

# Thematic Insights

## An In-depth Look at Investment Opportunities



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## Opportunity: Reviewing Our Key Current Investment Themes

### Gene Goldman, CFA

Market Strategist  
LPL Financial

#### Highlights

LPL Financial Research recommends adjusting portfolio allocations to be more opportunistic. To that effect, our portfolios currently reflect broad investment themes that center on an economy that has exited a recession and has transitioned to a more modest growth environment that we believe will extend through the early part of 2010. These main themes in our models focus on the following:

- Economically sensitive investments
- Aggressive fixed income strategies
- Commodities driven strategies
- Overweight towards Growth
- More exposure to Small Caps and Mid Caps

Looking forward, as detailed in our *2010 Outlook—From Tailwinds to Headwinds*, we believe the macroeconomic backdrop during the early part of 2010 is likely to remain favorable for investors to continue the gains achieved during much of 2009.

The market extremes over the past 12 months have shown that tactical investing and proactive portfolio positioning can help performance. In our models, we took this to heart and sought to protect from the risks and profit from the opportunities. In late 2008, as the financial crisis intensified, we became defensive in our recommended positioning and added investments that tend to help in volatile markets. In early 2009, as signs of economic improvement began to emerge, we transitioned to a more balanced risk-return position. As 2009 progressed, on measurable confirmation of economic progress, we further transitioned our models to a more aggressive stance.

Looking forward, as detailed in our *2010 Outlook—From Tailwinds to Headwinds*, we believe the macroeconomic backdrop during the early part of 2010 is likely to remain favorable for investors to continue the gains achieved during much of 2009. Some of the key reasons include an accommodative Federal Reserve, improving business spending fueled by domestic growth, export opportunities and inventory restocking needs, and, despite recent efforts to reduce stimulus, a significant global growth driver in China. These reasons, in part, lead to our above consensus 2010 GDP forecast and solid market forecast for the first part of 2010. Given this backdrop, we continue to maintain the aggressive positioning in our models.

However, following a solid start, we expect a challenging second half of 2010. We anticipate the extraordinary global policy efforts that created a tailwind for markets in the latter half of 2009 will fade or even transition to headwinds that may contribute to a renewed slowdown in the economy and a potentially challenging latter half of 2010 for investors. Despite the fact that we are positioned in an aggressive manner today, as 2010 unfolds, we fully expect to reign in some of that risk. Though a topic for another day, as a prudent course of action, we would expect to trim exposure to those investments that benefited from the tailwinds to lock in profits and shift the proceeds into those investments that may benefit from increased risks, or headwinds. For more information on how we may begin to reduce risk in our models later this year, please refer to our *2010 Outlook—From Tailwinds to Headwinds*.

As the transition from recession to recovery unfolded last summer, we moved towards an aggressive risk stance within each model. This was accomplished by gradually increasing equity exposure and using more aggressive fixed income strategies. We based these investment decisions on specific opportunities that we identified as the year progressed. We expect the early part of 2010 to remain favorable for investors, many of the investment themes that we gravitated toward and increased last year continue to be reflected in our current positioning. These themes include focusing on more economically

BROAD ASSET CLASS VIEWS

	Negative	Neutral	Positive	Bias
Stocks			●	
Bonds			●	
Cash			●	
Alternatives		●		

Source: LPL Financial Research

As investors increasingly adopt the belief that the recession is over they are likely to seek the traditional beneficiaries of recovery, fueling the sectors and asset classes highly correlated to the economy.

Specific aggressive fixed income strategies that we continue to find attractive include High-Yield and Emerging Markets Bonds. We expect both asset classes to further benefit from contracting yield spreads and improved financial conditions, while High Yield should further gain from declining default rates.

sensitive investments, investing in aggressive fixed income strategies, having an allocation to the commodities asset class, overweighting Growth relative to Value, and raising the allocation toward Small Caps relative to Large Caps. In spite of the success that most of these themes have achieved in our models since implementation, we continue to believe opportunity remains in these themes.

Key Current Investment Themes

With the goal of being more opportunistic in our models, we have embedded the following broad investment themes. Keep in mind that the economy's recent transition from recession to recovery may lead to risks in these themes. Again, please remember that we may seek to reduce these themes when the economic tailwinds that we discussed earlier start to become headwinds.

- **Economically sensitive asset classes and sectors.** Historically, when confidence returns to the financial markets, investors tend to target economically sensitive asset classes. As investors increasingly adopt the belief that the recession is over they are likely to seek the traditional beneficiaries of recovery, fueling the sectors and asset classes highly correlated to the economy. With this in mind, we believe asset classes like Emerging Markets will stand to benefit from the global recovery. From a sector standpoint, we feel cyclical sectors like Information Technology and Consumer Discretionary will continue their strong performance. Case in point, with the global recovery showing solid signs of recovery, we believe the Technology sector stands to benefit from increased purchases by corporate purchasing managers seeking to boost productivity.
- **Aggressive fixed income strategies.** Despite their strong 2009 returns, we believe the fixed income markets continue to provide some of the best opportunities investors have had in several years. Though some investors view bonds as a safety net, at times aggressive fixed income strategies can help offer tremendous capital appreciation opportunities. Specific aggressive fixed income strategies that we continue to find attractive include High-Yield and Emerging Markets Bonds. We expect both asset classes to further benefit from contracting yield spreads and improved financial conditions, while High-Yield should further gain from declining default rates.
- **Commodity exposure.** We remain committed to our bullish outlook toward Commodities driven strategies, especially those raw materials integral to the manufacturing process. The key driver remains demand growth from China. We also like precious metals, such as Gold and Silver, as we believe these metals should benefit from increased demand, serve as a partial hedge for inflation and a declining U.S. dollar, and benefit from the wealth effect of consumers.
- **Overweight growth.** Early last year, with the U.S. economy firmly entrenched in a recession, we maintained a neutral stance between the Growth and Value styles of investing in our allocations. Historically, Value tends to outperform Growth from the trough to the end of a recession. As the U.S. economy exited the recession last summer, we introduced a

relative overweight to Growth. Our favorite sectors include the traditional growth sectors, such as Information Technology, Consumer Discretionary, Materials, and Industrials. Growth sectors tend to have more exposure to strong emerging market demand, rising merger and acquisition activity, better balance sheets, and better earnings growth prospects.

- **More exposure to lower capitalization companies.** Historically, Small Cap companies tend to perform well coming out of a recession and, because they are more dependent on credit markets to fund growth, are beneficiaries of improving credit markets. We expect Mid Caps to benefit from an increase in potential merger and acquisition activity.

### Implementing the Opportunities

To implement these opportunities, let's focus on our top recommended mutual fund in each respective asset class or sector. Keep in mind that every investor situation is different and there are many considerations you need to consider with your advisor before investing in a specific mutual fund.

#### Emerging Markets Equity

To implement Emerging Markets in portfolio allocation, our top recommendation in this asset class is the Oppenheimer Developing Markets Y fund (ODVYX). The key reasons that led us to identify the investment opportunity in Emerging Markets are similar to the manager's viewpoint in leading this mutual fund.

- The structural opportunities in many of the larger developing countries are significant as nearly 9 out of 10 people reside in Emerging Markets.
- The fund has almost 40% of assets in Asia, which should benefit from demand-driven growth from China.

#### OPPENHEIMER DEVELOPING MARKETS Y (AS OF 12/31/09)

Fund Name	Ticker	QTD	YTD	1-Yr	3-Yrs	5-Yrs	Since Incep. (09/07/05)	Gross Exp. Ratio
Oppenheimer Developing Markets Y	ODVYX	9.27	81.68	81.68	8.40	N/A	15.90	0.95
MSCI Emerging Markets Free		8.58	78.62	78.62	5.39	15.83	N/A	N/A

Source: Factset, as of December 31, 2009

The performance data quoted represents past performance.

Past performance does not guarantee 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 higher or lower than the performance information quoted. To obtain current month-end performance information, please visit [www.oppenheimerfunds.com](http://www.oppenheimerfunds.com).

The performance quoted reflects the reinvestment of dividends and capital gains, is net of expenses and but does not reflect the maximum advisory fee of 2.5%. Such fee, if taken into consideration, will reduce the performance above.

Keep in mind that every investor situation is different and there are many considerations you need to consider with your advisor before investing in a specific mutual fund.

The structural opportunities in many of the larger developing countries are significant as nearly 9 out of 10 people reside in Emerging Markets.

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

Despite focusing on one sector, Information Technology, this fund is well-diversified by market capitalization range, industry groups, and investment buckets—emerging stocks, larger blue-chip names, and opportunistic value stocks.

### Technology

To implement this investment opportunity, in some models we increased our exposure to the Large Cap Growth asset class, which has significant Technology exposure. For the majority of models, we used our preferred implementation method and invested directly into our top recommended Technology fund, Allianz RCM Technology Institutional Fund (DRGTX). Overall, we believe this fund is well positioned for our strategy of increasing Information Technology exposure in our models.

- Unlike most of its peers, an experienced investment team manages this fund (the co-managers have been with RCM since 1974 and 1984, respectively).
- Despite focusing on one sector, Information Technology, this fund is well-diversified by market capitalization range, industry groups, and investment buckets—emerging stocks, larger blue-chip names, and opportunistic value stocks.

#### ALLIANZ RCM TECHNOLOGY INSTITUTIONAL FUND (AS OF 12/31/09)

Fund Name	Ticker	QTD	YTD	1-Yr	3-Yrs	5-Yrs	10-Yrs	Since Incep. (12/27/95)	Gross Exp. Ratio
Allianz RCM Technology Instl Fund	DRGTX	11.23	57.61	57.61	2.19	4.05	-2.78	12.98	1.25
S&P 500 – Information Technology Index		16.99	46.09	8.46	0.83	3.72	N/A	N/A	N/A

Source: Factset, as of December 31, 2009

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The performance quoted reflects the reinvestment of dividends and capital gains, is net of expenses and but does not reflect the maximum advisory fee of 2.5%. Such fee, if taken into consideration, will reduce the performance above.

The fund's concentrated holdings will subject it to greater volatility than a fund that invests more broadly.

By thinking and investing globally, fund management can take advantage of investment opportunities that other High Yield managers may miss due to a more constrained mandate.

### High Yield Fixed Income

To implement High Yield in portfolio allocation, our top recommendation in this asset class is the Artio Global High Income Fund I (JHYIX). There are many reasons why this fund is our choice for implementing the High Yield investment opportunity, most notably its global mandate and current portfolio positioning:

- **Global Mandate.** By thinking and investing globally, fund management can take advantage of investment opportunities that other High Yield managers may miss due to a more constrained mandate.
- **Portfolio positioning.** Similar to our thesis, the investment team has become more optimistic toward worldwide credit markets and, as a consequence, has increased beta, or market risk in the portfolio.

#### ARTIO GLOBAL HIGH INCOME I PERFORMANCE (AS OF 12/31/09)

Fund Name	Ticker	QTD	YTD	1-Yr	3-Yrs	5-Yrs	Since Incep. (01/30/03)	Gross Exp. Ratio
Artio Global High Income I	JHYIX	5.12	54.63	54.63	7.07	7.46	10.61	0.75
Barclays Capital High Yield		6.19	57.93	57.93	5.94	6.44	N/A	N/A

Source: Factset, as of December 31, 2009

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The performance quoted reflects the reinvestment of dividends and capital gains, is net of expenses and but does not reflect the maximum advisory fee of 2.5%. Such fee, if taken into consideration, will reduce the performance above.

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

Unlike most of its peers, an experienced investment team manages this fund. Both portfolio managers are former economists at the International Monetary Fund (IMF) and have 22 and 14 years of investment experience, respectively.

### Emerging Markets Debt

To implement exposure to Emerging Markets Bonds, our top recommendation in this asset class is MFS Emerging Markets Debt (MEDIX). We believe this fund is well positioned for our strategy of having Emerging Markets Bond exposure in our models.

- Unlike most of its peers, an experienced investment team manages this fund. Both portfolio managers are former economists at the International Monetary Fund (IMF) and have 22 and 14 years of investment experience, respectively.
- Also, given the presence of market volatility, especially in Emerging Markets, we prefer diversified funds. This fund is well-diversified with about 150 securities, nearly 30 countries, and multiple issuer types.
- Lastly, we believe that domestic and foreign High-Yield Fixed Income securities will benefit from an improving global economy. This portfolio has a greater allocation toward below-Investment Grade securities than its benchmark.

#### MFS EMERGING MARKETS DEBT FUND (AS OF 12/31/09)

Fund Name	Ticker	QTD	YTD	1-Yr	3-Yrs	5-Yrs	10-Yrs	Since Incep. (04/28/06)	Gross Exp. Ratio
MFS Emerging Markets Debt I Fund	MEDIX	1.91	31.08	31.08	7.37	9.20	12.44	1.15	1.25
JP Morgan Emerging Markets Bond		1.52	28.06	28.06	6.63	8.08	N/A	N/A	N/A

Source: Factset, as of December 31, 2009

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The performance quoted reflects the reinvestment of dividends and capital gains, is net of expenses and but does not reflect the maximum advisory fee of 2.5%. Such fee, if taken into consideration, will reduce the performance above.

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

Management is very optimistic toward the global economic recovery. They note that the global breadth of recovery remains the most compelling argument in favor of continued economic and financial market gains.

### Commodities

To implement Commodities exposure to in our models, our top recommendation is the Ivy Global Natural Resources Fund (IGNYX). Overall, this fund helps implement our Commodities theme because:

- In the portfolio, for the long-term management has generally targeted commodities that are consistent with our preferences, such as oil is better than natural gas and copper is better than most other metals.
- Management is very optimistic toward the global economic recovery. They note that the global breadth of recovery remains the most compelling argument in favor of continued economic and financial market gains. As evidence, they cite the fact that almost all countries in the world are posting an improvement in their leading indicators.

#### IVY GLOBAL NATURAL RESOURCES (AS OF 12/31/09)

Fund Name	Ticker	QTD	YTD	1-Yr	3-Yrs	5-Yrs	Since Incep. (04/02/07)	Gross Exp. Ratio
Ivy Global Natural Resources	IGNIX	8.18	75.04	75.04	N/A	N/A	-3.13	1.05
S&P N.A. Natural Resources Index		6.60	37.38	37.38	2.02	11.10	N/A	N/A

Source: Factset, as of December 31, 2009

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The performance quoted reflects the reinvestment of dividends and capital gains, is net of expenses and but does not reflect the maximum advisory fee of 2.5%. Such fee, if taken into consideration, will reduce the performance above.

The fast swings of commodities will result in significant volatility in an investor's holdings.

Because of management’s history of diversifying between small-, mid-, and large-cap companies, depending on investment opportunities, this fund also offers Large Cap Growth exposure with a market capitalization lower relative to most of its peers. For that reason, this fund also helps to implement our Small Cap investment theme.

### Overweight Growth

To implement Large Cap Growth in portfolio allocation, our top recommendation in this asset class is the Hartford Growth Opportunities I Fund (HGOIX). Overall, we believe this fund is well positioned for our strategy of increasing Large Cap Growth exposure in our models.

- Similar to our opinions toward sectors, fund management is focused on economically sensitive ones in their portfolio. For example, they have sizable positions in Technology and Consumer Discretionary, which are two of our favorite sectors.
- Because of management’s history of diversifying between small-, mid-, and large-cap companies, depending on investment opportunities, this fund also offers Large Cap Growth exposure with a market capitalization lower relative to most of its peers. For that reason, this fund also helps to implement our Small Cap investment theme.

#### HARTFORD GROWTH OPPORTUNITIES INSTL (AS OF 12/31/09)

Fund Name	Ticker	QTD	YTD	1-Yr	3-Yrs	5-Yrs	Since Incep. (08/31/06)	Gross Exp. Ratio
Hartford Growth Opportunities I	HGOIX	6.81	29.62	29.62	-2.84	N/A	0.48	0.86
Russell 1000 Growth		7.94	37.04	37.04	-1.88	1.63	N/A	N/A

Source: Factset, as of December 31, 2009

The performance data quoted represents past performance.

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The performance quoted reflects the reinvestment of dividends and capital gains, is net of expenses and but does not reflect the maximum advisory fee of 2.5%. Such fee, if taken into consideration, will reduce the performance above.

Given management's risk controlled approach coupled with the firm's more aggressive research style, historically the fund has performed well in upside rallies while also protecting on the downside during market pullbacks.

### Overweight Towards Small Cap

To implement a greater Small Cap exposure in our portfolios, our top recommendation in Small Cap Growth and Small Cap Value are Alger Small Cap Growth (ALSRX) and Harbor Small Cap Value (HASCX), respectively. Key reasons we believe Alger Small Cap Growth is well positioned for this theme:

- Similar to our opinions toward sectors, management is focused on economically sensitive ones in their portfolio. For example, they have sizable positions in Technology and Consumer Discretionary.
- Given management's risk controlled approach coupled with the firm's more aggressive research style, historically the fund has performed well in upside rallies while also protecting on the downside during market pullbacks.

Similarly, Harbor Small Cap Value implements our Small Cap bias. By taking a unique approach to value investing that combines both valuations and growth drivers, the fund has produced a consistent track record in both bull and bear markets. More importantly, historically, its positioning has given management the ability to outperform Small Value peers in stock market rallies.

#### ALGER SMALL CAP GROWTH INSTL (AS OF 12/31/09)

Fund Name	Ticker	QTD	YTD	1-Yr	3-Yrs	5-Yrs	Since Incep. (11/08/93)	Gross Exp. Ratio
Alger Small Cap Growth Instl	ALSRX	4.78	43.51	43.51	-3.51	4.11	8.22	1.27
Russell 2000 Growth		4.14	34.32	34.32	-3.98	0.87	N/A	N/A

#### HARBOR SMALL CAP VALUE PERFORMANCE INSTL (AS OF 12/31/09)

Fund Name	Ticker	QTD	YTD	1-Yr	3-Yrs	5-Yrs	Since Incep. (12/14/01)	Gross Exp. Ratio
Harbor Small Cap Value Instl	HASCX	5.21	23.68	23.68	-6.42	-0.01	7.81	0.87
Russell 2000 Value		3.63	20.49	20.49	-8.18	-0.01	N/A	N/A

Source: Factset, as of December 31, 2009

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Small Cap stocks maybe subject to higher degree of risk than more established companies' securities. The illiquidity of the Small Cap market may adversely affect the value of these investments.

As always, please contact your advisor for more details on these asset allocation and mutual fund changes.

Given our positive view toward the financial markets and opportunistic portfolio positioning, in our opinion, these funds are the ideal investments to take advantage of the current themes that we favor. As always, please contact your advisor for more details on these asset allocation and mutual fund changes.

### Final Words

LPL Financial Research has three tenets: Performance, Service, and Transparency. An essential element of performance is identifying an investment opportunity and effectively implementing it. Effective implementation involves selecting the right manager and investing sufficient assets in that manager at the right time. This is exactly what LPL Financial Research attempted to do by adjusting portfolio allocations to be more opportunistic. To that effect, our portfolios currently reflect broad investment themes that center on an economy that has exited a recession and has transitioned to a more modest growth environment. This document is intended to provide additional transparency into the themes that are present in our models.

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#### IMPORTANT DISCLOSURES

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

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S&P NA Natural Resources Index includes companies in the following categories: extractive industries, energy companies, owners and operators of timber tracts, forestry services, producers of pulp and paper, and owners of plantations. The index is modified capitalization-weighted and is reconstituted semi-annually.

The fast pace swings of commodities will result in significant volatility in an investor's holdings

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

The fund's concentrated holdings will subject it to greater volatility than a fund that invests more broadly.

Mid capitalization companies are subject to higher volatility than those of larger capitalized companies.

This research material has been prepared by LPL Financial.

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