

# Compass Points

Bringing you our latest tactical investing ideas



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### Overview

This bi-weekly update provides an in-depth look at the latest tactical investment thoughts from LPL Financial Research as presented in the Portfolio Compass. This publication is designed to cover a broad investment landscape and present ideas to assist when considering portfolio strategy and to customize investment solutions.

## Enthusiastic on Energy

	Fundamentals	Technicals	Valuation	View			Bias
				Negative	Neutral	Positive	
Cash					◁ ○		
Bonds					●		↑
U.S. Stocks	●	●	●		●		
Energy	●	●	●		○ ▷		

	Fundamentals	Technicals	Valuation	View		Bias
				High	Low	
Fixed Income Duration	●		●		●	↑

● Negative ● Neutral ● Positive

As of 03/30/11

Please refer to the Portfolio Compass publication for complete details.

### Compass Changes

- Downgrading Cash to neutral from neutral/positive
- Adding a negative bias to our neutral overall view of Bonds
- Removing negative bias from our neutral view of U.S. Stocks
- Upgrading the Energy sector to positive from positive/neutral
- Adding negative bias to our neutral view on Fixed Income Duration

### Investment Takeaways

- As a follow-up to our last publication, we did not expect events in Japan to upset the domestic economy and recently redeployed cash to help take advantage of investment opportunities. We remain neutral on U.S. stocks overall but remove our negative bias as we stand ready to pursue additional opportunities.
- Our negative bias on bonds reflects our belief that high-quality bond prices may decline further in the near term. However, we continue to find segments of the bond market, such as high-yield bonds and bank loans, attractive.



- The Energy sector appears the beneficiary from both lingering Middle East turmoil and upcoming reconstruction efforts in Japan. We upgrade to positive in response.

## Economy

- U.S. economic data continues to take a back seat to global events and related investment flows. Economic data has been mixed with receding fears about Japan and the Middle East offsetting help to push stocks higher over the past ten days despite weak data on the housing sector. Investors may simply be looking past ongoing economic reports and forward to more substantive, top-tier economic data on Friday, April 1 when the March readings on monthly payroll employment and the Institute of Supply Management (ISM) Index are released.

## Equity and Commodities Asset Classes

- We removed the negative bias to our neutral view of U.S. stocks. On a global basis, we continue to find U.S. stocks the most attractive and market comfort with global uncertainties suggests that fear-related selling has passed.
- In a related move, we downgrade cash to neutral from neutral/positive (front page of the *Portfolio Compass*) as we recently redeployed cash to help take advantage of investment opportunities. We believe volatile markets will persist in 2011 and we stand ready to take advantage of potential opportunities. We continue to scour both equity and commodity asset class investments for future ideas.

## Equity Sectors

- We upgraded the Energy sector to positive from neutral/positive as the sector may be one of the few beneficiaries from both lingering Middle East turmoil and reconstruction efforts in Japan. High oil prices bode well for sector profits and the loss of Japan's nuclear energy generation capacity may benefit more traditional sources of energy such as coal. Consensus earnings forecasts for energy companies have been revised notably upward in recent weeks, indicative of the improving fundamental picture.

## Fixed Income

- We placed a negative bias on our neutral view of bonds (front page of *Portfolio Compass*) due to our belief that high-quality bond prices may decline further in the near term. However, we continue to find economically sensitive segments of the bond market, such as high-yield bonds and bank loans, attractive. Over the fourth quarter of 2010 and so far during the first quarter of 2011, high-yield bond and bank loan prices have increased while Treasury prices have declined. We believe this trend may continue.
- In a related move, we placed a negative bias to our neutral view on portfolio duration. We maintain only modest exposure to high-quality bonds and our neutral view reflects a preference for intermediate bonds as a counterbalance to our significant exposure to high-yield bonds. As mentioned in our last publication, we believed the flight-to-safety rally in Treasuries had run its course and our negative bias reflects our concern

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that bond yields may rise further over the near term. We believe the 10-year Treasury yield may retest the 3.75% yield level attained earlier in the quarter and are increasingly reviewing a shorter duration posture.

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#### IMPORTANT DISCLOSURES

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

Past performance is no guarantee of future results.

Stock investing may involve risk including loss of principal.

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

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

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.

High Yield bond portfolios concentrate on lower-quality bonds, which are riskier than those of higher-quality companies. These portfolios generally offer higher yields than other types of portfolios, but they are also more vulnerable to economic and credit risk. These portfolios primarily invest in U.S. high-income debt securities where at least 65% or more of bond assets are not rated or are rated by a major agency such as Standard & Poor's or Moody's at the level of BB (considered speculative for taxable bonds) and below.

The ISM index is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders, and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys.

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.

A commodity is a basic good used in commerce that is interchangeable with other commodities of the same type. Commodities are most often used as inputs in the production of other goods or services. The quality of a given commodity may differ slightly, but it is essentially uniform across producers.

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.

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

High-Yield/Junk Bonds are not investment-grade securities, involve substantial risks, and generally should be part of the diversified portfolio of sophisticated investors. High-yield bonds can be illiquid and are subject to interest rate risk.

High Yield Bonds have interest rate risk as well at times they may become illiquid.

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