



Second Quarter 2011

Market Insight

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News & Views

from LPL Financial Research

Market Insight is a quarterly publication intended to inform and empower your investment decision making.

The stock market ended the second quarter of 2011 where it started three months earlier, though the journey was certainly not a straight line. Volatility remained elevated but unlike the first quarter when investors embraced risk, the opposite was true in the second quarter as investors rotated to safe-haven assets in the stock and bond markets.

With solid first-half returns in the rear-view mirror, investors are looking ahead to the second half of the year hoping for similar gains. While we believe the stock market can continue to move higher in 2011, there are a number of hurdles for the market to overcome—ongoing European debt concerns, discussions regarding the U.S. debt ceiling, stubbornly high unemployment, and high expectations for corporate earnings to name just a few—that could limit the upside between now and year-end for stocks. With bonds recording one of their strongest quarters in recent memory, significant gains from here will likely be hard to come by as a low-to-mid single-digit return by the end of the year remains our base case forecast. Though returns in the second half could be muted, volatility will be anything but, in our opinion, which will continue to provide opportunities to take advantage of and risks to avoid.

The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Please note all return figures are as of June 30, 2011.

The Stock Markets

The U.S. stock market, as measured by the S&P 500 Index, essentially ended the second quarter of 2011 where it began, right around the 1320 level. Following a robust 5.9% gain in the first quarter, the market surged another 3.0% higher in April and closed the month at the highs of the year at 1364, a year-to-date gain at that point of approximately 9.0%. Beginning in late April and early May, however, economic data started to show signs of a soft spot, which is a pattern of weaker economic data, and the market began a six-week slide into mid-June where it bottomed at 1265 on June 15. In a pattern that mirrored the end of the first quarter, the market moved higher in the last two weeks of trading and ended June at 1321

[Chart 1]. The late-quarter rally was just enough to post the fourth consecutive quarterly gain for the market. Following the 1.1% decline in May, stocks declined another 1.7% in June and ended the quarter with a gain of 0.1%. For the year thus far, the S&P 500 has posted a 6.0% return.

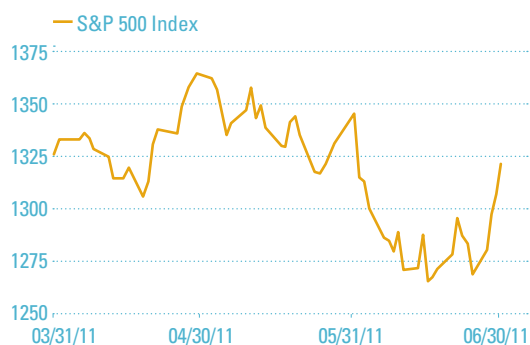
The second quarter was a tug-of-war with a number of market positives, highlighted by another strong earnings season, offset by multiple headwinds that kept the market from rallying further. Uneven economic data and other macroeconomic factors—namely the supply-chain disruptions stemming from the Japanese earthquake and tsunami, continued European debt concerns, the ongoing fiscal situation in Greece, severe flooding and tornadoes in many parts of the United States, and continued fiscal and monetary policy discussions domestically—generally pushed investors to less risky assets, namely defensive stocks and high-quality sectors of the bond market.

Looking specifically at the U.S. equity markets, sector performance in the S&P 500 was the inverse of the first quarter. In the first quarter, defensive sectors like Consumer Staples generally underperformed while the market was led higher by cyclical sectors such as Energy and Materials. Given the flight to safe-haven assets during the second quarter, the defensive sectors showed the strongest performance, led by Health Care with a 7.9% gain in the quarter [Table 2], and are leading performers in the market year-to-date. The Health Care sector, with a market best 13.9% return year-to-date, was led higher in the second quarter by the Pharmaceutical industry. On the other hand, Financials was the worst performing sector in the quarter with a decline of 5.9% and has easily been the worst performer in the S&P 500 with a year-to-date return of -3.1%. During the quarter, Financials were dragged lower by fears of increasing regulation and concerns that banks may have to raise more capital to meet higher capital requirements.

With regard to style, growth stocks outperformed value stocks due to continued strong earnings results. From a market capitalization perspective, mid-cap stocks outperformed their large-cap and small-cap counterparts as mid-caps were the target of a number of acquisitions during the quarter. Given the favorable environment for growth and mid-caps, the Russell Mid-Cap Growth Index showed the strongest return from a style perspective with a gain of 1.6%.

Unlike the first quarter when U.S. stocks outperformed their international counterparts with the help of a falling dollar, returns were mixed during the second quarter. The MSCI EAFE Index, a proxy for developed foreign markets, outperformed with a 1.8% gain in the quarter. One of the largest constituents in the Index, Germany, saw its markets rally 4.8% in the quarter. The MSCI Emerging Markets Free Index had the poorest returns in

1 S&P 500 Q2 Performance



Source: LPL Financial, Bloomberg 06/30/11

The S&P 500 Index is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.

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2 Q2 2011 and Year-to-Date Performance of S&P 500 Sectors (% Returns)

Sector	Q2	YTD
Health Care	7.9	13.9
Utilities	6.1	9.1
Consumer Staples	5.3	7.9
Consumer Discretionary	3.5	8.3
Telecommunications	2.1	7.1
Industrials	-0.7	8.0
Materials	-0.9	3.6
Information Technology	-1.4	2.1
Energy	-4.6	11.4
Financials	-5.9	-3.1

Source: LPL Financial, FactSet 06/30/11

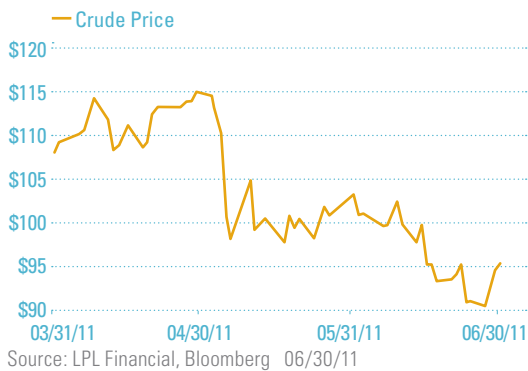
Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

The Stock Markets (continued)

the second quarter with a decline of 1.0%, as both Brazil and China struggled with market declines of more than 7%.

Economic reports in the second quarter were uneven, introducing fears of a global economic slowdown, which contributed to market volatility. While many of the reports came in below expectations, they did not suggest a return to recession.

3 West Texas Intermediate Crude



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 Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

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

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

The Economy

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Regarding employment, on the heels of the earthquake in Japan and the worst natural disaster in the United States since Hurricane Katrina, the weekly tally of those filing for unemployment benefits for the first time spiked higher in early April to its highest level since late January 2011 and has yet to fall back below the 400,000 level. The automotive sector was significantly impacted in the aftermath of the earthquake in Japan due to supply chain disruptions as many plants sat idle. Looking ahead, the labor market data will be impacted by the annual auto plant summer shutdown in coming weeks, so the data is likely to remain choppy. On the positive side, however, layoff announcements, which tend to lead initial claims for unemployment insurance by a few months at turning points, rose by less than 1,000 between April and May but were down 4% year-over-year. Layoffs in the government sector (115,000 over the last 12 months) continue to be the largest single source of layoffs. While new job creation has been slow to start, total layoff announcements over the 12 months ending in May (476,000) were the lowest for any 12-month period since early 1998, when the unemployment rate was 4.5%.

One concern that has been alleviated in recent months is that the economy might face deflation (i.e. falling prices and wages) instead of inflation (i.e. increasing prices and wages). The Federal Reserve (Fed) embarked on QE2 (quantitative easing round two) in August 2010 to avoid deflation. Recent inflation data revealed that prices paid by consumers for goods and services rose in April and May as the consumer price index (CPI) was up 3.6% from a year ago. Prices excluding food and energy, also known as core CPI, were 1.5% higher than a year ago. Just last fall, core CPI was running at less than one percent, indicating deflation was a threat. The Fed's QE2 program was aimed, in part, at pushing core inflation higher, and the data suggest that the Fed was successful at reflating prices.

Commodities Asset Classes

Bucking the trend witnessed in recent quarters, broad commodity prices moved lower during the second quarter, as the Commodity Research Bureau Index fell approximately 5.9%. Much of the decline occurred following news of the death of Osama bin Laden in early May, as some of the geopolitical risk premium attached to oil came out of the market, and precious metals lost some of their relatively safe-haven comfort.

However, not all commodities moved in lockstep during the rest of the quarter, leading to divergent performance. Commodities like oil and copper,

Commodities Asset Classes (continued)

which are typically more sensitive to economic activity, continued to move lower on concerns of an economic slowdown. West Texas Intermediate crude oil started the quarter near \$108, climbed as high as \$115 in late April, before falling sharply in two months to the mid-\$90 range by the end of June [Chart 3].

On the other hand, precious metals, that are generally viewed as a safe haven in times of uncertainty, were mixed during the quarter. The ride for gold was volatile, as the yellow metal surged to yet another all-time high in late April/early May near \$1,560, before falling to the high \$1,400s in mid-May, then rallying again to settle near \$1,500 by quarter-end [Chart 4]. Gold benefited from a number of factors including the ongoing political battle in Washington over the debt ceiling and budget as well as continued tensions in the Middle East, and very low short-term real interest rates. Combined with shortages of supply and increased demand, the fundamentals remained intact during the quarter contributing to the move higher.

Silver also fell sharply following the bin Laden news and was unable to recover those losses during the quarter. Margin requirements to trade silver on the commodities exchanges were increased multiple times during the quarter, meaning it became more costly to trade silver, contributing to the downside pressure. Silver began the quarter near \$38, rallied as high as \$48 in late April and finished the quarter near \$35 [Chart 5].

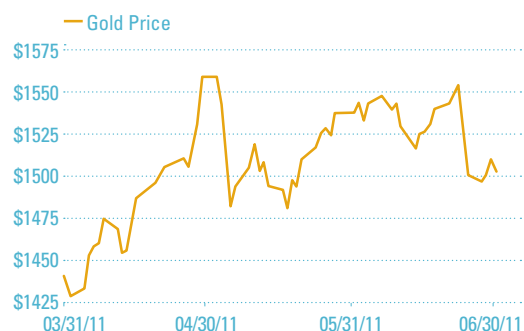
Fixed Income – Taxable

The broad bond market, as measured by the Barclays Capital Aggregate Bond Index, posted its best quarterly return since the second quarter of 2010. Some of the same factors at play one year ago, when European debt concerns first emerged, were also in play in the most recent quarter. Investors avoided riskier sectors of the bond market and sought the comfort of high-quality bonds as the Index posted a 2.3% return in the past three months.

With the exception of the first two and last two weeks of the quarter, the 10-year Treasury yield, after a volatile first quarter, generally moved in one direction—lower—on a flight-to-safety rally. The 10-year yield started the quarter near 3.5%, moved as high as 3.6% in mid-April, and then began its steady decline to a low of 2.9% in mid-June [Chart 6]. Yields began to move higher in step with the stock market for the last two weeks of the quarter and settled near 3.1% at quarter-end.

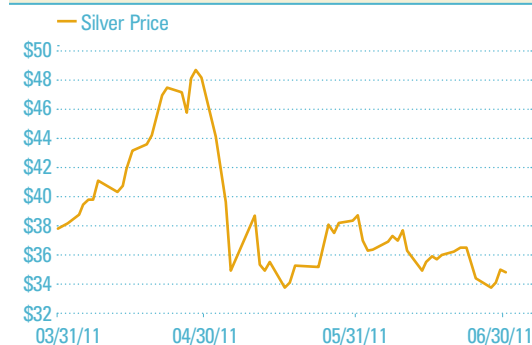
Long-term government bonds, as measured by the Barclays Capital U.S. Long Treasury Index, rebounded from a modest first quarter decline to post gains of 3.3% in the second quarter. Treasury Inflation Protected Securities (TIPS) also posted strong returns in the quarter (3.7%), as did emerging market debt (4.0%). Given the flight-to-safety rally in the bond market, more credit-sensitive areas of the market underperformed the broad Aggregate Index. Notably, high-yield bonds had their worst quarter since, not surprisingly, the second quarter of 2010 with a return of 1.1%, as measured by the Barclays Capital High Yield Index. Bank loans were one of the worst sectors of the bond market in the second quarter with a return of

4 Gold



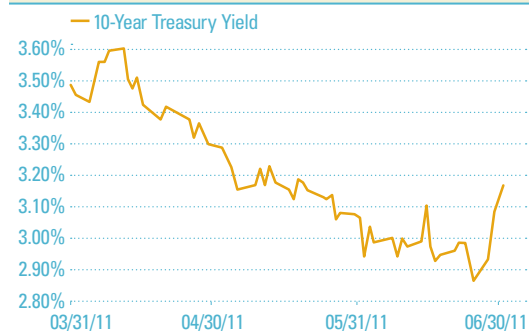
Source: LPL Financial, Bloomberg 06/30/11

5 Silver



Source: LPL Financial, Bloomberg 06/30/11

6 10-Year U.S. Treasury Yield



Source: LPL Financial, Bloomberg 06/30/11

Fixed Income – Taxable (continued)

just 0.1%. Bank loans historically perform well in rising yield environments, which did not occur during the second quarter.

Fixed Income – Tax-Free

The municipal bond rally that began at the end of the first quarter carried into the second quarter as municipal bonds were one of the best performing sectors across both stocks and bonds in the past three months. Improving state and municipal budget situations, cheaper valuations, and a lack of supply coming to market were three of the positive factors that drove performance during the quarter, as fears of massive defaults among municipal issuers continued to abate. On the high-quality side, the Barclays Capital Muni Bond Index increased 3.9% in the quarter, the best quarterly return for the Index since the third quarter of 2009 and one of the strongest quarters of the past decade. On the lower end of the quality spectrum, the Barclays Capital High-Yield Muni Bond Index posted a 5.3% return in the quarter.

Improving state and municipal budget situations, cheaper valuations, and a lack of supply coming to market were three of the positive factors that drove performance during the quarter.

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.

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 bonds are subject to availability, price, and to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate rise. Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.

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IMPORTANT DISCLOSURES

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

Stock investing may involve risk including loss of principal.

International 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.

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

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

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.

Materials Sector: Companies that are engaged 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.

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.

HealthCare Sector: Companies are 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. Companies primarily involved in the research, development, production, and marketing of pharmaceuticals and biotechnology products.

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

Consumer Staples Sector: 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.

Consumer Discretionary Sector: 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.

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

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

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.

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.

MSCI EAFE is made up of approximately 1,045 equity securities issued by companies located in 19 countries and listed on the stock exchanges of Europe, Australia, and the Far East. All values are expressed in US dollars. All values are expressed in US dollars. Past performance is no guarantee of future results.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of May 2005 the MSCI Emerging Markets Index consisted of the following 26 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, Turkey and Venezuela.

The Russell Mid Cap Index offers investors access to the mid cap segment of the U.S. equity universe. The Russell Mid Cap Index is constructed to provide a comprehensive and unbiased barometer for the mid-cap segment and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid cap opportunity set. The Russell Mid Cap Index includes the smallest 800 securities in the Russell 1000.

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.

The CRB Commodities Index is a measure of price movements of 22 sensitive basic commodities whose markets are presumed to be among the first to be influenced by changes in economic conditions. As such, it serves as one early indication of impending changes in business activity.

This Barclays Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

The Barclays Capital Long U.S. Treasury Index includes all publicly issued U.S. Treasury securities that have a remaining maturity of 10 or more years, are rated investment grade, and have \$250 million or more of outstanding face value. In addition, the securities must be denominated in US dollars and must be fixed rate and non-convertible.

The Barclays Capital High Yield Index covers the universe of publicly issued debt obligations rated below investment grade. Bonds must be rated below investment-grade or high-yield (Ba1/BB+ or lower), by at least two of the following ratings agencies: Moody's, S&P, Fitch. Bonds must also have at least one year to maturity, have at least \$150 million in par value outstanding, and must be US dollar denominated and non-convertible. Bonds issued by countries designated as emerging markets are excluded.

The Barclays Capital High Yield Municipal Bond Index is an unmanaged index made up of bonds that are non-investment grade, unrated, or rated below Ba1 by Moody's Investors Service with a remaining maturity of at least one year.

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