s. Natural gas fundamentals remain favorable. China's currency flexibility improves the outlook for raw materials demand, on the margin, as does our expectation for an orderly slowdown in China's economy. Rising supply forecasts and weak technicals temper our agricultural view. | | |
| | Commodities - Precious Metals | ● | ● | ● | ★ | ★ | ● | → | We favor Commodities asset classes levered to global growth including base metals and crude to take advantage of the market's overly pessimistic global outlook. We expect crude prices to move back to the high end of its recent trading range in the low-to-mid \$80s. Natural gas fundamentals remain favorable. China's currency flexibility improves the outlook for raw materials demand, on the margin, as does our expectation for an orderly slowdown in China's economy. Rising supply forecasts and weak technicals temper our agricultural view. | | |
| | Commodities - Energy | ● | ● | ● | ★ | ★ | ● | | We favor Commodities asset classes levered to global growth including base metals and crude to take advantage of the market's overly pessimistic global outlook. We expect crude prices to move back to the high end of its recent trading range in the low-to-mid \$80s. Natural gas fundamentals remain favorable. China's currency flexibility improves the outlook for raw materials demand, on the margin, as does our expectation for an orderly slowdown in China's economy. Rising supply forecasts and weak technicals temper our agricultural view. | | |
| | Commodities - Agricultural | ● | ● | ● | ★ | ★ | ● | ← | We favor Commodities asset classes levered to global growth including base metals and crude to take advantage of the market's overly pessimistic global outlook. We expect crude prices to move back to the high end of its recent trading range in the low-to-mid \$80s. Natural gas fundamentals remain favorable. China's currency flexibility improves the outlook for raw materials demand, on the margin, as does our expectation for an orderly slowdown in China's economy. Rising supply forecasts and weak technicals temper our agricultural view. | | |

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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

July 7, 2010

Expect Business-Led Cyclical Sectors to Lead Market's Next Move Higher

We continue to favor cyclical sectors, with emphasis on the business spending side of the market over the consumer side. We believe the market's assessment of the global growth outlook is overly pessimistic, creating a near-term opportunity in risk assets. Our positive views of Energy and Materials reflect our desire for leverage to global growth and expectation for higher Commodities asset classes prices. We expect Industrials and Technology to benefit as market participants reassess pessimistic growth outlooks. Exposure to Europe is a manageable risk to Technology earnings, which have been revised higher in recent weeks. Our positive Consumer Discretionary bias reflects the sector's cyclical nature and favorable earnings trends, though disappointing recent jobs and retail sales data suggests caution. Regulatory clarity, valuation and credit trends support the Financials outlook, though sluggish capital markets activity and loan growth are concerns. The earnings impact from reform and the sector's defensiveness drive our negative Health Care view. Our still negative Consumer Staples view reflects stabilizing pricing trends and exposure to developing markets.

| | Fundamentals | Technicals | Valuation | View | | | Bias | S&P 500 Weight (%) | Comment | Industry Views | | | |
|-----------|------------------------|------------|-----------|----------|---------|----------|------|--------------------|---------|----------------|-----------------------------------------------------------------------------------------------------|-----------------------------------------|-------------------------------|
| | | | | Negative | Neutral | Positive | | | | Most Favored | Least Favored | | |
| | | | | | | | | | | | | | |
| CYCLICAL | Materials | ● | ● | ● | ■ | ■ | ■ | ● | ■ | 3.4 | Positive outlook reflects still overly pessimistic global growth outlook; Chinese Yuan float helps. | Metals & Mining | none |
| | Energy | ● | ● | ● | ■ | ■ | ■ | ● | ■ | 10.7 | Still see crude upside and valuations are attractive, though Gulf disaster adds uncertainty. | Exploration & Production | Integrated |
| | Industrials | ● | ● | ● | ■ | ■ | ■ | ● | ■ | 10.3 | Late cycle characteristics, business spending and export rebounds are supportive. | Transportation, Machinery | Aerospace & Defense |
| | Consumer Discretionary | ● | ● | ● | ■ | ■ | ■ | ● | → | 10.2 | Earnings, lower gas prices help, but tepid job growth and early cycle characteristics are offsets. | Media | Consumer Durables |
| | Technology | ● | ● | ● | ■ | ■ | ■ | ● | ■ | 18.8 | Earnings, valuation and technicals are all positive; Europe exposure is a risk to watch closely. | Hardware, Semiconductors | IT Services |
| | Financials | ● | ● | ● | ■ | ■ | ■ | ● | → | 16.1 | Reform clarity, valuation and credit healing help offset sluggish loan growth and capital markets. | Diversified Financials, Capital Markets | Insurance |
| DEFENSIVE | Utilities | ● | ● | ● | ■ | ■ | ■ | ● | ■ | 3.7 | Sluggish growth, defensiveness, valuations offset interest rate and natural gas price sensitivity. | Regulated | none |
| | Health Care | ● | ● | ● | ■ | ■ | ■ | ● | ■ | 12.1 | Reform drag remains and we continue to favor cyclical sectors. | Biotech | Managed Care |
| | Consumer Staples | ● | ● | ● | ■ | ■ | ■ | ● | ■ | 11.6 | Lackluster growth and defensive, though EM exposure helps and pricing is stabilizing. | Food & Staples Retail | Household & Personal Products |
| | Telecom | ● | ● | ● | ■ | ■ | ■ | ● | ■ | 3.1 | Stagnating core business, policy risks, defensiveness and valuation outweigh oversized yields. | 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

July 7, 2010

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

High Grade Fixed Income sectors have rallied recently on weak U.S. economic data, low inflation, and a Fed on hold for longer. Spread sectors failed to keep pace as investors await results of the European bank stress tests. We maintain our overweights to High-Yield Bonds, Emerging Market Debt (EMD) and Investment-Grade Corporate Bonds, given improving fundamentals and attractive valuations. We view "contagion" risk in the U.S. as low. 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 EU/IMF aid package, sovereign risk concerns among developed European nations are likely to persist, given sluggish growth prospects, and we remain cautious on Foreign Bonds. Treasury yields have declined recently on sovereign risk concerns and appear to be settling into a lower range.

| | Fundamentals | Technicals | Valuation | View | | | Bias | Comment | Active Management Performance (trailing) | | | | |
|--------------------------|---------------------------|-----------------------------|------------------------|----------|---------|----------|------|---------|------------------------------------------|-------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|---|
| | | | | High | | Low | | | 3 mo. | 1 yr | | | |
| | | | | Short | | Long | | | | | | | |
| Credit Quality | ● | | ● | | | | ● | | | | | | |
| Duration | ● | | ● | | | ● | | | | | | | |
| | | | | Negative | Neutral | Positive | | | | | | | |
| TAXABLE BONDS | U.S. | Treasuries | ● | ● | ● | ● | ● | ● | ← | Flight-to-safety buying and benign inflation data have pushed yields into a lower range. | + | + | |
| | | TIPS | ● | ● | ● | ● | ● | ● | ← | Breakeven inflation rates declined but, like Treasuries, valuations still high. | - | + | |
| | | Agency Debt | ● | ● | ● | ● | ● | ● | ● | | | | |
| | | Investment-Grade Corporates | ● | ● | ● | ● | ● | ● | ● | | Yield Spreads widened on sovereign risks and financial reform but fundamentals attractive. | | |
| | | Agency Mortgages | ● | ● | ● | ● | ● | ● | ● | ← | Yield spreads narrow despite absence of Fed. | | |
| | | Non-Agency Mortgages | ● | ● | ● | ● | ● | ● | ● | ← | Valuations have increased but opportunity still exists. | | |
| | | Preferred Stocks | ● | ● | ● | ● | ● | ● | ● | ← | Yields still attractive. Risk of forced conversion to common equity has been reduced. | | |
| | | High-Yield Corporates | ● | ● | ● | ● | ● | ● | ● | ● | Weak economic data balanced by positive credit trends to stall rally. | - | - |
| | | Bank Loans | ● | ● | ● | ● | ● | ● | ● | ● | Still trade at discount to par; High-Yield issuance used to pay off bank loans a positive. | + | - |
| | | FOREIGN | Foreign Bonds - Hedged | ● | ● | ● | ● | ● | ● | ● | | Sovereign risks still a concern but interest rate risk lower relative to U.S. | |
| 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. | - | - | |
| TAX-FREE BONDS | Munis - Short-Term | ● | ● | ● | ● | ● | ● | ● | | Muni curve is steep, and short-term yields are very low. | - | - | |
| | Munis - Intermediate-Term | ● | ● | ● | ● | ● | ● | ● | | Steady Build America Bond issuance in 2010 benefits supply/demand backdrop. | - | - | |
| | Munis - Long-Term | ● | ● | ● | ● | ● | ● | ● | | Seasonals typically weak during state budget season, but should be offset by modest supply to help anchor yields. | - | - | |
| | Munis - High-Yield | ● | ● | ● | ● | ● | ● | ● | → | Sector was impervious to sovereign risks. We still find attractive. | | | |

★ 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.

The issuance of Build America Bonds (BAB) 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.

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