

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.

Continuing to Take Precautions

	Fundamentals	Technicals	Valuation	View			Bias
				Negative	Neutral	Positive	
Cash					○⇌●		
Industrials	●	●	●		●⇌○		
Technology	●	●	●		●⇌○		

● Negative ● Neutral ● Positive

As of 06/23/11

Please refer to the Portfolio Compass publication for complete details.

Compass Changes

- Upgrading our view on cash from neutral to neutral/positive and are removing the negative bias
- Downgrading Industrials from positive to neutral/positive
- Downgrading the Technology sector from neutral/positive to neutral

Investment Takeaways

- We see a number of potential headwinds for the market in coming weeks. Recent economic reports have missed expectations and we believe this trend could continue in the short term. Earnings season for the second quarter begins in mid-July and pre-announcement season is already one of the weaker experienced in the past few years. Both fiscal (debt ceiling) and monetary (Fed, quantitative easing round 2, interest rates) policy offer potential headline risk, and the Greece situation continues to linger. Overall, we expect continued volatility in the market, creating an unfavorable short-term risk-reward profile for stocks. With this in mind, we believe the prudent course of action is to increase cash as a defensive measure.
- Despite this short-term defensive bias, we continue to adhere to our 2011 forecast of modest single-digit gains for the stock market (S&P 500). However, we believe the prudent course of action in the short term is to reduce portfolio volatility to protect against potential market weakness following gains over the past week.



Economy

- While the recent data suggests that the economic soft spot may persist through the summer months and early fall, warranting a more cautious approach, this week's relatively quiet economic calendar in the United States will allow markets to focus on the Federal Reserve (Fed), Greece, and the fiscal debate in the United States. Ultimately, we believe the economic expansion remains intact and the economic soft spot is temporary.

Equity and Commodities Asset Classes

- We upgraded our view on cash from neutral to neutral/positive and removed the negative bias. Stocks may remain volatile while investors debate the duration and severity of the economic soft spot. We believe patience is warranted until further clarity on the economy arrives. In addition, second quarter earnings season will get underway in mid-July and, in coming weeks, companies may provide negative pre-announcements and downward earnings guidance as a result of the economic slowdown and corresponding Japan earthquake and weather-related impacts. We believe a greater-than-normal cash position will enable investors to help take advantage of investment opportunities as they arise.

Equity Sectors

- We downgraded the Technology sector from positive/neutral to neutral as the sector continues to face supply disruptions from the fallout in Japan and negative second quarter earnings revisions. Finally, technical indicators have continued to weaken, suggesting that downside price momentum may continue.
- Continued soft economic data, another flare-up in Europe, recent market volatility and our decision to maintain a more balanced position between cyclical and defensive sectors led us to downgrade the Industrials sector from positive to positive/neutral.

Fixed Income

- Concerns over slower economic growth and escalating European sovereign debt fears have bolstered high-quality bonds overall and pushed Treasury yields to the lowest levels of the year. We believe the economic expansion remains on track and yields will come under upward pressure once again. While yields are likely to remain range-bound over the near-term, we maintain a defensive positioning against higher interest rates with an emphasis on high-yield bonds, bank loans and preferred stocks. Spreads on high-yield bonds and investment-grade corporate bonds remain attractive, supported by stable to improving credit metrics. High-yield issuers have benefited from lower interest rates to refinance debt and default rates continue to decline.



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.

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.

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

High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

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

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.

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.

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 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.

Technology Software & Services Sector: Companies include those 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, including manufacturers and distributors of communications equipment, computers and peripherals, electronic equipment and related instruments, and semiconductor equipment and products.

Industrials Sector: 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.

Bank Loan portfolios primarily invest in floating-rate bank loans instead of bonds. In exchange for their credit risk, these loans offer high interest payments that typically float above a common short-term benchmark such as the London Interbank Offered Rate, or LIBOR.

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