Portfolio Compass

JANUARY 20, 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:

1. 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.
2. 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.
3. Equity Asset Class & Commodity Compass: Evaluates the asset classes such as Large Growth, Mid Value, Foreign Stocks, REITs, and Commodities.
4. Equity Sector Compass: Evaluates the 10 S&P 500 equity sectors.
5. 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

January 20, 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 proven to be a useful tool for investment decision making.

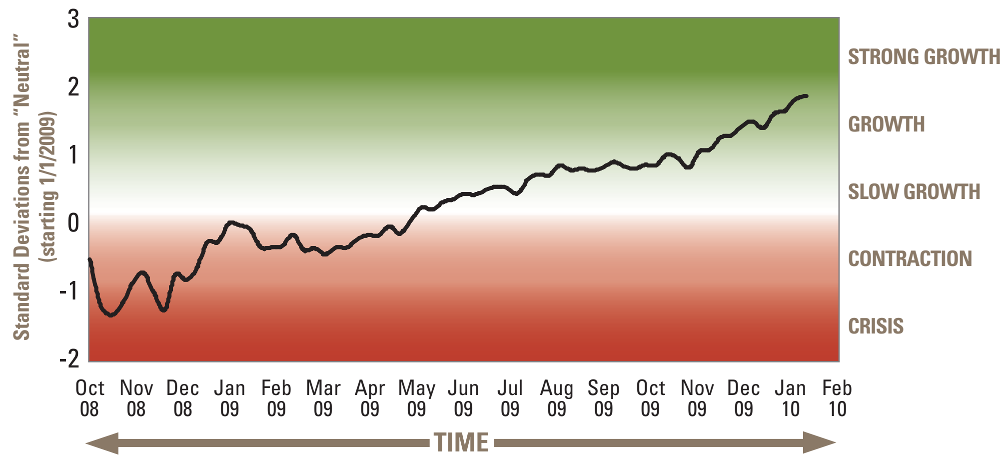
This weekly index is not intended to be a leading index or predictive of where conditions are headed, but a coincident measure of where they are right now. We want to track the conditions in real-time to aid in investment decision making. There are thousands of indicators-some lead the economy, some 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 rose slightly to 1.9, a new high. The level of the Current Conditions Index indicates an environment fostering trend-like 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. We will be watching current conditions closely as the global tailwinds for growth fade or even give rise to headwinds as we make investment recommendations in 2010.

The advance in the index was very narrow having been driven by one component. Retail Sales rebounded to a 2.3% year-over-year gain, the strongest pace for sales since late November. The rest of the components changed very little with nearly all components showing improvement over the past three months. Mortgage Applications remain the weakest component over the past year despite low interest rates as homebuyers remain cautious and lending standards remain high.

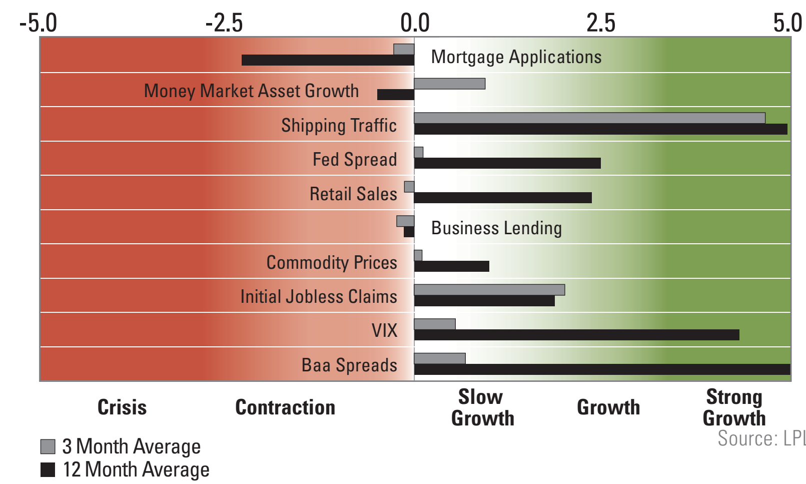
LPL Financial Research Current Conditions Index



Source: LPL Financial

LPL Financial Research Current Conditions Index Components

Standard Deviations from "Neutral" Since 1/1/2009



Source: LPL Financial

Economic Compass

January 20, 2010

Economy Still Tracking To Stronger Than Consensus Growth In Q4 '09 and 2010

The "Great Recession" of 2007-09 most likely ended in Q2 2009. We expect a Q4 2009 GDP gain around 4.0 to 4.5%. The consensus is looking for a 4.4% gain in real GDP in Q409. For all of 2010, we continue to expect 3 to 4% real GDP growth, with a stronger 1H (3-5%) and then a slowdown in 2H (2-3%). In our view, the consensus outlook for GDP growth in 2010, at 2.7%, is still too low. We expect that business spending and exports will lead the recovery, while the consensus remains skeptical here, and on the consumer as well. The labor market has stabilized over the past few months, but the recovery in the labor market will lag the overall economy. The unemployment remained at 10.0% in December, and may yet head higher. Job creation is likely to commence in the next few months, and could be stronger than the consensus now believes. There is plenty more fiscal stimulus left in the pipeline, but tax hikes are looming. We don't expect any tightening of monetary policy by the Fed until the second half of 2010, although the Fed might begin to signal that it is ready to tighten well ahead of time. We share the consensus view that modest headline inflation and a deceleration in core inflation is likely in 2010. On the regulatory/legislative front, financial services, utilities and healthcare reform are still in play. Although the recent tightening of monetary policy in China came sooner than expected, emerging Market economies, especially those in commodity producing regions are rebounding solidly. The recovery in developed overseas economies is expected to lag.

	Economic Factors	Present Status*	Relative to The Consensus: Below	In Line	Above	Bias	Comment
ECONOMY	Consumer Spending	● Negative			●		Consensus too low at 1.5% Q/Q for Q4, 1.28% Y/Y in '10. Wealth effect overwhelms "headwinds".
ECONOMY	Business Spending	● Neutral			●		Business spending poised to lead the recovery.
ECONOMY	Housing	● Negative		●			Modest gains in housing starts, sales and prices to continue. Record high affordability.
ECONOMY	Export Sector	● Neutral			●		Strong export growth should help to lead economy early in recovery.
ECONOMY	Labor Market	● Negative			●		Unemployment rate to peak in Q1 '10. Claims data, corporate profits, point to strong jobs recovery.
ECONOMY	Inflation	● Neutral		●			Moderately higher headline inflation, and decelerating core inflation.
POLICY	Fiscal	● Positive		●		→	Remaining fiscal stimulus offsets looming tax increases. Budget deficit is now a macro issue.
POLICY	Monetary	● Positive		●		→	Consensus view is that Fed won't tighten until mid '10; our view is that it could be the latter part of '10.
POLICY	Government	● Negative		●			Market is pricing in an appropriate amount of regulatory/legislative risk right now.
OVERSEAS	U.S. Dollar	● Neutral		●			Consensus calling for the dollar to post modest gains vs. Yen and Euro in '10. A noticeable turn could occur by mid-year.
OVERSEAS	Overseas Economies – Developed	● Neutral		●			Economies in developed Europe and Japan tracking to below U.S. growth rates in '10.
OVERSEAS	Overseas Economies – Emerging Markets	● Positive			●		Market expects 5-6% real GDP growth in EM in '10, 9.4% in China; May be stronger in 1H than in 2H
FINANCIAL CONDITIONS	Lending Conditions	● Neutral		●		→	Credit conditions have eased but loan demand from business and consumers remains weak.
FINANCIAL CONDITIONS	Corporate Profits	● Neutral		●			Consensus looking for 26-27% earnings growth in '10, and we concur.
	Overall Economy	● Neutral			●		Our forecast for 3-4% GDP growth in 2010 is above the consensus forecast of 2.7%.

★ 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 Asset Class & Commodity Compass

January 20, 2010

Continue To Favor U.S. Small and Mid Caps; Emerging Markets and Industrial Metals Outlooks Remain Positive Despite China Signals

We continue to favor Growth over Value based on our economic growth outlook, earnings growth expectations, valuation and exposure to cyclical sectors. This positioning is also supported by our still bullish outlook for the biggest Growth sector, Tech while we remain cautious on Financials, the biggest Value sector. The relatively early phase of recovery, along with improving credit markets and M&A activity still favor Small and Mid Caps, though earnings revisions and valuations suggest modest overweights. Our preference for the U.S. over Large Foreign reflects a more sluggish recovery in Europe and Japan relative to the U.S. and non-Japan Asia. Emerging Markets fundamentals remain positive and valuations within a reasonable range, although tightening signals from China bear watching. Base metals continue to benefit from global stimulus and strong Chinese demand. We have removed our positive bias on crude but would consider getting more constructive on additional weakness.

		Fundamentals	Technicals	Valuation	View: Negative		View: Neutral		View: Positive	Bias	Comment	Active Manager Performance (trailing): 3 mo.	Active Manager Performance (trailing): 1 yr
STYLE / CAPITALIZATION	Large Growth	● Neutral	● Positive	● Positive				○			Preference for cyclicals, our above consensus economic growth forecast, relative earnings outlooks, and valuations favor Growth. Our outlook for Tech, the biggest Growth sector, remains favorable. Ongoing credit challenges temper our view of Financials, the biggest Value sector.	-	-
	Large Value	● Negative	● Positive	● Neutral		○						+	+
	Mid Growth	● Positive	● Neutral	● Positive				○			We expect Mid Cap stocks to continue to benefit from economic recovery, a rising market and M&A in 1H10. We are watching earnings, quality, and currency trends, as well as technicals, for signals of a potential shift toward Large. Mid Growth likely to be an M&A sweet spot this year.	-	-
	Mid Value	● Neutral	● Neutral	● Neutral			○					-	-
	Small Growth	● Positive	● Neutral	● Positive				○			Small Caps will likely continue to outperform in early 2010 as recovery continues. Further credit healing and a favorable M&A environment should help, although as the recovery matures and monetary policy tightens, we may pull this bet back. Small Cap Financials still face stiff challenges.	+	+
	Small Value	● Neutral	● Neutral	● Neutral			○					+	+
REGION	U.S. Stocks	● Neutral	● Positive	● Neutral				○			Sluggish European outlook reflects strong currencies, sovereign credit risks, structural limitations, and European bank exposure to Dubai and troubled smaller European economies. Japan recovery is also likely to be more sluggish than that in the U.S. and the rest of Asia, where the outlooks remain positive. Despite stellar 2009 performance, we still favor Emerging Markets based on strong growth outlooks, especially in China and Brazil, improving global financial conditions and strong commodity markets. EM valuations remain within a reasonable range though at the high end.		
	Large Foreign	● Neutral	● Neutral	● Neutral		○						+	+
	Small Foreign	● Negative	● Neutral	● Negative		○						+	+
	Emerging Markets	● Positive	● Positive	● Negative				○		→		+	-
REITS	REITs	● Negative	● Neutral	● Neutral		○					Lagging fundamentals and full valuation outweigh improved credit availability, stabilizing job market.	-	+
COMMODITIES	Commodities - Industrial Metals	● Positive	● Positive						○		Favorable commodities trends remain in place as the global recovery progresses. We expect industrial metals to continue to benefit from China, despite tightening signals, and improving developed market demand in early 2010. Our neutral precious metals view reflects our benign inflation outlook, though EM demand is rising. Removed positive bias on crude prices due to deteriorating technicals; balanced risk-reward but would consider getting more constructive on additional weakness. Weather and EM demand support agricultural commodities outlook.		
	Commodities - Precious Metals	● Neutral	● Neutral				○			→			
	Commodities - Energy	● Neutral	● Negative				○						
	★ Commodities - Agricultural	● Positive	● Neutral				○			→			

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

Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained. The fast price swings of commodities will result in significant volatility in an investor's holdings. International and emerging markets investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. Small-cap stocks may be subject to a higher degree of risk than more established companies' securities. The illiquidity of the small-cap market may adversely affect the value of these investments. Mid-capitalization companies are subject to higher volatility than those of large-capitalized companies.

Equity Sector Compass

January 20, 2010

Stay with Cyclicals in Early 2010 as Recovery Continues to Surpass Expectations

We continue to favor the cyclical sectors, which tend to outperform well into new economic expansions. Technology remains well positioned as corporate spending rebounds, earnings growth accelerates and companies are flush with cash. We expect Consumer Discretionary to continue to benefit from positive wealth effects and investor pessimism, although upside to holiday sales forecasts was below our expectations. We remain bullish on Materials while watching monetary policy for signals. Improving manufacturing globally and strong commodities markets are buoying Industrials, while most of the U.S. fiscal stimulus dollars have not yet been spent. Credit losses yet to be realized and regulatory uncertainty keep us neutral on Financials, though our capital markets outlook remains positive. Our view of Health Care is neutral as reform clarity and attractive valuations offset our preference for more cyclical investments; Massachusetts Senate outcome is positive. We removed our positive bias toward Energy but would consider becoming more constructive on weakness.

		Fundamentals	Technicals	Valuation	View					Bias	S&P 500 Weight (%)	Comment	Industry Views	
					Negative		Neutral		Positive				Most Favored	Least Favored
CYCLICAL	Materials	Positive	Positive	Negative				●			3.6	Benefiting from global economic recovery, Chinese demand, and weak dollar; watching the Fed for signals.	Metals & Mining	none
	Energy	Neutral	Neutral	Neutral			●				11.6	Risk-reward looks balanced in the high $70s. Would consider getting more positive on additional weakness.	Equipment & Services, Exploration & Production	Integrateds, Refiners
	Industrials	Positive	Positive	Negative				●			10.6	Pessimistic 2010 consensus, exports, weak dollar, commodities, stimulus, improving technicals all positives.	Transportation, Machinery	Aerospace & Defense
	Consumer Discretionary	Positive	Neutral	Neutral				●			9.5	Wealth effect, comparisons and pessimism all still supportive; holiday sales were solid, but not a home run.	Retail	Household Durables
	Technology	Positive	Neutral	Positive					●		19.5	A lot to like: balance sheets, M&A, product cycles, relative valuations, productivity efforts, positive EPS revisions.	Hardware, Software, Semis, Networking	IT Services
	Financials	Negative	Negative	Neutral			●				14.8	Real estate and regulation headwinds remain, but clouds are lifting; earnings season off to decent start.	Diversified Financials, Capital Markets	Insurance
DEFENSIVE	Utilities	Negative	Neutral	Neutral		●					3.6	Still negative due to defensive, bond-like characteristics, despite reduced cap-and-trade risk and good yields.	Regulated	none
	Health Care	Negative	Neutral	Positive			●				12.7	Attractive valuations, improving earnings and clearer reform picture led to December upgrade to neutral.	Biotech	Managed Care
	Consumer Staples	Negative	Neutral	Positive		●					11.2	Slow growth outweigh pending currency boost and EM exposure. Venezuelan devaluation an earnings drag.	Food & Staples Retail	Household & Personal Products
	Telecom	Negative	Negative	Neutral		●					2.9	Preference for cyclicals, policy risks and stagnating core businesses offset attractive dividend yields.	Diversified	none

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Fixed Income Compass

January 20, 2010

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

Despite record returns in 2009 from High-Yield Bonds, and impressive gains in Emerging Market Debt and Investment-Grade Corporate Bonds opportunities still exist. We expect these "spread" sectors to outperform again in 2010 but returns will be lower. Investment-Grade yield spreads have tightened substantially to +167 basis points, but are still wider than historical averages. Preferred Stocks still offer attractive yields but we are biased toward neutral. High-Yield issuers have benefitted from lower interest rates to refinance debt and default rates have finally started to decline. Emerging Market Debt will benefit from faster growth among developing countries and favorable credit trends, although some central banks may need to hike interest rates should inflation pickup. Emerging Market Debt spreads and absolute yields are still attractive. Ongoing sovereign risk concerns among some developed European nations, most notably Greece, continue to pressure valuations on Foreign Bonds. Treasuries have rallied recently on a weak retail sales print, benign inflation data and good auction results

		Fundamentals	Technicals	Valuation	View					Bias	Comment	Active Management Performance (trailing) 3 mo.	1 yr
					High				Low				
	Credit Quality	Negative		Positive					●		Credit spreads still wide; prefer Corporate Bonds to Government Bonds.		
					Short				Long				
	Duration	Neutral		Negative			●				Expect short rates to stay low and the yield curve to remain steep; favor intermediate maturities; prefer sector exposure.		
					Negative		Neutral		Positive				
TAXABLE BONDS – U.S.	Treasuries	Neutral	Neutral	Negative		●					Heavy issuance in 2010 and eventual Fed tightening will pressure interest rates higher.	+	+
TAXABLE BONDS – U.S.	TIPS	Neutral	Neutral	Negative		●					Increased inflation expectations and still low real yields has made valuations expensive.	-	+
TAXABLE BONDS – U.S.	Agency Debt	Positive	Neutral	Neutral		●					Prefer to Treasuries but yields low. Fed's commitment to buy $175B provides continued support.		
TAXABLE BONDS – U.S.	Investment-Grade Corporates	Neutral	Neutral	Positive				●			Uncertainty over Obama's plan to levy fees on banks contributes weakness in financial issuers		
TAXABLE BONDS – U.S.	Agency Mortgages	Neutral	Neutral	Neutral			●				Yield spreads contracted to +63 bps, near historic low; wind down of Fed purchases urges caution.		
TAXABLE BONDS – U.S.	Non-Agency Mortgages	Negative	Neutral	Positive				●		←	Success of TALF and optimism over P-PIP have caused these assets to richen.		
TAXABLE BONDS – U.S.	Preferred Stocks	Neutral	Neutral	Neutral				●		←	Yields still attractive. Risk of forced conversion to common equity has been reduced.		
TAXABLE BONDS – U.S.	High-Yield Corporates	Negative	Positive	Positive					●		Default rates declined in December '09 for first time in 2 years; spreads wide at +643 bps.	-	-
TAXABLE BONDS – U.S.	Bank Loans	Negative	Neutral	Positive				●			Still trade at discount to par; High Yield issuance used to pay off bank loans a positive.	-	-
TAXABLE BONDS – FOREIGN	Foreign Bonds - Hedged	Negative	Neutral	Neutral	●						Continued headline risk surrounding recent downgrades of some sovereign issuers has pressured valuations.		
TAXABLE BONDS – FOREIGN	Foreign Bonds - Unhedged	Negative	Negative	Negative		●					Volatile asset class that benefits from a weakening US dollar.		
TAXABLE BONDS – FOREIGN	Emerging Market Debt	Positive	Positive	Positive				●			Valuations still attractive, further economic improvement, and favorable supply/demand bolster sector.	-	+
TAX-FREE BONDS	Munis - Short-Term	Neutral	Neutral	Negative		●				←	Muni curve is steep, and short-term yields are very low.	-	+
TAX-FREE BONDS	Munis - Intermediate-Term	Negative	Neutral	Neutral			●				Expected heavy Build America Bond issuance in 2010 benefits supply/demand backdrop.	-	+
TAX-FREE BONDS	Munis - Long-Term	Negative	Neutral	Positive				●			Strong seasonals and modest supply helped anchor yields recently.	+	-
TAX-FREE BONDS	Munis - High-Yield	Negative	Positive	Positive				●		→	Benefited from rally in risk assets but valuations attractive and market priced for substantial rise in defaults.		

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

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate 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. Muni Bonds are subject to market and interest rate risk if sold prior to maturity. 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 special risks such as currency fluctuation and political instability and may not be suitable for all investors.
High Yield/Junk Bonds are not investment grade securities, involve substantial risks and generally should be part of the diversified portfolio of sophisticated investors.

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.

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. Railroad 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.

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 ratning 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.

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