

# Current Conditions Index

May 4, 2011

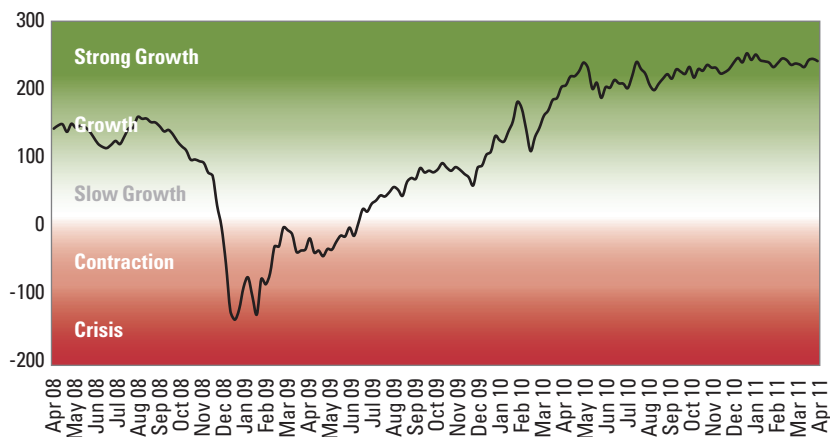
## Overview

The LPL Financial Research Current Conditions Index is a weekly measure of the conditions that underpin 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 proven to be 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 retune the index to those factors most critical to the markets and economy so it may continue to be a valuable investment decision-making tool.

Over the past week, the LPL Financial Current Conditions Index remained relatively unchanged at 242. The level of the CCI indicates an environment fostering growth in the economy and markets. Recent monthly economic data including employment, manufacturing activity, and retail sales also point to solid growth.

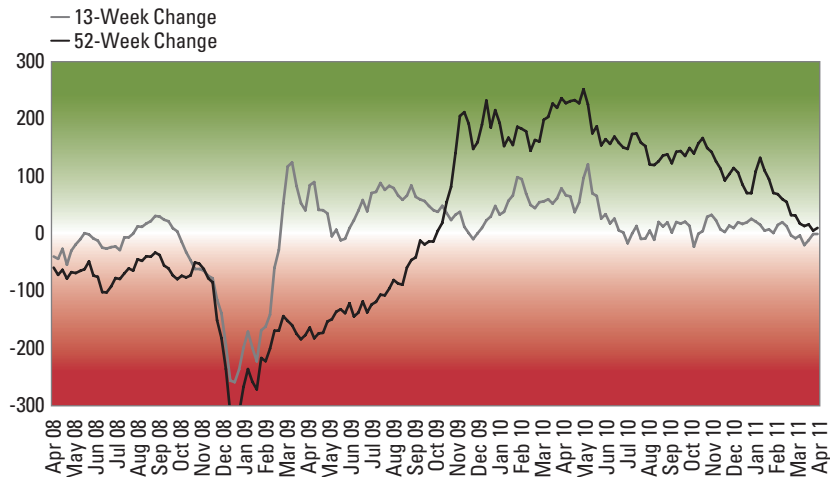
LPL Financial Research Current Conditions Index



Source: LPL Financial 05/04/11

However, the growth momentum in the index has stalled. Over the past year, the index has been flat.

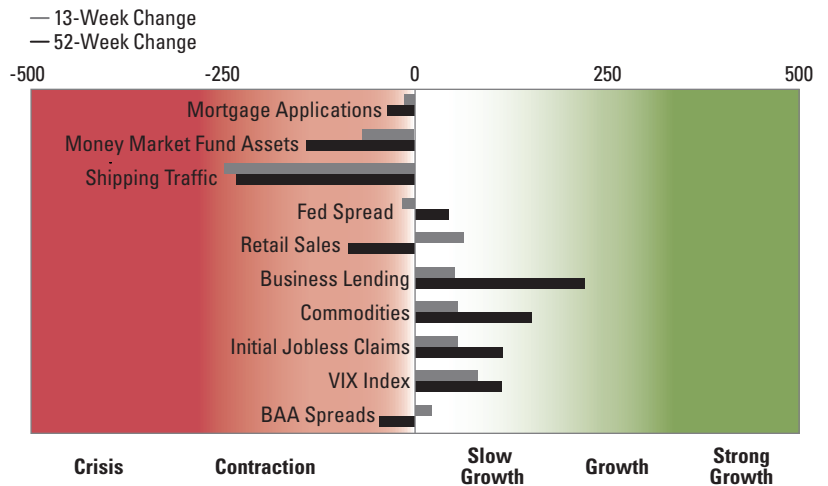
LPL Financial Research CCI Growth Momentum



Source: LPL Financial 05/04/11

Most components of the CCI point to an environment of slowing growth momentum over the past 13- and 52-weeks. Shipping Traffic has weakened over the past quarter given tough holiday comparisons with the fourth quarter. On a year-over-year basis, Shipping Traffic is up about 6%, a solid gain, but well off the peak mid-teen growth rate of a year ago as demand rebounded. The year-over-year growth rate comparisons are going to be challenging for Shipping Traffic in the weeks ahead, but the 13-week, quarter-over-quarter change, should begin to improve. Money Market Fund Assets continue to fall, but nowhere near the pace of a year or a quarter ago. Money Market Fund Assets are down about 5% from a year ago, but just 13 weeks ago the pace of decline was double that rate as funds were more aggressively beginning to work out in the capital markets. On the positive side, Business Lending has been rising, in sharp contrast to the 20% year-over-year pace of decline a year ago. Commodity prices are also boosting the index. Initial Jobless Claims have been softening. With the death toll over 350, the tornados in Alabama were the worst natural disaster since Katrina. Initial Jobless Claims deteriorated sharply in the aftermath of Katrina and similarly we may see claims worsen in the coming weeks.

LPL Financial Research CCI Components



Source: LPL Financial 05/04/11

Current Snapshot

Component of CCI Index	Current Level	13-Week Change	52-Week Change
BAA Spreads	533	22	-46
VIX Index	375	81	112
Initial Jobless Claims	292	54	114
Commodities	222	57	151
Business Lending	167	51	219
Retail Sales	192	63	-86
Fed Spread	330	-16	44
Shipping Traffic	727	-247	-231
Money Market Fund Assets	-135	-67	-140
Mortgage Applications	-254	-12	-36
<b>CCI</b>	<b>242</b>	<b>-1</b>	<b>10</b>

Source: LPL Financial 05/04/11

## How the Index is Constructed

To create the index we found 10 indicators that provided a weekly, real-time measure of the conditions in the economic and market environment. We then standardized these components compared to their pre-crisis 10-year average, equally weighted their standardized scores, and aligned the resulting index with zero at the start of 2009. These components capture how the conditions are evolving from a wide range of angles. Each component is important and measures a different driver of the environment. The 10 components of the CCI are described below:

**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.

**VIX Index** – 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.

**Initial Jobless Claims** – Measures the number of people filing for unemployment benefits. A rise in the number of new claims acts as a negative on the CCI.

**Commodities** – 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.

**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.

**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.

**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.

**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.

**Money Market Fund Assets** – 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.

**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.

### IMPORTANT DISCLOSURES

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