What We Do:
Types of Asset Allocation

LPL Financial Research

Investment Philosophy

LPL Financial Research is an opportunistic, all-market, all-weather due diligence provider and portfolio manager. Through our investment and portfolio recommendations, we aim to avoid downside and capture upside. To this end, we are conservative when markets are tough and aggressive when they are rising. Though a very broad investment mandate, we believe this is the only way to effectively provide recommendations for our advisors and their clients.

Tactical Investment Philosophy

Asset allocation is a key concept in money management, where in essence you divide your money among different asset classes such as stocks, bonds, and cash, which is important because, when investing in multiple asset classes, your portfolio may perform better over time and it may minimize the risk of underperformance. Market conditions that can help one asset class to perform well may cause another to have average or poor returns over the same time period. And, a portfolio consisting of a diversified group of investments may be able to limit your losses and reduce the fluctuations of investment returns without sacrificing potential gain.

LPL Financial Research provides advice on both strategic and tactical asset allocation models across the investment platforms that are available to you and your advisor. The key difference between these two types of advice is the timeframe over which we are targeting investment opportunities. Our strategic asset allocation process looks out over a three- to five-year time period. Quarterly, we retest the strength of our asset allocation recommendations. However, we do not anticipate making adjustments until "halftime" of our strategic timeframe, which generally is about every two to three years. If significant market fluctuations warrant a change, however, we may make adjustments sooner, though we anticipate this being a very rare occurrence (For more information please refer to our *Strategic Asset Allocation* pieces).

Relative to strategic asset allocation, tactical models are designed to focus on a much shorter timeframe, and potentially take advantage of opportunities as short as a few months. Tactical asset allocation is not the same as "market timing." Rather, more timely changes may allow portfolios to benefit from rapidly changing opportunities within the market.

Our tactical asset allocation framework relies heavily on our strategic asset allocation as a starting point to determine our risk budget, or how we want to allocate capital across equities, fixed income, cash, and alternatives. From there, our multi-disciplined collaborative effort begins with an assessment of risk to determine whether risk-taking in the current environment is dangerous or opportunistic relative to the strategic allocation. With an understanding of the risk environment, we then take a three-pronged approach to determining the appropriate tactical asset allocation across various asset classes and sectors.

LPL Financial Research believes that fundamental, technical, and valuation factors form the basis of a sound investment decision-making process. However, how they combine and which takes precedence when making an optimal investment decision changes depending on the scenario. The reason is that successful investing does not always follow a basic "rules-based" decision-making framework. Rather, a better way to make investment decisions is to follow a structure that offers the rigidity of a process, but the flexibility to identify which factors are the most significant in each investment opportunity.

Within this multi-pronged framework, we are essentially trying to answer four questions:

1. How should an investment act?
2. What is the market telling us about the investment?
3. What price are we willing to pay for the investment?
4. At what price would we sell?

Fundamentals are the foundation of an idea that you find when looking at the financial well-being of that investment, such as revenue or earnings growth, which can form the basis for how you might expect an investment to act. Technicals are attempting to predict the future direction of an investment's price based upon where its price has been — this is commonly referred to as charting — or a reflection of what the market is telling us about the behavior of the investment. Valuation is the price of an investment relative to what it is or will be worth; we believe you only get an above-average return if you pay a below average price, so we focus on absolute and relative valuation metrics to identify opportunities that might offer an attractive entry point.

Fundamental, technical, and valuation analysis are all important factors to consider when making portfolio decisions; depending on the scenario, each can be relatively more or less important. This multi-factor, multi-scenario decision-making framework is highly complex and allows for LPL Financial Research to build strategies by evaluating which combination of factors under which scenarios may offer the best risk/reward tradeoff. Market participants compete with one another in an environment of imperfect information. No single approach to investing has proven to always be best. However, we believe the discipline of our Fundamentals/Technicals/Valuations approach is a great model to help maximize the reward/risk relationship by utilizing a multi-factor, multi-scenario framework.

The strategic asset allocation process projects a three- to five-year time period. While the strength of the asset allocation decisions is retested often, we do not anticipate making adjustments until midway through the strategic time frame, which generally is about every two to three years. If significant market fluctuations warrant a change, adjustments may be made sooner.

There is no assurance that the techniques and strategies discussed are suitable for all investors or will yield positive outcomes. The purchase of certain securities may be required to effect some of the strategies. Investing involves risks including possible loss of principal.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

Asset allocation does not ensure a profit or protect against a loss.

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

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