Current Conditions Index

June 8, 2011

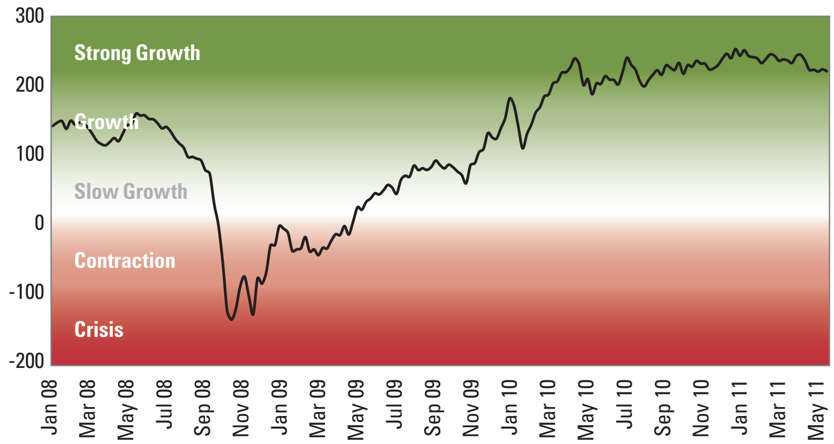
Overview

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 222. The level of the CCI indicates an environment fostering growth in the economy and markets.

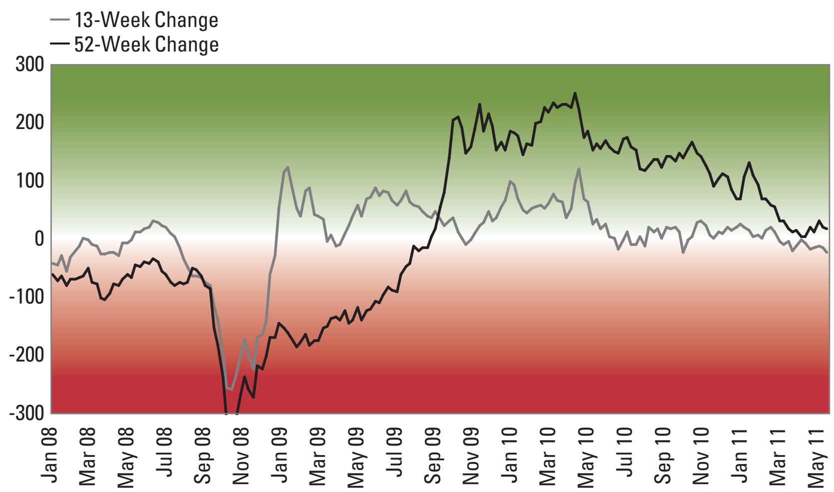
LPL Financial Research Current Conditions Index



Source: LPL Financial 06/08/11

However, the growth momentum in the index has stalled as the economy transitions from strong recovery to uneven, modest growth. Over the past year, the index has been flat. Seven of the 10 CCI components have turned down over the past quarter, and four of the 10 over the past year.

LPL Financial Research CCI Growth Momentum



Source: LPL Financial 06/08/11

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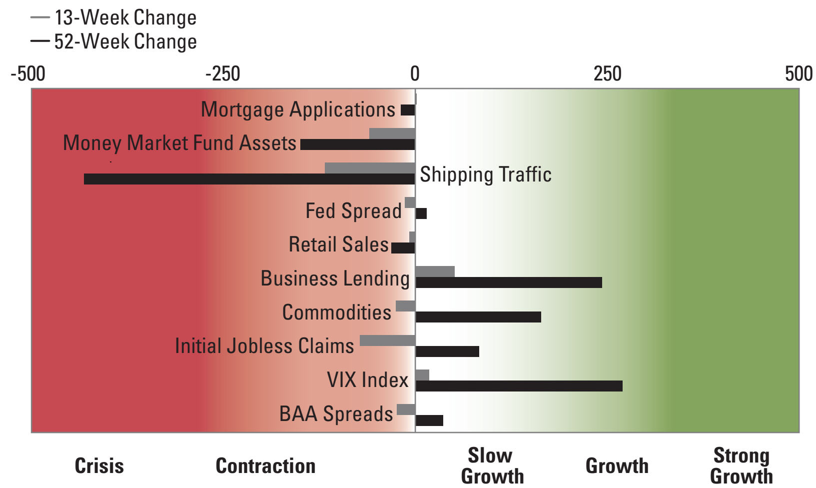
Most components of the CCI point to an environment of slowing growth momentum over the past 13- and 52-weeks. Most components were relatively unchanged over the past week. Shipping Traffic has slowed to a mere 4% year-over-year gain, one of the weakest readings since the year-over-year growth in shipping began in January of 2010 with the weakness is concentrated in commodity and auto shipments. On the positive side, Bank Lending to businesses continues to rebound.

LPL Financial Research CCI Components



Source: LPL Financial 06/08/11

Current Snapshot

Component of CCI Index	Current Level	13-Week Change	52-Week Change
BAA Spreads	512	-24	36
VIX Index	326	17	269
Initial Jobless Claims	251	-70	83
Commodities	187	-23	162
Business Lending	190	51	241
Retail Sales	175	-8	-30
Fed Spread	331	-12	15
Shipping Traffic	648	-116	-429
Money Market Fund Assets	-142	-58	-149
Mortgage Applications	-232	1	-16
CCI	**222**	**-24**	**18**

Source: LPL Financial 06/08/11

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.