



Second Quarter 2012

# Market Insight

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## Introduction: Europe Keeps Stocks From Building on Strong First Quarter

The second quarter was in some ways the reverse of the first.

After a very strong first quarter, the second quarter was a different story. The European fiscal crisis and slowing global growth sent stocks falling from the start, as the S&P 500 hit its peak level for 2012 on April 2. During the quarter, the Index lost 2.8% (including dividends), to end at the 1362 level on June 29, 2012. The quarter's losses left the S&P 500 with a 9.5% return year-to-date and 13% below all-time highs set in October 2007.

The second quarter was in some ways the reverse of the first. Progress by European policymakers helped fuel the rally to start the year, but efforts were proven insufficient as peripheral European bond yields rose, and market participants became increasingly worried about a Eurozone break-up. In the United States, after strong economic data helped drive the strong start for stocks early this year, the data began to weaken in March and has been mostly falling short of expectations since. Meanwhile, evidence of China's slowdown began to build, adding to the pressure on global equities.

As is often the case when stocks fall, bond investors fared better than stock investors during the second quarter, as the Barclays Aggregate Bond Index returned 2.1%. Safe-haven buying resulting from Europe's fiscal crisis, the Federal Reserve's (Fed) continued long-term bond purchases, and global growth fears pushed the 10-year Treasury yield down from 2.2% at the start of the quarter to as low as a post-WWII record low 1.47%, before ending the quarter at 1.67%. This environment was especially favorable for long-term government bonds. For the overall bond market, the quarter marked the 14th positive quarterly return out in the past 15 quarters. Year-to-date, the broad bond market index has returned 2.4%.

Commodities offered no protection from the market downdraft, as global growth fears and a strong US dollar contributed to a nearly 5% loss in the broad Commodities Index. Second quarter losses, driven by a nearly 20% drop in Crude Oil, as measured by the Dow Jones-UBS Crude Oil Index, wiped out the modest first quarter gain for Commodities, leaving the broad DJ-UBS Commodity Index with a 3.7% loss year-to-date. Among major individual commodities, only natural gas and wheat generated meaningful gains.

## Key Equities and Fixed Income Takeaways for the Second Half of 2012

- **Stock market outlook:** As we discuss in our *2012 Mid-Year Outlook*, we continue to expect the U.S. stock market to post an 8–12%\* gain in 2012, backed by mid-to-high single digit earnings growth. With the stock market having returned 9% during the first half, our near-term outlook for the stock market is cautious. We anticipate higher volatility will persist.
- **Bond market outlook:** High-grade bond investors should expect modest returns over the balance of the year, as near record-low yields offer little cushion against potentially higher interest rates. We expect corporate bonds, including high-yield, will post modest single-digit gains and outperform government bonds.\*

\* For insight into our forecasts please see our *2012 Mid-Year Outlook* publication.

Please note all return figures are as of June 29, 2012.

**1 S&P 500 Index: Down Quarter Despite Strongest June Since 1999**



Source: FactSet, LPL Financial 06/29/12

The S&P 500 Index is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.

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. When sentiment reaches one extreme or the other, the market typically reverses course. While this is not necessarily predictive it does measure the current degree of fear present in the stock market.

**2 Q2 2012 Performance of S&P 500 Sectors: Defensives Led the Quarter, (Sorted by Q2 2012 Returns)**

Sector	Q2	YTD
Telecom	14.1%	16.5%
Utilities	6.6%	4.8%
Consumer Staples	2.9%	8.6%
Health Care	1.8%	11.0%
Consumer Discretionary	-2.6%	13.0%
<b>S&amp;P 500</b>	<b>-2.8%</b>	<b>9.5%</b>
Industrials	-3.6%	7.4%
Materials	-4.2%	6.5%
Energy	-6.0%	-2.3%
Technology	-6.7%	13.4%
Financials	-6.8%	13.7%

Source: FactSet, LPL Financial 06/29/12

Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

Past performance is no guarantee of future results.

**Stock Markets: Europe Drags on Quarter**

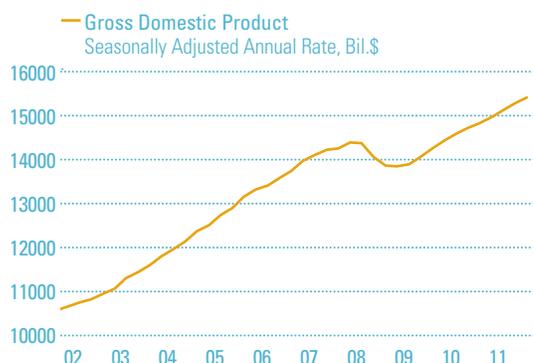
Second quarter losses for the stock market were driven primarily by Europe’s ongoing fiscal crisis, but slowdowns in the U.S. and Chinese economies also pressured stock prices during the quarter. Although Greece has remained in the Eurozone, peripheral sovereign bond yields rose back to unsustainably high levels during the quarter. European policymakers’ efforts to stem the crisis have mostly disappointed markets, as fears of a potential break-up of the currency union and widespread bank failures have been exacerbated. It is worth noting that meaningful progress was made at the European Union (EU) Summit on the last day of the quarter, where leaders agreed to use rescue funds to directly recapitalize banks, terms of the Spanish bank bailout were eased, and Europe moved closer to a banking union. In the U.S., the strong economic data that drove stocks higher during the first quarter reversed, and data began to consistently fall short of expectations. Overseas, the growth picture in Europe worsened as several countries in the region entered or neared recession. And growth in China slowed, sparking fears of a potential “hard landing.”

A strong June prevented bigger losses for stocks during the quarter [Figure 1]. After 0.6% and 6.0% losses in April and May, the strongest June for the S&P 500 in over a decade limited the quarter’s losses to only 3.3%. From the start of the quarter through the June 1, 2012 low, the S&P 500 lost 8.9%, before rallying 6.7% from then through quarter end. Market volatility increased during the quarter. After only one day with over a 1% loss during the first quarter, the S&P 500 lost more than 1% on 12 trading days during the second quarter, roughly one a week on average. The number of days with gains of 1% or more also increased in the quarter, from five in the first quarter to 11. In addition, the VIX, measure of expected stock market volatility hit a 2012 high near 27 on June 1, 2012, before pulling back to the mid-teens by the end of the month, below the average level for the year.

The defensive sectors (Consumer Staples, Health Care, Telecom, and Utilities), those with relatively lower economic sensitivity, produced strong first quarter performance, as stocks fell on Europe’s woes and global growth concerns [Figure 2]. The deteriorating macroeconomic outlook pushed Treasury yields lower, increasing the relative attractiveness of interest rate sensitive dividend-rich sectors including Telecom and Utilities, which topped the quarter’s sector rankings. The defensive Consumer Staples and Health Care sectors also performed well, generating positive returns as investors favored dividends and stability over economic sensitivity. The two biggest sectors in the S&P 500 in terms of market capitalization, Financials and Technology, were the worst performers during the quarter, as each fell over 6%. The Financials sector was impacted by concerns about exposure to troubled European banks, while Technology was hurt by global growth fears and potential weakness in technology spending. Telecom was the best sector performer during the first half of the year with a 16.5% return.

The Large and Small Cap benchmarks registered similar losses during the quarter, as the Russell 1000 and Russell 2000 Indexes lost 3.1% and 3.5%, respectively. Mid Caps were the worst market capitalization cadre, as the Russell Midcap Index lost 4.4% during the quarter. Year-to-date, Large Caps

**3 Gross Domestic Product: Modest Growth Continued in the First Half**



Source: Bureau of Economic Analysis, Haver Analytics 06/25/12

Some of the slowdown in the U.S. economy during the second quarter is payback for the unseasonably warm weather during the first quarter.

have performed best, as the Russell 1000 returned 9.4% during the first half of the year to outpace Small by 90 basis points and Mid by 140 basis points. Style performance saw Value hold up better than Growth on the back of gains in the Value-heavy income sectors (Telecom and Utilities). Financials and Technology suffered similar losses during the quarter and therefore had little impact on Value outperformance during the quarter. Despite the roughly 150 basis points of outperformance by the Russell 3000 Value Index versus its Growth counterpart during the quarter, Growth still holds a slight lead over Value year-to-date thanks to strong first quarter performance.

The nearly 3% loss for the primary U.S. equity market benchmark, the S&P 500, during the quarter was still enough to handily outperform the developed foreign and emerging markets. The U.S. outperformance versus the MSCI Emerging Markets and MSCI EAFE Indexes during the quarter made it four out of five quarters where the U.S. was the best major region to invest. During the quarter, the Large Foreign benchmark lost 6.9% while the MSCI Emerging Markets Index lost 8.8%. Developed foreign market weakness was not just Europe driven, although the region was certainly a big part of it. The MSCI Japan Index actually lost slightly more (-7.3%) than the MSCI Europe Index(-7.1%). Emerging Markets were hurt by falling commodity prices, as natural resources are a significant portion of several key emerging market countries including Russia and Brazil. Meanwhile, persistent concerns about a Chinese “hard landing,” or a more pronounced slowdown, weighed on Chinese equities and the equity markets of some of China’s key trading partners. Overall, a strengthening US dollar during the quarter was a key contributor to U.S. outperformance.

**Economy: Deteriorating Global Economic Backdrop Pressured Financial Markets in the Second Quarter**

The U.S. economy slowed during the first quarter after accelerating and growing at a reasonable pace during the fourth quarter of 2011. Some of the slowdown in the U.S. economy during the second quarter is payback for the unseasonably warm weather during the first quarter. However, the benefit of lower inflation from falling energy and other commodity costs should help offset some of the weather impact and enable the economy to continue to grow at a modest pace during the second half of the year.

During the first quarter, Gross Domestic Product (GDP) growth slowed to 1.9% annualized compared with 3.0% during the fourth quarter [Figure 3]. Business capital spending and inventories both slowed, offsetting a slight pickup in consumer spending and exports and a smaller drop in government spending. After fourth quarter data (reported during the first quarter) mostly exceeded expectation and provided a favorable macroeconomic backdrop for the stock market during the first quarter, first quarter data (reported in the second quarter) overwhelmingly fell short of expectations. Weakness reflected worsening economic conditions in Europe and slower growth in China.

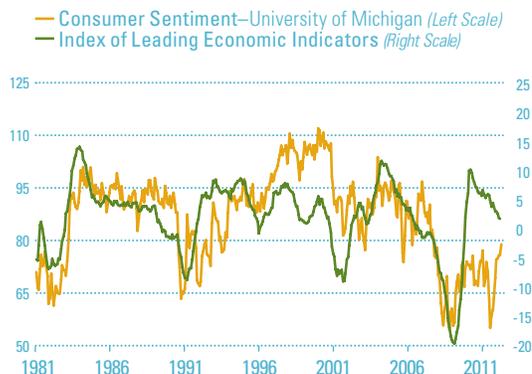
Data so far for the second quarter has mostly disappointed market participants, causing many to lower their estimates for second quarter GDP. Our estimate for the quarter’s economic growth pace remains at

**4 Same-Store Sales Growth for Retailers Is Slowing**



Source: ICSC, Haver Analytics 06/25/12

### 5 Meeting in the Middle: Gap Between Facts and Feelings Has Narrowed in 2012

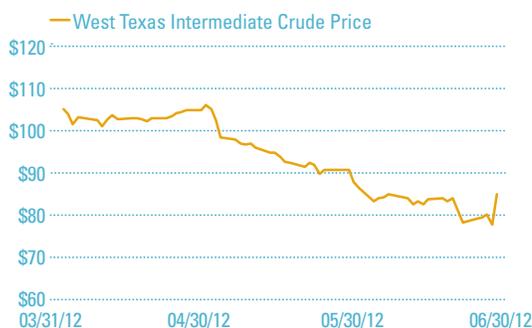


Source: FactSet, LPL Financial 06/29/12

The index of leading economic indicators (LEI) is an economic variable, such as private-sector wages, that tends to show the direction of future economic activity.

These data paint a picture of a job market that has stalled, likely due to a combination of Europe fears and concerns about the domestic fiscal cliff.

### 6 West Texas Intermediate Crude: Sharp Pullback in Oil Prices



Source: FactSet, LPL Financial 06/29/12

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

2%, consistent with our forecast for the year as noted in our *2012 Outlook* publication and reiterated in our *2012 Mid-Year Outlook*. Stocks did respond more favorably to the economic backdrop in June, buoyed by further progress in Europe toward keeping Greece in the Eurozone, stabilizing Spanish banks, and bringing down yields on Spanish and Italian debt. Central banks around the world were supportive of the macro backdrop as well, as the Fed extended its "Operation Twist" program and the European Central Bank eased collateral rules.

For evidence of the slowing U.S. economy, one need not look any further than the job market. After adding an average of 252,000 nonfarm payrolls during the three months ending in February 2012, the U.S. economy added only an average of 96,000 jobs during the three months ending in May. The unemployment rate has remained stubbornly higher during this period at over 8% (8.2% in May 2012), while initial jobless claims are near 2012 highs in the 390,000 range after dropping to 360,000 late in the first quarter. These data paint a picture of a job market that has stalled, likely due to a combination of Europe fears and concerns about the domestic fiscal cliff. As detailed in our *2012 Mid-Year Outlook*, the fiscal cliff is tax increases and spending cuts that will kick in on January 1, 2013 if Congress fails to act to soften the blow that would amount to a more than 3% hit to 2013 GDP.

Other data points provide further evidence of the economic slowdown. Retail sales growth has slowed, with same-store sales growth falling from the 4% year-over-year pace in the first quarter to less than 2% in the most recent reading for May [Figure 4]. This suggests slowing consumer spending growth in the second quarter. Consumer confidence has improved but remains depressed [Figure 5], consistent with recent consumer spending trends. Leading economic indicators are still pointing to modest growth, not recession. In terms of business spending, the Institute for Supply Management (ISM) and durable goods data indicate business spending will likely be only a modest positive contributor to second quarter GDP.

### Commodities: Economically Sensitive Metals Led the Way

Commodities are shaping up to be the worst-performing major asset class in 2012, following marginal returns during the first quarter and a second quarter loss of 4.6% based on the Dow Jones-UBS Commodity Index. At the macro level, a pullback in global equity markets, continued uncertainty in Europe, and slowing growth in China and the U.S. steered investors away from more volatile asset classes into traditionally safer haven investments. This safe-haven buying propelled Treasuries higher, which in turn drove the dollar higher and further acted as a drag on commodity prices.

Much of the lackluster second quarter performance for Commodities is attributable to a significant pullback in Oil prices, which fell from \$103 per barrel to start the quarter to \$85 at quarter end, an 18% decline [West Texas Intermediate, Figure 6]. If not for a \$7 (9%) spike on the last day of the quarter (June 29, 2012), Oil would have fallen 27% during the quarter to below \$80. The significant decline was driven by a combination of factors, including slowing global economic growth, easing tensions in the Middle

7 Slowing Chinese Economy Weighed on Copper\*\*



Source: FactSet, LPL Financial 06/29/12

Precious metal investing is subject to substantial fluctuation and potential for loss.

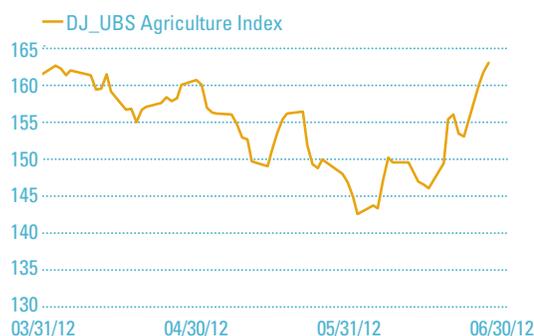
8 Gold Held Up Relatively Well on Stimulus Hopes\*\*



Source: FactSet, LPL Financial 06/29/12

Precious metal investing is subject to substantial fluctuation and potential for loss.

9 Agriculture Commodities Benefitted From Unseasonably Warm Weather\*\*



Source: FactSet, LPL Financial 06/29/12

Agriculture Commodities investing is subject to substantial fluctuation and potential for loss.

The Dow Jones - UBS Agriculture Index is an unmanaged index which cannot be invested into directly. Past performance is no guarantee of future results.

\*\* The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

East, and a spike in inventories that are near multi-decade highs.

Due to a slowing Chinese economy, which weighed on global demand, industrial metals underperformed precious metals during the second quarter. Copper, the more economically and China-sensitive industrial metal fell 10.1% [Figure 7] compared with gold, which held up relatively well, losing just 5.8% in the quarter to end near \$1600 on June 29, 2012 [Figure 8]. Gold garnered support from the prospect of more monetary stimulus and low interest rates, which reduced the opportunity cost for holding gold as an alternative currency and store of value, but still fell more than U.S. stocks during the quarter based on the S&P 500.

Agriculture followed the rest of the major commodities lower during April and May before a June rally pushed the Dow Jones-UBS Agriculture Index into positive territory for the quarter with a 2.2% return, well ahead of the nearly 5% loss for the broad Commodities Index during the quarter. Thanks to late June strength, Agriculture returned a respectable 5.5% during the first half of the year, well ahead of the 3.7% loss for the broad Commodities Index but behind the 9.5% return for the S&P 500 [Figure 9].

Fixed Income – Taxable: High-Grade Bonds Benefit From Europe’s Woes, Flight to Safety

After a flat first quarter, the broad bond market, as measured by the Barclays Capital Aggregate Bond Index, returned 2.1% during the second quarter. The gain was the 14th out of the past 15 quarters for the Index. High-grade bonds outperformed Corporates, though all major bond sectors produced positive returns during the quarter as falling interest rates contributed positively to returns, offsetting some modest spread widening in the Corporate sector. The 10-year Treasury yield touched new record lows during the quarter at 1.47% on June 1, 2012, after starting the quarter at 2.23%, before Treasuries sold off over the balance of June resulting in a quarter-end yield at 1.67% [Figure 10]. Corporate bond spreads widened modestly despite improving credit fundamentals, related to Europe’s woes and safe-haven buying of U.S. Treasuries. Companies continue to further improve balance sheets by reducing debt, lowering borrowing costs through refinancing, and growing cash balances.

Long-term high-quality bonds, as measured by the Barclays Capital Government/Credit Long Index, posted a stellar 7.3% return during the second quarter, as falling interest rates boosted returns. Europe’s woes, the Fed’s commitment to keep low interest rates until 2014, and the Fed’s ongoing bond purchase program (Operation Twist) all drove a safe-haven buying of U.S. Treasuries. The Fed extended Operation Twist through the end of the year, as the market anticipated, which may continue to support intermediate and long-dated bonds. Returns were concentrated in April and May as Treasury yields troughed on June 1, 2012, before a modest sell-off in U.S. Treasuries began in early June amid increasing hopes for progress in Europe.

Among other high-quality bond sectors, Treasury Inflation Protected Securities (TIPS) posted a solid 3.1% return during the second quarter, slightly outpacing U.S. Treasuries (+2.8%), given the benefit from inflation

**10 10-Year U.S. Treasury Yield Reached Post-WWII Record Lows in Early June**



Source: Bloomberg, LPL Financial 06/29/12

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

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 fund shares is not guaranteed and will fluctuate.

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

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

protection. Relative performance of credit sensitive sectors of the bond market were mixed, as Investment-Grade Corporates bested the Barclays Aggregate Bond Index with a 2.5% return, but High-Yield Bonds returned 1.8%, falling short of the broad bond market benchmark. Mortgages also failed to keep up with the broad bond market, as the Barclays Fixed Rate Mortgage-Backed Securities Index returned 1.1% during the quarter. The small benefit from the modest income premium relative to U.S. Treasuries was overwhelmed by an inability to keep up with Treasuries during flights to safety, partially due to shorter duration that comes with refinancing activity.

Looking overseas, Emerging Markets Debt also generated solid gains, as the JP Morgan Emerging Markets Bond Index returned 2.5% during the quarter, benefiting from falling interest rates in the U.S. and emerging market central banks continuing to lower interest rates. Foreign developed market bonds produced a negative quarterly return, as the Citigroup Non-US World Government Bond – Unhedged Index lost 0.6% after a 0.2% loss during the first quarter. The hedged version of that index fared better during the quarter, with a positive return of 0.6% after removing the negative impact of the rising dollar on foreign returns. Even without the currency drag, foreign government bonds were still unable to keep up with U.S. Treasuries due to worries about the credit-worthiness of peripheral European countries and the potential exposure for Germany and the rest of the European Union (EU).

**Fixed Income – Tax-Free**

Municipal bonds continue to be one of the better places in the bond market to invest, benefiting from a favorable supply/demand backdrop, attractive valuations, and improving fundamentals. In particular, High-Yield Municipal Bonds produced a solid 4.0% return during the second quarter, the quarter’s best-performing major bond sector and well ahead of the broad bond market benchmark. High-Yield Municipal bonds, which have returned 9.7% year-to-date, also beat their high-quality counterparts, as the Barclays Capital Municipal Bond Index returned 1.9% in the second quarter. Longer term bonds outperformed among high-quality municipal bonds due to their longer duration. As has been the case in prior quarters, state and municipal budgets continued to improve during the quarter, and defaults remain low among municipal issuers.

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#### IMPORTANT DISCLOSURES

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

Stock investing may involve risk including loss of principal.

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

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

Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

Precious metal investing is subject to substantial fluctuation and potential for loss.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

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.

Treasury inflation-protected securities (TIPS) help eliminate inflation risk to your portfolio as the principal is adjusted semiannually for inflation based on the Consumer Price Index - while providing a real rate of return guaranteed by the U.S. Government.

Bank Loans are loans issued by below investment-grade companies for short-term funding purposes with higher yield than short-term debt and involve risk.

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.

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

The Federal Open Market Committee action known as Operation Twist began in 1961. The intent was to flatten the yield curve in order to promote capital inflows and strengthen the dollar. The Fed utilized open market operations to shorten the maturity of public debt in the open market. The action has subsequently been reexamined in isolation and found to have been more effective than originally thought. As a result of this reappraisal, similar action has been suggested as an alternative to quantitative easing by central banks.

**Materials Sector:** Companies that are engaged 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.

**Energy Sector:** 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. The exploration, production, marketing, refining and/or transportation of oil and gas products, coal and consumable fuels.

**HealthCare Sector:** Companies are 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. Companies primarily involved in the research, development, production, and marketing of pharmaceuticals and biotechnology products.

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

**Consumer Staples Sector:** 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.

**Consumer Discretionary Sector:** 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.

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

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

**Industrials Sector:** 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 Software & Services Sector:** Companies include those 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, including manufacturers and distributors of communications equipment, computers and peripherals, electronic equipment and related instruments, and semiconductor equipment and products.

MSCI EAFE is made up of approximately 1,045 equity securities issued by companies located in 19 countries and listed on the stock exchanges of Europe, Australia, and the Far East. All values are expressed in US dollars. All values are expressed in US dollars. Past performance is no guarantee of future results.

The MSCI Japan Index is a free-float adjusted market capitalization weighted index that is designed to track the equity market performance of Japanese securities listed on Tokyo Stock Exchange, Osaka Stock Exchange, JASDAQ and Nagoya Stock Exchange. The MSCI Japan Total Return Index takes into account both price performance and income from dividend payments. The MSCI Japan Index is constructed based on the MSCI Global Investable Market Indices Methodology, targeting free-float market capitalization coverage of 85%. The index has a base date of December 31, 1987.

The MSCI Europe Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe. As of June 2007, the MSCI Europe Index consisted of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

The Barclays Capital Long Government/Credit Index measures the investment return of all medium and larger public issues of U.S. Treasury, agency, investment-grade corporate, and investment-grade international dollar-denominated bonds with maturities longer than 10 years. The average maturity is approximately 20 years.

The University of Michigan Consumer Sentiment Index (MCSI) is a survey of consumer confidence conducted by the University of Michigan. The Michigan Consumer Sentiment Index (MCSI) uses telephone surveys to gather information on consumer expectations regarding the overall economy.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of May 2005 the MSCI Emerging Markets Index consisted of the following 26 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, Turkey and Venezuela.

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

The CRB Commodities Index is a measure of price movements of 22 sensitive basic commodities whose markets are presumed to be among the first to be influenced by changes in economic conditions. As such, it serves as one early indication of impending changes in business activity.

The Russell Mid Cap Index offers investors access to the mid cap segment of the U.S. equity universe. The Russell Mid Cap Index is constructed to provide a comprehensive and unbiased barometer for the mid-cap segment and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid cap opportunity set. The Russell Mid Cap Index includes the smallest 800 securities in the Russell 1000.

J.P. Morgan Emerging Markets Bond Index Global (EMBI Global) tracks total returns for U.S. dollar denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds. Currently, the EMBI Global covers 188 instruments across 33 countries.

The Dow Jones - UBS Commodity Index is composed of futures contracts on 19 physical commodities. Unlike equities, which entitle the holder to a continuing stake in a corporation, commodity futures contracts specify a delivery date for the underlying physical commodity.

Barclays Capital U.S. MBS Index measures the performance of investment grade fixed-rate mortgage-backed pass-through securities of GNMA, FNMA, and FHLMC.

The Citigroup World Government Bond Index is a market-capitalization-weighted index consisting of the government bond markets. Country eligibility is determined based on market capitalization and investability criteria. All issues have a remaining maturity of at least one year.

The Barclays Municipal Bond Index is a market capitalization-weighted index of investment-grade municipal bonds with maturities of at least one year. All indices are unmanaged and include reinvested dividends. One cannot invest directly in an index. Past performance is no guarantee of future results.

This Barclays Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

The Barclays Capital High Yield Index covers the universe of publicly issued debt obligations rated below investment grade. Bonds must be rated below investment-grade or high-yield (Ba1/BB+ or lower), by at least two of the following ratings agencies: Moody's, S&P, Fitch. Bonds must also have at least one year to maturity, have at least \$150 million in par value outstanding, and must be US dollar denominated and non-convertible. Bonds issued by countries designated as emerging markets are excluded.

The Barclays Capital High Yield Municipal Bond Index is an unmanaged index made up of bonds that are non-investment grade, unrated, or rated below Ba1 by Moody's Investors Service with a remaining maturity of at least one year.

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Not FDIC/NCUA Insured | Not Bank/Credit Union Guaranteed | May Lose Value | Not Guaranteed by any Government Agency | Not a Bank/Credit Union Deposit