Search for Income

First Quarter 2012

Still Challenging

Overview

The *Search for Income* publication is a quarterly guide to our top ideas for income-producing securities and strategies. This publication offers active and passive income suggestions from our current mutual fund recommended list, along with suggested exchange-traded funds (ETFs). Many of the asset classes/sectors can be used individually or in a diversified portfolio, and several are currently employed in our model portfolios. This publication highlights:

- Favorite Sector/Asset Class Ideas
- Implementation

High-yield bonds stand out as one of our favorite investments and a source of income generation.

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

During the first quarter of 2012, Treasury yields increased most since the final quarter of 2010. Unfortunately, the increase in Treasury yields did not translate to other bond sectors, and the task for income-seeking investors remains challenging.

The increase in Treasury yields was offset by a notable decline in yield from some of our favorite income-producing sectors: high-yield bonds, emerging-market debt, and preferred stocks. Investors' refocus on the solid fundamental factors underlying all three of the above sectors sparked strong demand, and prices increased in response. In addition, European leaders' bold action, including the European Central Bank's (ECB) successful three-year lending operations, helped ease European debt fears. In sum, the reduction of risk helped boost prices of more economically sensitive high-yield bonds, investment-grade corporate bonds, emerging-market debt, and preferred stocks.

The 0.1% to 0.3% rise in U.S. Treasury yields during the first quarter of 2012 was not enough to create an income opportunity among government bonds. Treasury valuations remain expensive on an historical basis, and in most cases Treasury yields are negative after taking into account the impact of inflation. Therefore, we believe income-seeking investors should remain focused on more economically sensitive bonds such as high-yield bonds, investment-grade corporate bonds, emerging market debt, and preferred securities. The income generation of these sectors will also likely be a primary driver of total return.

Among more economically sensitive bond sectors, high-yield bonds stand out as one of our favorite investments and a source of income generation. Currently, our best ideas for income generation are:

- High-Yield Bonds (Taxable and Tax-Free)
- Emerging Market Debt (EMD)
- Investment-Grade Corporate Bonds (Intermediate- and Long-Term)
- Preferred Stocks
- Build America Bonds (BABs)

High-Yield Bonds remain our favorite within fixed income, as the sector provides a combination of yield and attractive valuations. Valuations improved during the first quarter of 2012, as European risks receded and

global economic growth fears faded. More liquid trading conditions, thanks to ECB measures, also aided high-yield bonds. The average yield advantage contracted to 6.2% above comparable Treasuries, down from 7.0% at the end of 2011. European debt worries and lingering concerns over the global economy may still create periods of weakness, but over the balance of the year and beyond, the yield advantage and still strong credit metrics provide an attractive investment option.

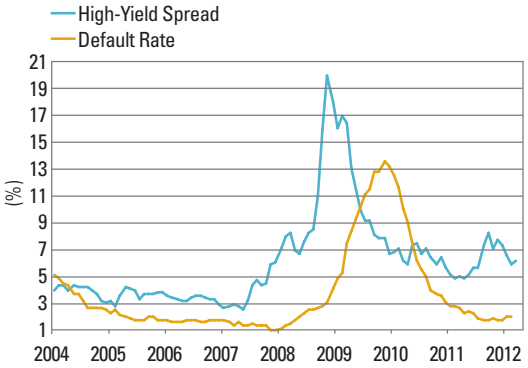
Emerging Market Debt prices, similar to high-yield bonds, benefited from a reduction of European debt risks and fading of global growth fears. We believe the stronger growth trajectory of emerging market countries remains on track, but concerns over China's economic growth may lead to periods of volatile prices. Ultimately, we believe China's strong economic growth remains on track, and EMD will continue to be aided by central bank rate cuts. Even after a good first quarter of 2012, EMD valuations remain attractive, and the sector remains a higher quality alternative compared to high-yield bonds for income-seeking investors.

Investment-Grade Corporate Bond prices defied Treasuries during the first quarter of 2012. While Treasury prices declined, corporate bond prices finished the quarter higher. Unfortunately, corporate bond strength translated to still lower yields. Mid-way during the quarter, the average investment-grade corporate bond yield hit a record low before high-quality bonds weakened in March 2012. On a positive note, corporate earnings continue to increase and credit quality metrics remain healthy. With an average yield advantage of 1.8% to comparable Treasury bonds (as of March 30, 2012) valuations are more expensive compared to late 2011, but corporate bonds remain the best income-producing option among high-quality domestic bonds, especially considering the low yields on other high-grade bond sectors, such as Treasuries and Mortgage-Backed Securities (MBS). The high-quality nature of investment-grade corporate bonds makes them more sensitive to future rises in interest rates; however, we expect a modest but manageable increase in yields for 2012.

Preferred Stocks bounced back strongly during the first quarter of 2012. Bank risks declined significantly following the ECB's measures to alleviate funding strains, and investors were quick to take advantage of attractive valuations on preferred securities. The fact that the vast majority of major U.S. banks passed the Federal Reserve's bank stress tests, which were quite onerous, also helped boost confidence in the banking sector and gave preferred stocks a lift. Overall, we believe banks have done a good job boosting capital levels to help buffer against future losses and view preferred stocks as a good income vehicle consideration. Yields remain favorable compared to similarly rated investment-grade corporate bonds. In addition, new issuance remains extremely limited, keeping a favorable supply/demand balance in place for investors.

Build America Bonds are among the most interest rate sensitive of our income-producing ideas, but thanks to strong demand for municipal debt, taxable and tax-free, BABs managed modest price gains during the first quarter of 2012 despite Treasury weakness. A scarcity premium due to the

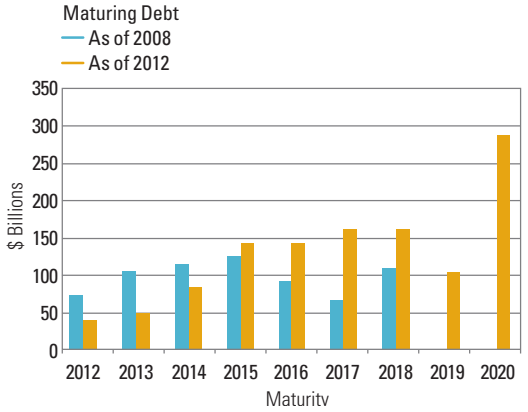
1 The Average Yield Advantage of High-Yield Bonds More Than Compensates for an Increase in Defaults



Source: Barclays, Moody's, LPL Financial 03/30/12

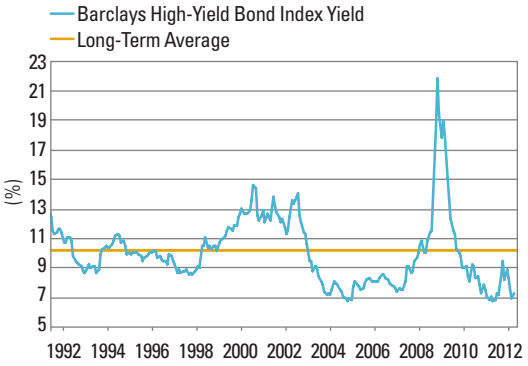
High-Yield spread is the yield differential between the average yield of high-yield bonds and the average yield of comparable maturity Treasury bonds.

2 High-Yield Issuers Have Done an Excellent Job of Refinancing Debt Obligations



Source: JP Morgan, LPL Financial 12/31/11

3 Yields Are Back Near Historic Lows



Source: Barclays, Bloomberg, LPL Financial 03/30/12

The Barclays High-Yield Bond Index is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.

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

lack of new issuance also gave BABs a boost. We believe BABs can still be used for income generation with high overall credit ratings and an average yield of roughly 4.7%, according to Wells Fargo Index data.

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

Favorite Sector/Asset Class Ideas

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

High-yield is an obvious asset class for income-seeking investors. After a challenging 2011, high-yield bond prices rebounded during the first quarter of 2012. Fears over European government bonds receded and overly pessimistic forecasts for the U.S. economy proved unfounded. More liquid trading conditions, thanks to ECB measures, also aided high-yield bonds.

Unfortunately, the strength of high-yield bond prices during the first quarter pushed yields back near historic lows. The average yield of high-yield bonds declined over a full percentage point to 7.2% from 8.4% at the end of 2011. While the decline in yield is notable, it must be put in the context of a low-yield world.

We continue to view high-yield bonds as one of the more attractive investments in the bond market with the average yield advantage, or spread, to Treasuries, a significant 6.2% as of March 30, 2012. Although this spread level is down from a 7.5% yield advantage at the end of 2011, we still find it attractive given the low level of Treasury yields and other competing fixed income investments.

In our view, the current yield spread more than compensates for the modest increase in high-yield defaults we expect this year. The global default rate increased slightly to 2.0% at the end of February 2012, up from 1.8% in December 2011. Moody's Investor Service has forecast a modest increase in the default rate to 2.6% by the end of 2012. We believe the current yield spread on high-yield bonds compensates for an increase in the default rate to 4%–5% [Chart 1]. Therefore, we find high-yield bonds attractively priced and provide more than adequate compensation for potential default risks in 2012.

We find Moody's default forecast reasonable given the tremendous amount of debt that high-yield companies have refinanced. Less than $50 billion in high-yield bonds mature in 2012 [Chart 2], which removes a potential source of defaults should market conditions deteriorate. High-yield issuers have taken advantage of low interest rates and done an excellent job of refinancing existing debt obligations. That trend has continued in 2012, with approximately 50% of new high-yield issuance used for refinancing purposes, which we view as healthy and a positive for credit quality.

The average yield of high-yield bonds (7.2% as of March 30, 2012) is low by historical comparison but stands out in a low-yield world [Chart 3].

For diversification purposes and to reduce individual security risk, LPL Financial Research strongly recommends investors use a mutual fund or ETP (Exchange-Traded Product) for exposure to this asset class. In general,

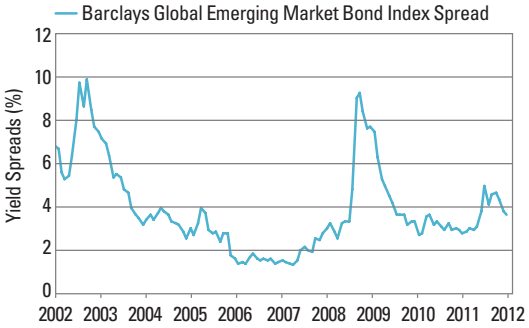
Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price.

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

This information is not intended to be a substitute for specific individualized tax, legal or investment planning advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

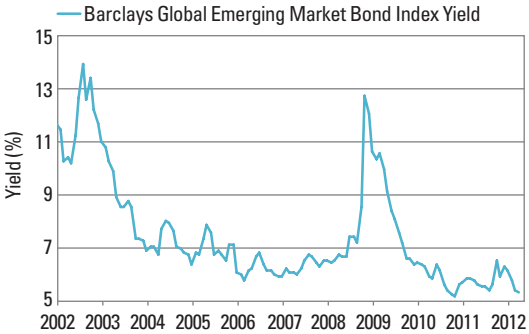
4 Yield Spreads Reflect an Attractive Valuation



Source: Barclays, Bloomberg, LPL Financial 03/30/12

The Barclays Global EM Bond Index is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.

5 Like Other Sectors, Yields Are Back Near the Lows



Source: Barclays, Bloomberg, LPL Financial 03/30/12

The Barclays Global EM Bond Index is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.

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

high-yield bond funds provide yields between 6.0% and 8.5% (according to Morningstar data), but of course entail greater credit risk relative to investment-grade bonds.

Tax-Free High-Yield Bonds: A Consideration for Investors, Regardless of Tax Bracket

Investors, regardless of tax-bracket, may wish to consider tax-free high-yield bonds. The local-only exposure of municipal high-yield bonds insulated them from market concerns over Europe and helped support prices in 2011. While municipal finances remain under stress, issuers continue to make positive incremental progress. According to Municipal Securities Rulemaking Board (MSRB) data, municipal defaults year-to-date through March 23, 2012 are running approximately 20% below 2011 levels over the same time period. Municipal defaults that have occurred remain concentrated in the most speculative sectors. In 2011, 80% of defaults have come from issuers that did not have any rating at all (non-rated). Furthermore, housing-related bond issues comprise 69% of all defaults. Given the speculative excesses in the housing market, the fact that housing-related issues represent the largest number of defaults is no surprise. We continue to find the asset class attractive with an average yield of 6.3%, according to the Barclays High-Yield Municipal Index as of March 30, 2012.

Please be aware that the vast majority of tax-free high-yield funds generate income that is subject to AMT (Alternative Minimum Tax). Again, we recommend investors use a fund to gain exposure. Please contact fund or ETF companies directly to obtain a copy of the prospectus for the percentage of income subject to AMT.

Emerging Market Debt: Benefitting From Emerging Markets Growth

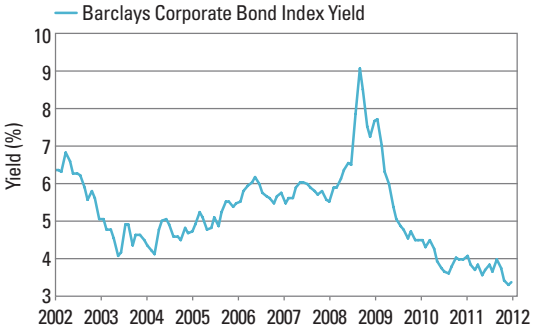
Emerging market debt prices increased during the first quarter of 2012 following gains in 2011. A reduction in consensus economic growth projections for emerging market economies and financial market fears that benefited corporate bonds also aided EMD. Concerns over a slowdown in Chinese economic growth, and with it broader emerging market countries, weighed on EMD prices late in the first quarter, but we believe the stronger growth trajectory of emerging market countries remains on track.

We believe emerging market economic growth fears are misplaced, leaving investors to take advantage of attractive EMD valuations. The average yield advantage of EMD decreased over the first quarter of 2012, but stood at a healthy 3.6% as of March 30, 2012 [Chart 4].

The current yield of the Barclays Global Emerging Markets Bond Index, 5.3% as of March 30, 2012 [Chart 5], is attractive for income generation, particularly given still strong fundamentals. For investors seeking a higher quality alternative to high-yield bonds, EMD may be the right solution.

- EMD issuers may continue to benefit from faster economic growth than their developed-nation counterparts.
- EMD issuers also possess better credit characteristics: debt-to-GDP ratios are lower than developed nations, and most EMD issuers possess large currency reserves.
- Inflation has stabilized and emerging market central banks have begun to lower interest rates. Interest rate cuts should help avoid economic growth risks and provide a tailwind for EMD prices.

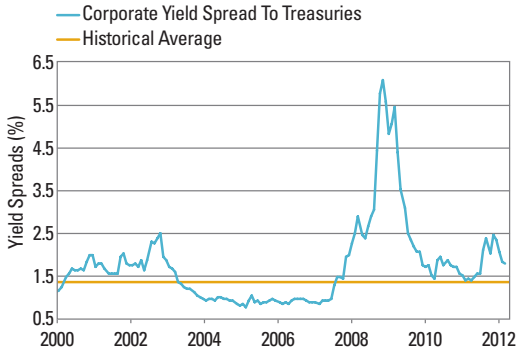
6 Average Corporate Bond Yields Remain Near Record Lows but Are Still a High-Quality Income Option



Source: Barclays, Bloomberg, LPL Financial 03/30/12

The Barclays Corporate Bond Index is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.

7 Corporate Bond Yield Spreads Are Attractive in Our View and Above the Historical Average



Source: Barclays, Bloomberg, LPL Financial 03/30/12

Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity and redemption features.

Government Bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of a fund shares is not guaranteed and will fluctuate.

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

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

The average investment-grade corporate bond yield remains low by historical comparison [Chart 6], but valuations relative to Treasuries remain attractive by historical comparison. For some investors, such yield levels may not be exciting, but yields vary depending on the specific investment used. We believe investment-grade corporate bonds can still be used as an income-producing option in fixed income markets considering historically low Treasury and MBS yields. As of March 30, 2012, the average investment-grade corporate bond yield spread to Treasuries was 1.8%, still above the 1.3% historical average and a considerable advantage over Treasuries [Chart 7].

Throughout 2011, corporate credit quality metrics improved and remained strong as the first quarter of 2012 ended. Fourth quarter 2012 earnings season revealed that, in aggregate among corporate debt issuers leverage remained low and interest-coverage ratios improved further. A slow growth environment, as we forecast in our *2012 Outlook*, still allows for corporate credit quality to be stable and not necessarily turn into a threat for bondholders.

Preferred Stocks: Could Benefit From Favorable Supply/Demand Imbalance

Preferred stocks have provided higher current yields than comparably rated corporate bonds. Although called "stocks," preferred stocks possess bond-like characteristics, and income-seeking investors should consider the asset class.

Preferred stocks were among the top performing fixed income sectors during the first quarter of 2012. Preferred stocks, which are primarily issued by financial companies, witnessed rising prices as overly pessimistic views of the banking sector sharply reversed. The bold action of the ECB eased bank funding strains in Europe and helped alleviate bank fears overall. Domestically, we believe banks have done a good job boosting capital levels to buffer against future losses, and financial markets appeared to finally embrace that view over the past three months. The fact that the vast majority of major U.S. banks passed the Federal Reserve's bank stress tests, which were quite onerous, also helped boost confidence in the banking sector and gave preferred stocks a lift.

Due to the strength of preferred stocks over the first quarter, yields declined and valuations increased. We find the sector attractive and believe preferred stocks remain a good income vehicle, but investors need to be aware of a notable change since last quarter. As of March 30, 2012, the preferred market, as measured by the Merrill Lynch Hybrid Securities Index, had an average yield of 6.1%. However, due to the varied composition of the preferred market, including redemption features, specific investment product yields may vary (see Implementation section for details).

Despite the decline in yields, Preferred Stocks still yield 2.0% more than comparable Treasuries according to Merrill Lynch Index data. Although this yield spread is down from 3.0% at the end of 2011, it represents an attractive advantage over Treasuries. Again due to the varied nature of the preferred market, the yield advantage to comparable Treasuries may vary depending on the specific investment product.

As we have mentioned in the past, financial regulatory reform, on balance, continues to be a modest positive for preferred stocks. Bank capital rules put in place in 2010 resulted in financial institutions retiring certain types of preferred securities, and more redemptions are likely over the coming three years. Retiring the issues will require companies to redeem preferred securities at par value. Since issuance of new preferred stocks has been minimal over the past three years, the reductions have helped create a favorable supply-demand balance. The demand for yield should help support a shrinking base of preferred securities.

Over the longer term, however, investors should realize that interest rate increases remain a risk, even though preferred stocks exhibited good resiliency over bouts of rising interest rates over the past three years. Since preferred stocks are perpetual or have extremely long 30- to 50-year maturities, they possess interest rate sensitivity. The yield advantage to Treasuries will help offset higher interest rate risk, but investors need to be aware of this risk.

Build America Bonds: Insulated From Significant Credit Quality Deterioration

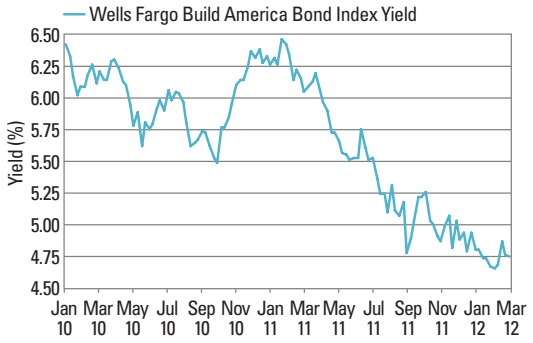
The Build America Bonds program expired at the end of 2010, but BAB prices have proven resilient. Their high-quality and a scarcity premium have helped support bond prices. During the first quarter of 2012, BABs benefited from strong demand for municipal debt overall and helped BABs buck the trend of weaker Treasury prices.

Born from the $787 billion American Recovery and Reinvestment Act (ARRA), Build America Bonds have been well received as taxable bond investors have embraced them as a diversification investment to existing holdings of Corporate, Treasury, and Mortgage-Backed Bonds in their portfolios. BABs are included in the widely followed Barclays Capital Bond Indexes, and therefore are subject to regular purchases from passive investors who closely mimic benchmark positions.

BABs are not without risks, and interest rate risk remains the greatest potential threat. The vast majority of issuance is long-term, with 90% of BABs maturing beyond nine years, according to *The Bond Buyer* data. The longer-term maturities of BABs make them among the more sensitive to interest rate changes within the bond market. Although interest rates declined in 2011, investors should remain aware of this potential longer-term risk. We expect interest rates to rise only modestly in 2012, but price declines associated with rising interest rates may offset the benefit of higher interest income.

In a low-yield world, BABs remain an option for income-seeking investors with an average 4.7% yield, according to Wells Fargo Index data [Chart 8]. While the yield is little changed from the end of 2011, the yield advantage to comparable maturity Treasuries decreased to 1.7% from a more substantial 2.1% over the period. State revenues continue to improve, but many local government budgets will remain tight in 2012 and likely beyond. Municipal defaults remain concentrated among the most speculative issues, a trend we expect to continue. BABs are among the highest-quality municipal bonds, and we expect them to be insulated from significant credit quality deterioration. Since most BABs are issued for qualifying infrastructure projects, the essential service nature provides an extra level of security. ■

8 Build America Bond Yields Finished the First Quarter Slightly Lower



Source: Wells Fargo, Bloomberg, LPL Financial 03/30/12

The Wells Fargo Build America Bond Index is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.

Build America Bonds (BABs)

BABs originated from the American Recovery and Reinvestment Act (ARRA) to allow municipalities to issue taxable bonds for qualifying infrastructure projects. By expanding the investor base to taxable investors, BAB issuance was intended to facilitate municipalities' ability to obtain funding for important infrastructure projects given still uncertain markets in the wake of the financial crisis. BABs have been a success, and the market has grown to $188 billion according to *The Bond Buyer*.

The issuance of Build America Bonds began in April of 2009. They were authorized by the ARRA economic stimulus of 2009 and can be issued for qualifying infrastructure projects. They are taxable municipal bonds and are considered a category of bonds.

Implementation

Model Wealth Portfolios (MWP) – Income Focused

In this publication, we highlight our favorite individual sector and asset class ideas for income. However, with Model Wealth Portfolios (MWP), LPL Financial Research combines multiple asset classes and sectors to create a complete portfolio that seeks excess return and, secondarily, generates significantly higher overall yields than the LPL Financial blended benchmarks.

Within these Income Focused Models, we modify our asset allocation models to increase their income-generating ability. Fund selection is focused on identifying those mutual funds that have historically performed very well with a good portion of their performance coming from income. The following table highlights relevant statistics of MWP Income Focused Models.

Income Focused Model Wealth Portfolio Performance, Annualized (Gross)

Model Portfolios	3-Months	YTD 2012	1-Year	3-Year	Since Inception 3/1/08
Aggressive Growth					
MWP Income Focused	11.60%	11.60%	2.64%	20.86%	0.79%
AG Benchmark	12.20%	12.20%	6.89%	23.01%	4.03%
+ / - Benchmark	**-0.60%**	**-0.60%**	**-4.25%**	**-2.15%**	**-3.24%**
Growth					
MWP Income Focused	10.20%	10.20%	1.99%	20.31%	1.10%
G Benchmark	10.26%	10.26%	7.17%	20.48%	4.56%
+ / - Benchmark	**-0.06%**	**-0.06%**	**-5.17%**	**-0.17%**	**-3.46%**
Growth With Income					
MWP Income Focused	8.92%	8.92%	3.34%	19.52%	2.44%
Gwl Benchmark	7.71%	7.71%	7.42%	17.05%	5.09%
+ / - Benchmark	**1.22%**	**1.22%**	**-4.08%**	**2.46%**	**-2.65%**
Income With Moderate Growth					
MWP Income Focused	7.78%	7.78%	3.16%	18.02%	3.53%
IMG Benchmark	5.19%	5.19%	7.37%	13.43%	5.33%
+ / - Benchmark	**2.59%**	**2.59%**	**-4.22%**	**4.60%**	**-1.81%**
Income With Capital Preservation					
MWP Income Focused	6.92%	6.92%	3.43%	17.42%	5.05%
ICP Benchmark	2.71%	2.71%	7.11%	9.70%	5.34%
+ / - Benchmark	**4.21%**	**4.21%**	**-3.67%**	**7.72%**	**-0.29%**

Source: LPL Financial 03/31/12

Benchmark Indices Weights (As of 03/31/12)

Benchmark Indices	Aggressive Growth	Growth	Growth with Income	Income with Moderate Growth	Income with Capital Preservation
Russell 3000 Index	95%	80%	60%	40%	20%
Barclays Aggregate Bond Index	0%	15%	35%	53%	70%
Citigroup 3-month Tbill	5%	5%	5%	7%	10%

Source: FactSet 03/31/12

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

All indices are unmanaged and cannot be invested into directly.

Please refer to pages 14 & 15 for index descriptions and investment objectives.

Income Focused Model Wealth Portfolio Performance, Annualized (Net)

Model Portfolios	3-Months	YTD 2012	1-Year	3-Year	Since Inception 3/1/08
Aggressive Growth					
MWP Income Focused	10.91%	10.91%	0.10%	18.15%	-1.21%
AG Benchmark	12.20%	12.20%	6.89%	23.01%	4.03%
+ / - Benchmark	**-1.29%**	**-1.29%**	**-6.78%**	**-4.86%**	**-5.24%**
Growth					
MWP Income Focused	9.52%	9.52%	-0.49%	17.38%	-1.05%
G Benchmark	10.26%	10.26%	7.17%	20.48%	4.56%
+ / - Benchmark	**-0.73%**	**-0.73%**	**-7.65%**	**-3.10%**	**-5.61%**
Growth With Income					
MWP Income Focused	8.25%	8.25%	0.82%	16.60%	0.24%
Gwl Benchmark	7.71%	7.71%	7.42%	17.05%	5.09%
+ / - Benchmark	**0.55%**	**0.55%**	**-6.60%**	**-0.45%**	**-4.86%**
Income With Moderate Growth					
MWP Income Focused	7.11%	7.11%	0.62%	15.24%	1.34%
IMG Benchmark	5.19%	5.19%	7.37%	13.43%	5.33%
+ / - Benchmark	**1.92%**	**1.92%**	**-6.75%**	**1.82%**	**-3.99%**
Income With Capital Preservation					
MWP Income Focused	6.26%	6.26%	0.89%	14.61%	2.77%
ICP Benchmark	2.71%	2.71%	7.11%	9.70%	5.34%
+ / - Benchmark	**3.55%**	**3.55%**	**-6.22%**	**4.91%**	**-2.56%**

Source: LPL Financial 03/31/12

Benchmark Indices Weights (As of 03/31/12)

Benchmark Indices	Aggressive Growth	Growth	Growth with Income	Income with Moderate Growth	Income with Capital Preservation
Russell 3000 Index	95%	80%	60%	40%	20%
Barclays Aggregate Bond Index	0%	15%	35%	53%	70%
Citigroup 3-month Tbill	5%	5%	5%	7%	10%

Source: FactSet 03/31/12

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Please refer to pages 14 & 15 for index descriptions and investment objectives.

Income Focused Model Wealth Portfolio Mutual Funds

Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Expense Ratio	30-Day SEC Yield	Web Address
Harbor Capital Appreciation Instl	HACAX	14.50	5.76	4.72	11.07	12/29/87	0.68	N/A	www.harborfunds.com
Allianz NFJ Dividend Value P	ADJPX	6.11	-0.95	5.62	1.61	7/7/08	0.81	3.40	www.allianzinvestors.com
Oppenheimer Rising Dividends Y	OYRDX	8.79	2.96	5.63	6.47	12/16/96	0.87	N/A	www.oppenheimerfunds.com
Royce Value Invmt	RVVHX	-6.52	4.19	10.54	4.75	3/15/07	1.17	N/A	www.roycefunds.com
Royce Dividend Value Invmt	RDVIX	0.85	5.27	N/A	5.99	9/14/07	1.20	N/A	www.roycefunds.com
Principal Preferred Securities P	PPSPX	5.37	5.75	N/A	6.84	9/27/10	0.76	6.11	www.principal.com
Loomis Sayles Bond Instl	LSBDX	6.88	7.47	10.57	10.31	5/16/91	0.63	4.35	www.loomissayles.com
Forward Credit Analysis Long/Short Inv	FLSRX	13.73	N/A	N/A	9.77	5/1/08	4.32	3.52	www.forwardfunds.com
Delaware High-Yield Opportunities In	DHOIX	4.82	7.07	9.71	7.55	12/30/96	0.90	7.06	www.delawarefunds.com
Pioneer Global High Yield Y	GHYYX	0.48	5.52	10.03	6.81	12/27/05	0.74	0.10	www.pioneerinvestments.com
JPMorgan Mortgage-Backed Securities A	OMBAX	6.32	7.37	6.09	6.77	8/18/00	0.98	3.59	www.jpmorganfunds.com
Nuveen High Yield Municipal Bond I	NHMRX	22.16	-0.07	4.40	4.72	6/7/99	0.68	6.26	www.nuveen.com
RS Global Natural Resources A	RSNRX	-11.89	3.38	14.29	10.63	11/15/95	1.48	N/A	www.rsim.com
Forward Global Infrastructure Instl	KGIYX	-1.19	N/A	N/A	-1.29	6/29/07	1.29	2.40	www.forwardfunds.com

Source: Morningstar Direct, LPL Financial 03/31/12

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

Income Focused Model Wealth Portfolio Weights (As of 03/31/12)

Name	Ticker	LPL Financial Statement Asset Class	Aggressive Growth	Growth	Growth w/ Income	Income w/ Moderate Growth	Income w/ Capital Preservation
Harbor Capital Appreciation	HACAX	Large Growth	21.5%	15.0%	11.5%	6.0%	4.0%
Allianz NFJ Dividend Value	ADJPX	Large Value	18.0%	14.0%	13.0%	9.0%	0.0%
Oppenheimer Rising Dividends	OYRDX	Large Blend	20.0%	14.0%	12.0%	6.0%	3.5%
Royce Value Invmt	RVVHX	Mid Blend	8.0%	6.0%	0.0%	0.0%	0.0%
Royce Dividend Value	RDVIX	Small Value	11.0%	10.5%	5.0%	4.0%	3.0%
Principal Preferred Securities	PPSPX	Preferred Securities	0.0%	4.0%	6.0%	8.0%	10.0%
Loomis Sayles Bond	LSBDX	Intermediate-/Long-Term Bond	0.0%	2.0%	0.0%	11.0%	15.0%
Forward Long/Short Credit Analysis	FLSRX	Intermediate-/Long-Term Bond	0.0%	0.0%	5.0%	5.0%	5.0%
Delaware High-Yield Opportunities In	DHOIX	High-Yield Bond	0.0%	6.5%	8.0%	9.0%	10.5%
Pioneer Global High Yield	GHYYX	High-Yield Bond	0.0%	9.0%	10.0%	12.0%	20.0%
JPMorgan Mortgage-Backed Securities Fund	OMBIX	Mortgage-Backed Securities	0.0%	0.0%	9.0%	11.0%	14.0%
Nuveen High Yield Municipal Bond	NHMRX	Tax-Free High-Yield Bond	0.0%	0.0%	3.0%	3.0%	4.0%
RS Investments Global Natural Resources	RSNYX	Sector (Commodities: Natural Resources)	6.0%	5.0%	4.0%	3.0%	2.0%
Forward Global Infrastructure	KGIYX	Sector (Infrastructure)	6.0%	5.0%	5.0%	4.0%	2.0%
Cash*			9.5%	9.0%	8.5%	9.0%	7.0%
TOTAL			100.0%	100.0%	100.0%	100.0%	100.0%

Source: LPL Financial 03/31/12

* The cash portion of this portfolio is represented by money market instruments.

Mutual Fund and ETP Income Producing Ideas

The following list comprises our suggestions for mutual funds and ETPs that provide exposure to the income-producing sectors we have outlined in this report.

Taxable High-Yield Bond Exposure – Mutual Funds

Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield
Taxable High-Yield Bonds								
Artio Global High Income I	JHYIX	1.84	7.43	N/A	10.05	1/30/03	0.74	7.44
MainStay High Yield Corporate Bond I	MHYIX	6.96	6.14	9.01	7.42	1/2/04	0.74	5.61
Pioneer Global High Yield Y	GHYYX	0.48	5.52	10.03	6.81	12/27/05	0.74	0.10
Hotchkis and Wiley High Yield A	HWHAX	4.93	N/A	N/A	16.69	5/29/09	1.01	5.82
PIMCO High Yield P	PHLPX	5.63	6.73	8.02	7.76	4/30/08	0.65	5.01
Delaware High-Yield Opportunities A	DHOAX	4.52	6.74	9.38	7.25	12/30/96	1.20	6.45
Pax World High Yield Bond Individual Inv	PAXHX	3.66	5.92	7.02	5.88	10/8/99	0.97	7.06
Barclays Capital US High Yield Bond		**2.54**	**4.57**	N/A	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 03/31/12

Taxable High-Yield Bond Exposure – ETPs

Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield	Mkt Ret Annlzd 1-Year	Mkt Ret Annlzd 5-Year	Mkt Ret Annlzd 10-Year	Mkt Ret Annlzd Since Incep
Taxable High-Yield Bonds												
iShares iBoxx $ High Yield Corporate Bd	HYG	6.48	N/A	N/A	6.02	4/4/07	0.50	6.51	6.26	N/A	N/A	5.86
SPDR Barclays Capital High Yield Bond	JNK	5.98	N/A	N/A	6.59	11/28/07	0.41	6.67	5.44	N/A	N/A	6.30
Barclays Capital US High Yield Bond		**1.78**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 03/31/12

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

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Tax-Free High-Yield Bond Exposure – Mutual Funds

Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield
Tax-Free High-Yield Bonds								
Nuveen High Yield Municipal Bond I	NHMRX	22.16	-0.07	4.40	4.72	6/7/99	0.68	6.26
Franklin High Yield Tax-Free Inc Adv	FHYVX	17.02	4.85	5.69	5.16	1/3/06	0.53	3.98
Oppenheimer Rochester National Muni A	ORNAX	20.76	-3.53	3.09	4.03	10/1/93	1.10	6.37
Barclays High Yield Municipal		**15.48**	**2.96**	N/A	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 03/31/12

Tax-Free High-Yield Bond Exposure – ETPs

Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield	Mkt Ret Annlzd 1-Year	Mkt Ret Annlzd 5-Year	Mkt Ret Annlzd 10-Year	Mkt Ret Annlzd Since Incep
Tax-Free High-Yield Bonds												
Market Vectors High-Yield Muni ETF	HYD	16.93	N/A	N/A	13.45	2/4/09	0.35	5.55	16.81	N/A	N/A	12.86
Barclays High Yield Municipal		**15.48**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 03/31/12

Emerging Market Debt Exposure – Mutual Funds

Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield
Emerging Market Bonds								
T. Rowe Price Emerging Markets Bond	PREMX	8.97	7.57	11.09	12.21	12/30/94	0.94	5.62
MFS Emerging Markets Debt A	MEDAX	10.63	8.41	11.34	11.98	3/17/98	1.15	4.30
PIMCO Emerging Local Bond P	PELPX	5.17	9.57	N/A	8.63	5/30/08	1.00	3.86
JPM EMBI Global		**12.60**	**8.60**	**10.94**	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 03/31/12

Emerging Market Debt Exposure – ETPs

Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield	Mkt Ret Annlzd 1-Year	Mkt Ret Annlzd 5-Year	Mkt Ret Annlzd 10-Year	Mkt Ret Annlzd Since Incep
Emerging Market Bonds												
PowerShares Emerging Mkts Sovereign Debt	PCY	12.00	N/A	N/A	8.53	10/11/07	0.50	5.33	11.91	N/A	N/A	8.30
iShares JPMorgan USD Emerg Markets Bond	EMB	10.92	N/A	N/A	8.26	12/17/07	0.60	4.41	10.96	N/A	N/A	8.21
JPM EMBI Global		**12.60**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 03/31/12

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NHMRX: www.nuveen.com; FHYVX: www.franklintempleton.com; ORNAX: www.oppenheimerfunds.com; HYD: www.vaneck.com; PREMX: www.troweprice.com; MEDAX: www.mfs.com; PELPX: www.pimco-funds.com; PCY: www.invescopowershares.com; EMB: www.ishares.com.

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Investment-Grade Corporate Bond Exposure – Mutual Funds

Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield
Intermediate/Long High Quality Bond								
Loomis Sayles Investment Grade Bond Y	LSIIX	7.52	8.36	9.44	8.65	12/31/96	0.56	3.59
Dodge & Cox Income	DODIX	6.43	6.66	6.12	7.63	1/3/89	0.43	3.85
PIMCO Total Return P	PTTPX	5.88	8.22	6.93	7.67	4/30/08	0.56	2.47
Federated Total Return Bond Instl	FTRBX	7.45	6.68	6.14	6.62	10/1/96	0.45	2.99
Metropolitan West Total Return Bond I	MWTIX	6.78	7.95	7.06	7.30	3/31/00	0.42	3.79
Western Asset Core Plus Bond I	WACPX	7.43	7.07	7.10	6.94	7/8/98	0.45	2.71
Loomis Sayles Bond Instl	LSBDX	6.88	7.47	10.57	10.31	5/16/91	0.63	4.35
Barclays Capital US Aggregate		**7.71**	**6.25**	**5.80**	N/A	N/A	N/A	N/A
Long High Quality Bond								
Vanguard Long-Term Investment-Grade Inv	VWESX	17.56	8.37	7.93	8.73	7/9/73	0.22	4.68
Barclays Capital US Govt Credit Long		**19.91**	**9.03**	**8.44**	N/A	N/A	N/A	N/A
Eclectic Fixed Income								
Delaware Diversified Income A	DPDFX	6.46	7.83	8.27	8.14	12/29/97	0.97	2.92
Franklin Strategic Income Adv	FKSAX	5.42	7.00	8.22	7.58	8/12/99	0.63	4.55
Barclays Capital US Aggregate		**7.71**	**6.25**	**5.80**	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 03/31/12

Investment-Grade Corporate Bond Exposure – ETPs

Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield	Mkt Ret Annlzd 1-Year	Mkt Ret Annlzd 5-Year	Mkt Ret Annlzd 10-Year	Mkt Ret Annlzd Since Incep
Intermediate/Long High Quality Bond												
iShares Barclays Intermediate Credit Bd	CIU	6.71	6.16	N/A	6.12	1/5/07	0.20	2.31	7.25	6.22	N/A	6.22
iShares iBoxx $ Invest Grade Corp Bond	LQD	11.34	6.94	N/A	6.36	7/22/02	0.15	3.49	11.67	6.92	N/A	6.40
SPDR Barclays Cap Interm Term Corp Bnd	ITR	6.99	N/A	N/A	8.06	2/10/09	0.16	2.53	7.54	N/A	N/A	7.50
Vanguard Intermediate-Term Bond ETF	BIV	11.12	N/A	N/A	7.76	4/3/07	0.11	2.33	11.31	N/A	N/A	7.78
Barclays Capital US Aggregate		**7.71**	**6.25**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Long High Quality Bond												
SPDR Barclays Capital Long CorpTerm Bd	LWC	15.27	N/A	N/A	15.57	3/10/09	0.17	4.94	15.98	N/A	N/A	14.75
Vanguard Long-Term Bond Index ETF	BLV	19.67	N/A	N/A	9.05	4/3/07	0.11	4.07	19.92	N/A	N/A	9.09
Barclays Capital US Govt Credit Long		**19.91**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 03/31/12

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Preferred Stock Exposure – Mutual Funds

Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield
Preferred Securities								
Principal Preferred Securities Inst	PPSPX	5.37	5.75	N/A	6.84	9/27/10	0.76	6.11
Nuveen Preferred Securities I	NPSRX	6.56	5.10	N/A	4.90	12/18/06	0.85	6.02
BofAML Preferred Stock Hybrid		**5.01**	**1.95**	N/A	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 03/31/12

Preferred Stock Exposure – ETPs

Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield	Mkt Ret Annlzd 1-Year	Mkt Ret Annlzd 5-Year	Mkt Ret Annlzd 10-Year	Mkt Ret Annlzd Since Incep
Preferred Securities												
iShares S&P U.S. Preferred Stock Index	PFF	4.46	2.60	N/A	2.63	3/26/07	0.48	6.82	4.78	2.62	N/A	2.69
PowerShares Financial Preferred	PGF	5.59	1.48	N/A	1.64	12/1/06	0.66	6.69	5.88	1.48	N/A	1.55
PowerShares Preferred	PGX	6.66	N/A	N/A	-0.51	1/31/08	0.50	N/A	6.94	N/A	N/A	-0.61
BofAML Preferred Stock Hybrid		**5.01**	**1.95**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 03/31/12

Build America Bond Exposure – ETPs

Name	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross Exp. Ratio	30-Day SEC Yield	Mkt Ret Annlzd 1-Year	Mkt Ret Annlzd 5-Year	Mkt Ret Annlzd 10-Year	Mkt Ret Annlzd Since Incep
Build America Bond												
PowerShares Build America Bond	BAB	21.29	N/A	N/A	12.63	11/17/09	0.35	N/A	21.70	N/A	N/A	12.45
Barclays Build America Bond Index		**26.98**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Morningstar Direct, LPL Financial 03/31/12

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For the most recent month end performance please visit the respective fund's website: PSPIX: www.principal.com; NPSRX: www.nuveen.com; PFF: www.ishares.com; PGF: www.powershares.com; BAB & PGX: www.invescopowershares.com.

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IMPORTANT DISCLOSURES

This report has been prepared by LPL Financial from sources believed to be reliable but no guarantee can be made as to its accuracy or completeness. The opinions expressed herein are or general information only, are subject to change without notice, and are not intended to provide specific advice or recommendations for any individuals.

LPL Financial does not engage in investment banking services nor has LPL Financial or the analyst(s) been compensated during the previous 12 months by any company mentioned in this report for any non-investment banking securities-related services and non-securities services nor has any company mentioned been a client of LPL Financial within the past 12 months.

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

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

Principal risk: An investment in Exchange Traded Funds (ETFs), structured as a mutual fund or unit investment trust, involves the risk of losing money and should considered as part of an overall program, not a complete investment program. An investment in ETFs involves additional risks: not diversified, the risks of price volatility, competitive industry pressure, international political and economic developments, possible trading halts, Index tracking error.

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

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

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

Non-rated bonds have not been issued a rating by bond rating agencies such as Standard and Poor's and Moody's. Bonds that have not been rated by an agency are usually considered to be junk bonds or fall below investment grade.

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

Corporate Bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate, and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

Government Bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of funds shares is not guaranteed and will fluctuate.

Mortgage-Backed Securities are subject to credit risk, default risk, and prepayment risk that acts much like call risk, where you get your principal back sooner than the stated maturity, extension risk, the opposite of prepayment risk, and interest rate risk.

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

Preferred Stock investing involves risk which may include loss of principal.

Credit Quality: One of the principal criteria for judging the investment quality of a bond. As the term implies, credit quality informs investors of a bond or bond portfolio's credit worthiness, or risk of default.

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.

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

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

INDEX DESCRIPTIONS

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

Barclays High Yield Bond Index is an unmanaged index of corporate bonds rated below investment grade by Moody's, S&P or Fitch Investor Service. The index also includes bonds not rated by the ratings agencies.

Barclays Corporate Bond Index is an unmanaged index of investment grade rated bonds issued by corporations and quasi-government agencies. Corporate bonds issued by foreign entities but denominated in US dollars are also included in the index.

The Barclays Global Emerging Markets Bond Index is an unmanaged index of external debt instruments of the emerging market nations. This includes US dollar-denominated Brady Bonds, loans, and Eurobonds.

Russell 3000® Index: measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. As of the latest reconstitution, the average market capitalization was approximately $4.8 billion; the median market capitalization was approximately $944.7 million. The index had a total market capitalization range of approximately $386.9 billion to $182.6 million.

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

The Merrill Lynch Preferred Stock Hybrid Securities Index is an unmanaged index consisting of a set of investment-grade, exchange-traded preferred stocks with outstanding market values of at least $50 million that are covered by Merrill Lynch Fixed Income Research. The Index includes certain publicly issued, $25- and $100-par securities with at least one year to maturity.

The Russell 3000 Growth Index is an unmanaged index comprised of those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000 Value Index measures the performance of those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

Barclays Aggregate Bond Index: is comprised of the Barclays Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, including securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.

The 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.

MODEL DESCRIPTIONS

Aggressive Growth

Aggressive Growth will essentially be fully invested in equity assets at all times (with the exception of a 5% cash position). Investors in this portfolio should have a long time horizon of 10 years or more, an understanding of the volatile history of equity investments, and a propensity to add money to the account on a systematic basis.

This portfolio is very aggressive by nature and should not be considered by anyone unwilling to take on significant risk.

Growth

Growth will be targeted to an allocation of 80% in equity assets and 20% in fixed income assets (including a 5% cash position). Investors in this portfolio should have a long time horizon, an understanding of the volatile history of equity investments, and a propensity to add money to the account on a systematic basis. This portfolio is aggressive by nature and should not be considered by anyone unwilling to take on significant risk.

Growth With Income

Investors in this portfolio should have a long time horizon, and an understanding of the volatile history of equity investments. The primary investment objective of this portfolio is growth of principal. Fixed income assets are included to generate income and reduce overall volatility.

Income With Moderate Growth

Income With Moderate Growth will be targeted to a normal allocation of 40% in equity assets and 60% in fixed income assets (including a 7% cash position). Investors in this portfolio should have a time horizon of more than five years, and be comfortable with the volatile history of equity investments. The primary investment objective of this portfolio is income, with growth of principal an important consideration. Fixed income assets form the core of the portfolio, generating income and lowering the portfolio's overall volatility. Equity assets provide the opportunity for long-term growth of principal.

Income With Capital Preservation

Income With Capital Preservation will be targeted to a normal allocation of 21% in equity assets and 79% in fixed income assets (including a 10% cash position). Investors in this portfolio should have a time horizon of more than five years, and be comfortable with the volatility that will occur within the modest equity portion of their investment portfolio. The primary investment objective of this portfolio is income, with growth of principal as a secondary concern. Fixed income assets form the core of the portfolio, generating a steady income stream. A small investment in equity assets provides the opportunity for modest long-term growth of principal.