

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.

Revaluating Emerging Market Stocks

	Fundamentals	Technicals	Valuation	View			Bias
				Negative	Neutral	Positive	
Emerging Markets	●	●	●	■	○ → ●	■	→
Commodities - Precious Metals	●	●	●	■	■	●	←
Energy	●	●	●	■	■	●	←

● Negative ● Neutral ● Positive

As of 04/13/11

Please refer to the Portfolio Compass publication for complete details.

Compass Changes

- Upgrading Emerging Market stocks to neutral from negative/neutral and adding a positive bias
- Adding negative bias to our positive view on Precious Metals
- Adding negative bias to our positive view on the Energy sector

Investment Takeaways

- Our view of commodities asset classes moderated recently but we believe the reflation theme remains intact and commodities should remain a portfolio holding.
- We begin to rotate back into emerging market stocks following underperformance during the first quarter despite still strong fundamentals. We believe the market has more than fully priced in the threat of inflation and central bank rate increases.
- We continue to find the Energy sector attractive but we temper our view following a run up in crude oil prices to over \$110.

Economy

- Since our last publication, top-tier economic data such as the March employment report and the Institute of Supply Management (ISM) Index reflected an economic expansion that remains firmly on course. The employment report was particularly encouraging and shows job creation gradually accelerating. March retail sales were slightly better than forecast which indicates that higher energy prices did little to disrupt consumer



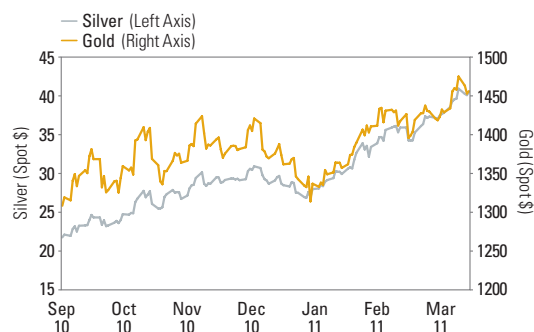
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spending habits, a positive for the economy. Consumer spending also appears to have accelerated from the pace of the fourth quarter. Economic data continues to bode well for modest gains for stocks in our view.

Equity and Commodities Asset Classes

- We upgraded emerging market (EM) equities to neutral as we believe the markets have fully priced in the threat of inflation and central bank interest rate increases. We added a positive bias as we are reviewing a greater allocation. Technical indicators, a key component of our three-pronged technical, valuation, and fundamental approach to investing, improved and provide a favorable backdrop going forward. The fundamental backdrop remains positive with emerging market countries still expected to lead global economic growth. Furthermore, following the 6% gain in U.S. stocks during the first quarter, as measured by the S&P 500 Index, we believe the risk-reward on EM stocks has improved. While we expect continued modest gains for U.S. stocks, the total return prospects of EM stocks look increasingly attractive following a 2% total return for the first quarter of 2011.
- We continue to find precious metals a potentially attractive opportunity but recent price increases prompt a negative bias on our positive view. We believe the reflation theme remains firmly in place and precious metals, along with other commodities, may continue to benefit. Precious metals have continued to provide a hedge given still lingering sovereign debt risks, large government deficits, and the potential for a weaker US dollar. However, given the rise in prices since the late January [Chart 1] and recent acceleration to start April, we believe price appreciation may moderate going forward.

1 Silver and Gold Prices Jumped Higher to Start April



Source: Bloomberg, LPL Financial 04/12/10

Past performance is no guarantee of future results.

Equity Sectors

- We continue to find the Energy sector attractive but we place a negative bias on our positive view as oil prices increased more than we expected. We believe oil prices may remain elevated but the increase to over \$110 exceeded our expectations of an increase to \$107 and we temper our view. Elevated energy prices bode well for energy company earnings and energy stocks will likely benefit in response.

Fixed Income

- We remain defensively positioned in fixed income and inflation risks recently increased. Market inflation expectations, as measured by 10-year Treasury Inflation Protected Securities (TIPS), increased to 2.65%, the highest level since 2006. With key inflation reports due out this week and a round of longer-term 10- and 30-year Treasury issuance, we believe high-quality bonds may remain under pressure and the 10-year Treasury yield may retest the 3.75% high of mid-January and perhaps rise further.
- More economically sensitive bond sectors, such as high-yield bonds, bank loans, and preferred securities, remain the most attractive considerations given the prospects of high-quality bond weakness. Fundamentally, defaults continue to fall. Moody's reported defaults declined to 2.6% in March, down from 2.8% in February, and forecasted a 1.5% default rate for year-end 2011. While new issuance remains elevated, over 60% is refinancing-related and not speculative in nature, a healthy credit trend that remains intact.



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.

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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.

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

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.

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

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.

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.

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