Portfolio Compass

March 2, 2011

The Portfolio Compass provides an easy-to-read snapshot of LPL Financial Research's views on the Economy, Equities and Fixed Income as well as our Current Conditions Index.

This publication illustrates our current views and will change as needed, and incorporates our biases over a 3- to 12-month time horizon.

The Portfolio Compass is comprised of five components:

1. Current Conditions Index: The LPL Financial Current Conditions Index is a weekly measure of the conditions that underline our outlook for the markets and economy.
2. Economic Compass: The Economic Compass illustrates how the U.S. economy, financial conditions, monetary and fiscal policy, and international economies are tracking to the consensus outlook for each of the indicators in the relevant period.
3. Equity & Commodity Asset Class Compass: Evaluates the asset classes such as Large Growth, Mid Value, Foreign Stocks, REITs, and Commodities.
4. Equity Sector Compass: Evaluates the 10 S&P 500 equity sectors.
5. Fixed Income Compass: Evaluates the fixed income asset classes.

Reading the Portfolio Compass

- In the Economic Compass the dots illustrate how each category is tracking to the consensus outlook.
- In the other compasses the dots illustrate our view for each category as negative, neutral, or positive, in addition to fundamental, valuation, and technical characteristics for the category.
- The bias, illustrated with a right or left facing arrow, provides an "early warning" that a change may be looming.
- The active manager performance column indicates whether active managers, as defined by the Morningstar category average, are beating the asset class benchmarks over the trailing three-month, and 1-year period.
- Rationales for our views are provided in the Comments section.

Broad Asset Class Views

	Negative	Neutral	Positive			Bias
Stocks			●			←
Bonds			●			
Cash			●			
Alternatives				●		

Source: LPL Financial Research

★ Denotes change in tracking from last issue.

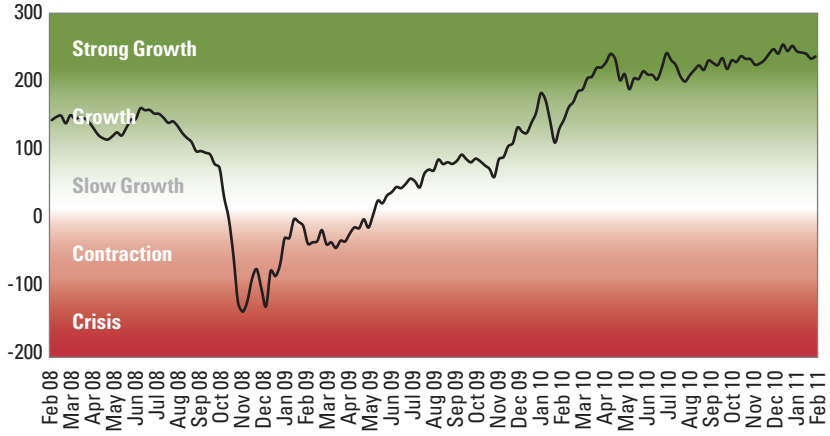
LPL Financial

Current Conditions Index

March 2, 2011

How are the Components Affecting the Index Right Now?

LPL Financial Research Current Conditions Index



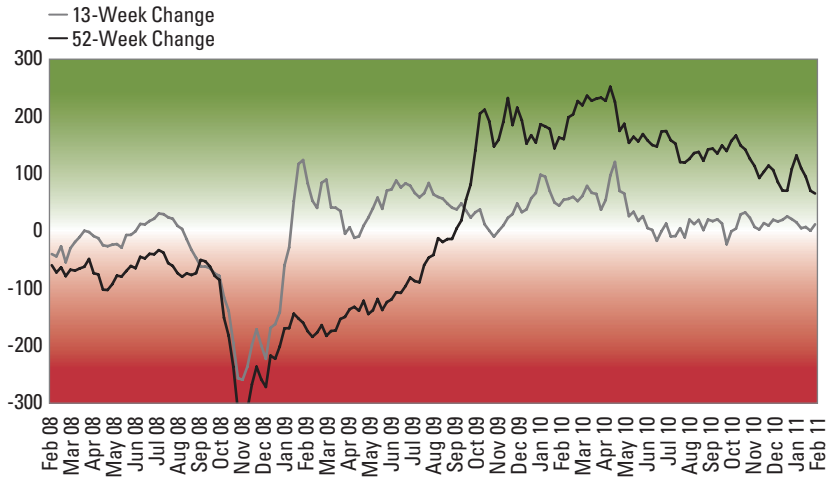
Source: LPL Financial 03/02/11

Over the past week, the LPL Financial Current Conditions Index was essentially unchanged at 236. The level of the CCI indicates an environment fostering growth in the economy and markets.

The growth momentum in the index continues to wane. The 52-week change in the index, while still positive at 65, has been declining since April 2010. The 13-week change remains relatively flat at 12.

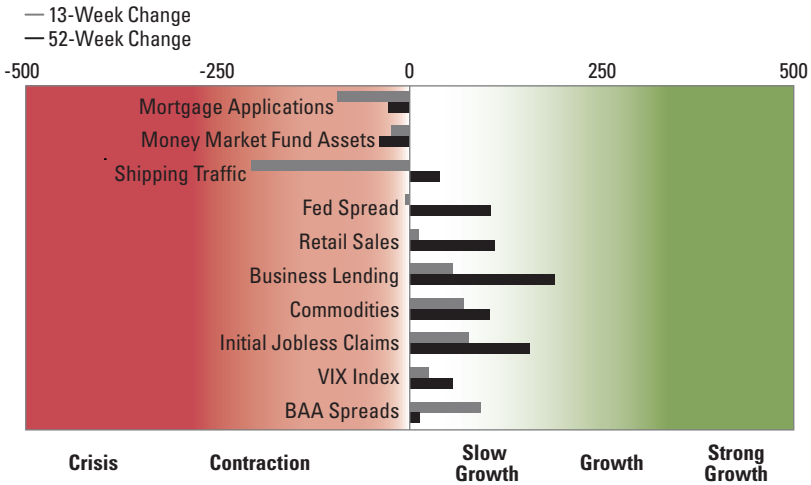
Most components of the CCI point to an environment of slowing growth momentum over the past 13- and 52-weeks. Of the four components that contracted over the past 13-weeks, Shipping Traffic has slowed the most as weather and higher fuel costs have impacted transit.

LPL Financial Research CCI Growth Momentum



Source: LPL Financial 03/02/11

LPL Financial Research CCI Components



Source: LPL Financial 03/02/11

Economic Compass

March 2, 2011

Severe Winter Weather Had a Big Impact in January, but the Underlying Economy Remains Solid; Inflation is a Growing Concern

In 2011, we expect economic growth will be near the long-term average at 2.5 – 3%, as measured by Gross Domestic Product (GDP); however, this is below the average of 3.5–4%, which is typical at this stage of a business cycle. On the positive side, pent-up demand by businesses along with plenty of cash and low interest rates provide fuel for growth. In addition, the combination of the second round of quantitative easing (QE2) from the Fed, the extension of the Bush tax cuts, the payroll tax cuts and business tax cuts signed into law in late 2010 could lift GDP significantly. However, curbing our enthusiasm are slowing Chinese growth, weak bank lending, and looming government spending cuts. Severe winter weather in January 2011 has made interpreting the economic data more difficult than usual, but the economy in the first quarter of 2011 appears to be growing at the upper end of our forecast range. In addition, while measured inflation, inflation expectations built into markets and inflation expectations of professional forecasters remain low and stable, inflation is a hot topic, as food and energy prices rise.

	Economic Factors	Present Status*	Relative to The Consensus (Below / In Line / Above)	Bias	Comment
ECONOMY	Consumer Spending	●	In Line	→	Spending in February rebounded nicely after severe weather impacted January. Rising gasoline prices a risk.
	Business Spending	●	In Line		Business spending leading the economic recovery. A weaker dollar, and tax cut deal should be a plus in '11.
	Housing	●	In Line		Housing sales and prices still bouncing along the bottom after expiration of homebuyers tax credit. Rising mortgage rates a concern.
	Export Sector	●	Above		Strong export growth continues to lead economy early in recovery. 50%+ of our exports go to fast-growing emerging markets.
	Labor Market	●	Above	←	Progress made in the labor market in 2010, but still a long way to go the recover 8.8 million jobs lost in the recession.
	Inflation	●	In Line		Expectations have been too high on core inflation forecasts thus far in 2010. QE2 aimed at increasing core inflation.
POLICY	Fiscal	●	In Line	→	2010 tax cut deal will be a plus in '11, but perhaps at the expense of growth in '12.
	Monetary	●	Above		Fed has embarked on a new round of quantitative easing. Efficacy and wisdom of QE still being vigorously debated both in and outside the Fed.
	Government	●	In Line		2010 Mid-term election results appear to be ushering in an era of a more "business friendly" environment in Washington.
OVERSEAS	US Dollar	●	In Line		Over the long term, dollar likely headed lower as Fed embarks on another round of quantitative easing.
	Overseas Economies – Developed	●	In Line		The brunt of the tax hikes and spending cuts just now taking effect in Europe and the U.K.
	Overseas Economies – Emerging Markets	●	Above		Market expects 5–6% real GDP growth in EM in '11, 9.0% in China.
FINANCIAL CONDITIONS	Lending Conditions	●	In Line	→	Credit conditions have eased and loan demand from business and consumers is stabilizing, but still weak.
	Corporate Profits	●	In Line		We expect another strong year for corporate profit growth in 2011, although consensus in the low teens may prove slightly optimistic.
	Overall Economy	●	Below		Our forecast for 2.5-3% GDP growth in 2011 is slightly below consensus.

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

* Present Status: Assessment of the current state of the various components of the economy listed. Where available, the assessment is taken from the most recent Federal Reserve's Federal Open Market Committee (FOMC) Beige Book or from the most recent FOMC statement. Where no assessment from the Federal Reserve is available, the assessment is that of the LPL Financial Research Department, based on economic data releases from various government agencies.

Equity & Commodity Asset Class Compass

March 2, 2011

Downgrading Emerging Markets as Inflation Battle Continues; Favor Commodities Over Equities

We have taken a more defensive stance toward equities, reflected in our downgrade of Emerging Markets and increasing Commodities exposure. We maintain a preference for Growth over Value due mostly to our sector preferences and better earnings trends. We maintain a slight preference for Mid Caps over Small based on valuations and relatively less interest rate risk, though both benefit from merger & acquisition (M&A) activity. We favor the U.S. over Large Foreign although we are monitoring opportunities in Europe as sovereign debt issues ease. We expect geopolitical risks, inflation pressures and resulting policy tightening to weigh on Emerging Market performance. An improving economic climate normally bodes well for REITs globally. We favor Commodities, particularly energy, agriculture, and silver on rising inflation worldwide and potential supply shortages. Geopolitical risk offers additional near-term upside for oil and precious metals.

		Fundamentals	Technicals	Valuation	View (Negative / Neutral / Positive)	Bias	Comment	Active Manager Performance (trailing) 3 mo.	1 yr
STYLE / CAPITALIZATION	Large Growth	•	•	•	Neutral		Our models are biased toward Growth due to better earnings trends and decelerating economic growth, while relative valuations are similar.	-	-
	Large Value	•	•	•	Negative			-	-
	★ Mid Growth	•	•	•	Positive ⇦		Strong earnings outlook and Merger & Acquisition (M&A) activity are positive for Mid Caps. Better insulated from rising interest rates than Small.	-	-
	Mid Value	•	•	•	Neutral			-	-
	Small Growth	•	•	•	Neutral		We prefer Mid Caps to Small due to slightly more attractive valuations and better earnings trends. M&A activity helps both, but Small does not benefit as much from strong growth in developing markets.	+	-
	Small Value	•	•	•	Negative			-	+
REGION	U.S. Stocks	•	•	•	Neutral		We maintain our bias towards domestic equities due to stable economic growth, benign inflation, policy and geopolitical risk considerations. As sovereign debt issues continue to ease, we are closely monitoring for better fundamentals before establishing a position in developed foreign markets. We expect Emerging Markets to underperform domestic equities due primarily to geopolitical risks in the Middle East and inflation pressures which will likely fuel further policy tightening.		
	Large Foreign	•	•	•	Negative			-	+
	Small Foreign	•	•	•	Negative	→		-	+
	★ Emerging Markets	•	•	•	Negative ⇦			-	+
REITS	REITs	•	•	•	Positive		Improving economy and credit markets, attractive dividend yields, positive technicals.	-	-
COMMODITIES	★ Commodities - Industrial Metals	•	•		Positive ⇦		We favor Commodities, particularly oil, agriculture, and silver on rising inflation worldwide and realized or potential supply shortages. We have increased exposure to more defensive precious metals due to heightened geopolitical risk and bullish technicals. We expect unrest in the Middle East and North Africa to keep crude prices elevated. We expect tight supplies for key agricultural commodities to persist, at least in the near-term.		
	★ Commodities - Precious Metals	•	•		⇨ Positive				
	Commodities - Energy	•	•		Positive	→			
	Commodities - Agricultural	•	•		Positive				

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

Real Estate/REITs may result in potential illiquidity and there is no assurance the objectives of the program will be attained. The fast price swings of commodities will result in significant volatility in an investor's holdings. International and emerging markets involve special risks such as currency fluctuation and political instability. The price of small and mid-cap stocks are generally more volatile than large cap stocks. Value investments can perform differently from the market as a whole. They can remain undervalued by the market for long periods of time. Precious metal investing is subject to substantial fluctuation and potential for loss. These securities may not be suitable for all investors.

Equity Sector Compass

March 2, 2011

Economic and Profit Backdrop Remains Positive For Business-Driven Cyclical and Resource Sectors

We maintain our positive views of the business-driven cyclical Industrials and Technology sectors. Solid business spending and export growth are still supportive of both sectors, which produced very strong earnings results during the nearly completed Q4 2010 reporting season. We expect Materials and Energy to continue to benefit from the improving global economic outlook, especially in the U.S., as well as heightened geopolitical risk and a weaker dollar. Inflation-fighting policies in China and other developing economies and potential for intermittent periods of dollar strength are risks. High energy costs are a big challenge for Consumer Discretionary, but consumers continue to spend. Banks should benefit from pending dividend increases and attractive valuations. Interest rate risk and mixed earnings results are concerns for Telecom and Utilities, while input cost pressures remain a challenge for Consumer Staples.

		Fundamentals	Technicals	Valuation	View (Negative / Neutral / Positive)	Bias	S&P 500 Weight (%)	Comment	Industry Views: Most Favored	Industry Views: Least Favored
CYCLICAL	Materials	Positive	Positive	Positive	Positive		3.6	Strengthening U.S. outlook offsetting China concerns; dollar weakness likely a plus for 2011.	Chemicals, Metals & Mining	Containers & Packaging
CYCLICAL	Energy	Positive	Positive	Neutral	Positive	→	13.1	Geopolitical risk is the headliner, but global demand, U.S. inventories and earnings are also supportive.	Exploration & Production	Integrated
CYCLICAL	Industrials	Positive	Positive	Neutral	Positive	←	11.1	Business spending, economic cycle are positive, but oil sensitivity is of some concern.	Machinery, Capital Goods	Aerospace & Defense
CYCLICAL	Consumer Discretionary	Neutral	Neutral	Neutral	Neutral		10.6	High energy costs are a big challenge but consumers continue to spend.	Media	Consumer Durables
CYCLICAL	Technology	Positive	Neutral	Positive	Positive		18.7	Attractive valuation virtually in line with S&P 500, strong earnings trends, booming ISM.	Hardware, Software, Communications Equipment	IT Services
CYCLICAL	Financials	Neutral	Neutral	Positive	Neutral	→	16.0	Impending dividend hikes favor continued Bank recovery; recent yield curve flattening has weighed.	Diversified Financials, Banks	Insurance
DEFENSIVE	Utilities	Negative	Negative	Negative	Negative		3.2	Earnings weakness, rich valuations outweigh yields; disappointing Q4 2010 earnings season.	Regulated	none
DEFENSIVE	Health Care	Negative	Negative	Neutral	Neutral	←	10.7	Reform overhang and lackluster growth will weigh until the market favors more defensive investments.	Biotech, Equipment & Supplies	Managed Care
DEFENSIVE	Consumer Staples	Negative	Neutral	Negative	Negative	→	10.1	Higher input costs a big concern; over half of the sector missed Q4 2010 revenue targets.	Food & Staples Retailing	Food, Beverage & Tobacco
DEFENSIVE	Telecom	Neutral	Negative	Negative	Neutral		2.9	Valuations and risk of higher interest rates keep us on the sidelines still.	Diversified	none

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Investing in sectors may be more volatile than diversifying across many industries.

Fixed Income Compass

March 2, 2011

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

Treasury yields declined sharply on a flight-to-quality bid resulting from turmoil in the Middle East and Africa. We expect Fed buying to keep yields relatively low and benign inflation should also support bond prices. Nonetheless, we maintain a defensive positioning against higher interest rates with a heavy emphasis on high-yield bonds. Spreads on high-yield bonds and investment-grade corporate bonds have widened modestly despite upbeat earnings reports and good economic data. We maintain our overweights given improving fundamentals and attractive valuations. High-Yield issuers have benefitted from lower interest rates to refinance debt and default rates continue to decline. We are increasingly looking at bank loans as an additional defensive fixed income investment.

		Fundamentals	Technicals	Valuation	View (High – Low)	Bias	Comment	Active Management Performance (trailing) 3 mo.	1 yr
	Credit Quality	●		●	Low		Credit spreads still wide; prefer Corporate Bonds to Government Bonds.		
					Short – Long				
	Duration	●		●	Short		Expect short rates to stay low and the yield curve to remain steep; favor intermediate maturities; prefer sector exposure.		
					Negative – Neutral – Positive				
TAXABLE BONDS – U.S.	Treasuries	●	●	●	Negative	←	Fed purchases to account for the bulk of net issuance in 2011 and limits upward pressure on yields.	-	+
TAXABLE BONDS – U.S.	TIPS	●	●	●	Neutral		Prefer to nominal Treasuries as quantitative easing is inflationary over time.	+	-
TAXABLE BONDS – U.S.	Agency Debt	●	●	●	Negative		Treasury's commitment to maintain support of GSE's has kept yield spreads to Treasuries tight.		
TAXABLE BONDS – U.S.	Investment-Grade Corporates	●	●	●	Positive		Yield Spreads stable as heavy supply has abated; earnings results show improving fundamentals.		
TAXABLE BONDS – U.S.	Agency Mortgages	●	●	●	Neutral		Stabilized following refinancing fears.		
TAXABLE BONDS – U.S.	Non-Agency Mortgages	●	●	●	Positive	←	Valuations have increased but opportunity still exists.		
TAXABLE BONDS – U.S.	Preferred Stocks	●	●	●	Positive		Valuations still attractive and exhibited resiliance to higher yields. Financial regulatory reform modest positive.		
TAXABLE BONDS – U.S.	High-Yield Corporates	●	●	●	Low		Improving fundamentals and investor inflows have boosted valuations. Sector still attractive.	+	-
TAXABLE BONDS – U.S.	Bank Loans	●	●	●	Positive		Still trade at discount to par; High-Yield issuance used to pay off bank loans a positive.	-	-
TAXABLE BONDS – FOREIGN	Foreign Bonds - Hedged	●	●	●	Negative		Sovereign risks still a concern. Lack of Central Bank buying limits upside.		
TAXABLE BONDS – FOREIGN	Foreign Bonds - Unhedged	●	●	●	Negative		Non-Dollar bonds may continue to benefit from potential Fed purchases, which weaken US dollar.		
TAXABLE BONDS – FOREIGN	Emerging Market Debt	●	●	●	Positive		Valuations fair but strong fundamentals and attractive yield bolster sector.	+	-
TAX-FREE BONDS	Munis - Short-Term	●	●	●	Negative		Muni curve is steep, and short-term yields are very low.	-	-
TAX-FREE BONDS	Munis - Intermediate-Term	●	●	●	Neutral	→	Fund redemptions continue but lack of new issue supply has helped stabilize valuations.	-	-
TAX-FREE BONDS	Munis - Long-Term	●	●	●	Low		Increase in yields from recent selloff has attracted traditional taxable investors.	+	+
TAX-FREE BONDS	Munis - High-Yield	●	●	●	Low		Valuations more attractive following rise in yield in respone to high-grade weakness.		

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

All 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 availably 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 interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply. Preferred stock investing involves risk including loss of principal. Mortgage Backed Securities are subject to credit, default risk, prepayment risk that acts much like call risk when you get your principal back sooner than the stated maturity, extension risk, the opposite of prepayment risk, and interest rate risk. International and emerging market investing involves risks such as currency fluctuation and political instability and may not be suitable for all investors. 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. 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. Duration: A measure of the sensitivity of the price (the value of the principal) of a fixed-income investment to a change in interest rates.

Appendix - CCI Components

Real-Time Tracking

The LPL Financial Research Current Conditions Index is a weekly measure of the conditions that underline our outlook for the markets and economy. The CCI provides real-time context and insight into the trends that shape our recommended actions to manage portfolios. This index has been a useful tool for investment decision making.

This weekly index is not intended to be a leading index or predictive of where conditions are headed, but a coincident measure of where they are right now. We want to track the conditions in real-time to aid in investment decision making. There are thousands of indicators-some lead the economy, some lag, while others merely offer a lot of statistical noise. We chose to create our own index tailored to the current environment to provide the clearest and most useful way to track conditions. The components of the CCI are periodically changed to re-tune the index to those factors most critical to the markets and economy so it may continue to be a valuable investment decision-making tool.

To create the index we found 10 indicators that provided a weekly, real-time measure of the conditions in the economic and market environment. Each component is important and measures a different driver of the environment. The 10 components of the CCI are described below:

1. Initial Claims Filed for Unemployment Benefits – Measures the number of people filing for unemployment benefits. A rise in the number of new claims acts as a negative on the CCI.
2. Fed Spread – A measure of future monetary policy, the futures market gives us the difference between the current federal funds rate and the expected federal funds rate six months from now. Typically, a rise in rate hike expectations weighs on the markets since higher rates increase the cost of bank borrowing and have tended to slow the growth in the economy and profits. A rise in the Fed Spread acts as a negative for the CCI.
3. Baa Spreads – The yield on corporate bonds above the rate on comparable maturity Treasury debt is a market based estimate of the amount of fear in the bond market. Baa-rated bonds are the lowest quality bonds still considered investment grade, rather than high-yield. Therefore, they best reflect the stresses across the quality spectrum. A rise in Baa spreads acts as a negative for the CCI.
4. Retail Sales – International Council of Shopping Centers tabulates data on major retailer's sales compared to the same week a year earlier. This measures the current pace of consumer spending. Consumer spending makes up two-thirds of GDP. Rising retail sales acts as a positive for the CCI.
5. Shipping Traffic – A measure of trade, the Association of American Railroads tracks the number of carloads of cargo that moves by rail in the U.S. each week. A growing economy moves more cargo. A rise in railroad traffic acts as a positive for the CCI.
6. Business Lending – A good gauge of business' willingness to borrow to fund growth, the Federal Reserve tabulates demand for Commercial & Industrial loans at U.S. commercial banks. More borrowing reflects increasing optimism by business leaders in the strength of demand. A rise in loan growth acts as a positive for the CCI.
7. VIX – The VIX is a measure of the volatility implied in the prices of options contracts for the S&P 500. It is a market based estimate of future volatility. While this is not necessarily predictive it does measure the current degree of fear present in the stock market. A rise in the VIX acts as a negative on the CCI.
8. Money Market Asset Growth – A measure of the willingness to take risk by investors, the year-over-year change in money market fund assets tracked by Investment Company Institute shows the change in total assets in cash equivalent money market funds. A rise in money market asset growth acts as a negative for the CCI.
9. Commodity Prices – While retail sales captures end user demand for goods, commodity prices reflect the demand for the earliest stages of production of goods. Commodity prices can offer an indicator of the pace of economic activity. The CRB Commodity Index includes copper, cotton, etc. A rise in commodity prices acts as a positive on the CCI.
10. Mortgage Applications – The weekly index measuring mortgage applications provides an indication of housing demand. With much of the credit crisis tied to housing, keeping tabs on real time buying activity can offer insight on how the crisis is evolving. A rise in the index of mortgage applications acts as a positive on the CCI.

Portfolio Compass Definitions

ECONOMIC DEFINITIONS

Consumer Spending: Real Personal Consumption Expenditures from the U.S. Government's National Income and Product Accounts.

Business Spending: Business Investment in Equipment and Inventories from the U.S. Government's National Income and Product Accounts.

Housing: Amalgamation of housing prices and housing construction activity.

Export Sector: Real Net Exports from the U.S. Government's National Income and Product Accounts.

Labor Market: Unemployment Rate and Nonfarm Payroll job count from the U.S. Bureau of Labor Statistics.

Inflation: Consumer Price Index, overall and excluding food and energy, from the U.S. Bureau of Labor Statistics.

Fiscal Policy: The U.S. Federal government's spending and tax policies.

Monetary Policy: The U.S Federal Reserve's policies on interest rates and the money supply.

Government Policy: Overall U.S. government policy as it relates to the banking and housing crises.

US dollar: Broad measure of the US dollar versus the currencies of its major trading partners (Canada, Eurozone, Japan, UK, etc.)

International Economies – Developed: Proxy for economic, fiscal, and monetary health of major developed international economies (Canada, Eurozone, Japan, UK, etc.)

International Economies – Emerging: Proxy for economic, fiscal, and monetary health of major emerging international economies (China, India, Russia, Brazil, Eastern Europe, Latin America, etc.)

Financial Conditions: A measure of the health of the financial system relative to "normal" times. Indicators include, but are not limited to: short term credit spreads, overnight bank lending rates, spreads on corporate debt, willingness of banks to lend to each other, willingness of banks to lend to customers, and the ability of corporations to finance themselves in the short-and long-term debt and equity markets

Yield Curve: Difference in basis points between the 10-year Treasury note and the 3-month T-Bill.

Corporate Profits: S&P 500 Operating profits as compiled by Thomson Financial.

Present Status: Assessment of the current state of the various components of the economy listed. Where available, the assessment is taken from the most recent Federal Reserve's Federal Open Market Committee (FOMC) Beige Book or from the most recent FOMC statement. Where no assessment from the Federal Reserve is available, the assessment is that of the LPL Financial Research Department, based on economic data releases from various government agencies.

Earnings Per Share (EPS): The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

EQUITY AND COMMODITY ASSET CLASSES

Large Growth: Stocks in the top 70% of the capitalization of the U.S. equity market are defined as Large Cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

Large Value: Stocks in the top 70% of the capitalization of the U.S. equity market are defined as Large Cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

Mid Growth: The U.S. mid-cap range for market capitalization typically falls between $1 billion and $8 billion and represents 20% of the total capitalization of the U.S. equity market. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

Mid Value: The U.S. Mid Cap range for market capitalization typically falls between $1 billion and $8 billion and represents 20% of the total capitalization of the U.S. equity market. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

Small Growth: Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as Small Cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

Small Value: Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as Small Cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

Portfolio Compass Definitions (CONT.)

EQUITY AND COMMODITY ASSET CLASSES (CONT.)

U.S. Stocks: Stock of companies domiciled in the U.S.

Large Foreign: Large-cap foreign stocks have market capitalizations greater than $5 billion. The majority of the holdings in the large foreign category are in the MSCI EAFE Index.

Emerging Markets: Stocks of a single developing country or a grouping of developing countries. For the most part, these countries are in Eastern Europe, Africa, the Middle East, Latin America, the Far East and Asia.

REITs: REITs are companies that develop and manage real-estate properties. There are several different types of REITs, including apartment, factory-outlet, health-care, hotel, industrial, mortgage, office, and shopping center REITs. This would also include real-estate operating companies.

Commodities – Industrial Metals: Stocks in companies that mine base metals such as copper, aluminum and iron ore. Also included are the actual metals themselves. Industrial metals companies are typically based in North America, Australia, or South Africa.

Commodities – Precious Metals: Stocks of companies that do gold- silver-, platinum-, and base-metal-mining. Precious-metals companies are typically based in North America, Australia, or South Africa.

Commodities – Energy: Stocks of companies that focus on integrated energy, oil & gas services, oil & gas exploration and equipment. Public energy companies are typically based in North America, Europe, the UK, and Latin America.

Small Foreign – Small - cap foreign stocks typically have market capitalizations of $250M to $1B. The majority of the holdings in the small foreign category are in the MSCI Small Cap EAFE Index.

EQUITY SECTORS

Consumer Discretionary: Companies that tend to be the most sensitive to economic cycles. Its manufacturing segment includes automotive, household durable goods, textiles and apparel, and leisure equipment. The service segment includes hotels, restaurants and other leisure facilities, media production and services, consumer retailing and services and education services.

Consumer Staples: Companies whose businesses are less sensitive to economic cycles. It includes manufacturers and distributors of food, beverages and tobacco, and producers of non-durable household goods and personal products. It also includes food and drug retailing companies.

Energy: Companies whose businesses are dominated by either of the following activities: The construction or provision of oil rigs, drilling equipment and other energy-related service and equipment, including seismic data collection or the exploration, production, marketing, refining and/or transportation of oil and gas products, coal and consumable fuels.

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

Health Care: Companies in two main industry groups: Health Care equipment and supplies or companies that provide health care-related services, including distributors of health care products, providers of basic health care services, and owners and operators of health care facilities and organizations or companies primarily involved in the research, development, production and marketing of pharmaceuticals and biotechnology products.

Industrials: Companies whose businesses: Manufacture and distribute capital goods, including aerospace and defense, construction, engineering and building products, electrical equipment and industrial machinery; provide commercial services and supplies, including printing, employment, environmental and office services; provide transportation services, including airlines, couriers, marine, road and rail, and transportation infrastructure.

Technology: Companies that primarily develop software in various fields such as the Internet, applications, systems and/or database management and companies that provide information technology consulting and services. Technology hardware & equipment include manufacturers and distributors of communications equipment, computers and peripherals, electronic equipment and related instruments, and semiconductor equipment and products.

Materials: Companies that engage in a wide range of commodity-related manufacturing. Included in this sector are companies that manufacture chemicals, construction materials, glass, paper, forest products and related packaging products, metals, minerals and mining companies, including producers of steel.

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

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

Portfolio Compass Definitions (CONT.)

FIXED INCOME ASSET CLASSES

Credit Quality: An individual bond's credit rating is determined by private independent rating agencies such as Standard & Poor's, Moody's and Fitch. Their credit quality designations range from high ('AAA' to 'AA') to medium ('A' to 'BBB') to low ('BB', 'B', 'CCC', 'CC' to 'C').

Duration: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. The bigger the duration number, the greater the interest-rate risk or reward for bond prices.

Treasuries: A marketable, fixed-interest U.S. government debt security. Treasury bonds make interest payments semi-annually and the income that holders receive is only taxed at the federal level.

TIPS (Treasury Inflation Protected Securities): A special type of Treasury note or bond that offers protection from inflation. Like other Treasuries, an inflation-indexed security pays interest every six months and pays the principal when the security matures. The difference is that the underlying principal is automatically adjusted for inflation as measured by the consumer price index (CPI).

Agencies: Securities issued by corporations and agencies created by the U.S. government, such as the Federal Home Loan Bank Board and Fannie Mae.

Investment-Grade Corporates: Securities issued by corporations with a credit ratning of BBB- or higher. Bond rating firms, such as Standard & Poor's, use different designations consisting of upper- and lower-case letters 'A' and 'B' to identify a bond's investment grade credit quality rating. 'AAA' and 'AA' (high credit quality) and 'A' and 'BBB' (medium credit quality) are considered investment grade.

Mortgage-Backed Securities: A Mortgage Backed Security (MBS) is an asset-backed security whose cash flows are backed by the principal and interest payments of a set of mortgage loans. Payments are typically made monthly over the lifetime of the underlying loans.

Agency MBS: These are issued by agencies created by the U.S. Government. Non-agency MBS are issued by private companies and include jumbo, Alt-A, and sub-prime mortgages.

Preferred Stocks: A class of ownership in a corporation that has a higher claim on the assets and earnings than common stock. Preferred stock generally has a dividend that must be paid out before dividends to common stockholders and the shares usually do not have voting rights.

High-Yield Corporates: Securities issued by corporations with a credit rating of BB+ and below. These bonds generally offer higher yields than investment grade bonds, but they are also more vulnerable to economic and credit risk.

Bank Loans: In exchange for their credit risk, these floating-rate bank loans offer interest payments that typically float above a common short-term benchmark such as the London interbank offered rate, or LIBOR.

Foreign Bonds – Hedged: Non-U.S. fixed income securities generally from investment grade issuers in developed countries, with hedged currency exposure.

Foreign Bonds – Unhedged: Non-U.S. fixed income securities normally denominated in major foreign currencies.

Emerging Market Debt: The debt of sovereigns, agencies, local issues, and corporations of emerging markets countries and subject to currency risk.

Munis – Short-term: Bonds issued by various state and local governments to fund public projects. The income from these bonds is generally free from federal taxes. These bonds generally have maturities of less than three years.

Munis – Intermediate: Bonds issued by various state and local governments to fund public projects. The income from these bonds is generally free from federal taxes. These bonds generally have maturities of between 3 and 10 years.

Munis – Long-term: Bonds issued by various state and local governments to fund public projects. The income from these bonds is generally free from federal taxes. These bonds generally have maturities of more than 10 years.

Munis – High Yield: Bonds issued by various state and local governments to fund public projects. The income from these bonds is generally free from federal taxes. These bonds generally offer higher yields than other types of bonds, but they are also more vulnerable to economic and credit risk. These bonds are rated BB+ and below.

IMPORTANT DISCLOSURES

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

Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

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.

Investing in alternative investments may not be suitable for all investors and involve special risks such as risk associated with leveraging the investment, potential adverse market forces, regulatory changes, and potential illiquidity. There is no assurance that the investment objective will be attained.

Long positions may decline as short positions rise, thereby accelerating potential losses to the investor.

Stock investing involves risk including loss of principal.

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.

Quantitative Easing is a government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.

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.

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