LPL RESEARCH
PORTFOLIO COMPASS

The *Portfolio Compass* provides a snapshot of LPL Financial Research's views on equity, equity sectors, fixed income, and alternative asset classes. This biweekly publication illustrates our current views and will change as needed over a 3- to 12-month time horizon.

The top down is an important part of our asset allocation process. As a result, we have a new macro section including our views of the global economy and key drivers of those views, and a section on what we are watching that might change those views.

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All performance referenced herein is as of September 1, 2015, unless otherwise noted.

September 2 2015

NAVIGATING THE MARKETS

COMPASS CHANGES

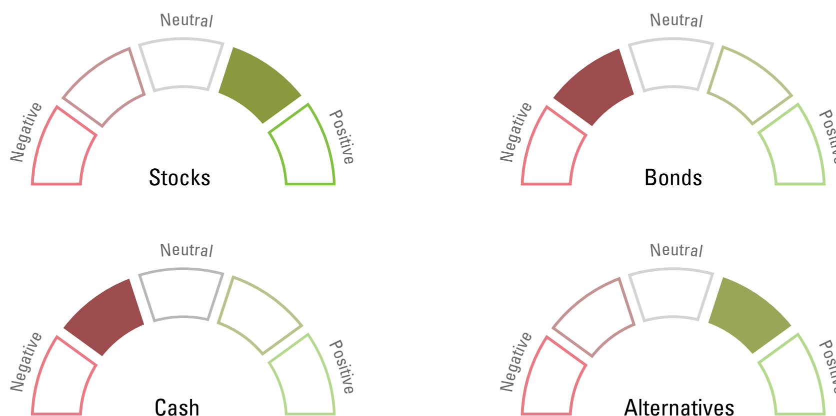
- Downgraded event driven to neutral from neutral/positive; upgraded long/short to neutral from neutral/negative.

INVESTMENT TAKEAWAYS

- We are maintaining our mid- to high-single-digit S&P 500 return forecast for 2015* driven by mid-single-digit earnings growth, despite recent market volatility.
- We favor U.S. equities and have warmed up to developed foreign markets following broad economic improvement. We suggest investors maintain modest emerging markets allocations despite slower Chinese growth.
- Despite a volatile August, bond prices generally witnessed modest weakness. Still, valuations remain expensive by historical comparison and low future returns for high-quality bonds are possible.
- Oil declines and equity market volatility pressured high-yield bonds, but we find default expectations too pessimistic.
- Lowered event driven view reflects risk of potential overcrowding in top merger positions. Improving stock selection environment is positive for long/short strategies.
- From a technical perspective, the S&P 500 price has closed below its 200-day simple moving average, which is putting pressure on the long-term bullish trend.

BROAD ASSET CLASS VIEWS

LPL Financial Research's views on stocks, bonds, cash, and alternatives are illustrated below.



* Historically since WWII, the average annual gain on stocks has been 7–9%. Thus, our forecast is in-line with average stock market growth. We forecast a 5–9% gain, including dividends, for U.S. stocks in 2015 as measured by the S&P 500. This gain is derived from earnings per share (EPS) for S&P 500 companies growing 5–10%. Earnings gains are supported by our expectation of improved global economic growth and stable profit margins in 2015.

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MACROECONOMIC VIEWS

	Economic Factor	Outlook	Investing Impact
ECONOMY	**U.S. GDP Growth**	We expect 3% or slightly higher GDP growth in the second half of 2015.	No recession or overheating in 2015 may support equity markets.
	Consumer Spending	Low oil prices, stock market and home price gains, labor market should help.	Supports consumer cyclicals.
	Business Spending	Priorities slowly shifting toward investment.	Industrials, technology most likely to benefit.
	Housing	Tight supply, years of underbuilding may help but consumers are still cautious.	A stronger turnaround could support housing/ financials stocks.
	Import/Export	Strong dollar weighing, but "know-how" service sectors and growing oil independence helping trade imbalances.	Supports technology, business services.
	Labor Market	Steadily improving. Early signs of wage pressure in a few fields.	Profit margins may begin to narrow; Fed rate hikes forthcoming.
	Inflation	Steady global growth pointing to normalization once commodities stabilize.	Interest rates likely to rise but process will be gradual.
	Business Cycle	Still mid-cycle but have likely moved into latter half.	Equity markets may have room to run, but expect more volatility.
	Dollar	Foreign central bank stimulus boosting U.S. dollar but pace has slowed.	Drag on foreign market returns, hurts U.S. profits.
	Global GDP Growth	Modest improvement in 2015 led by developed markets.	Supports multinational technology and industrials.
POLICY	**Fiscal**	Federal deficit has declined for three consecutive years.	Helps dollar, but high debt-to-GDP is a longer-term headwind.
	Monetary	Expect Fed tightening in late 2015.	Modest negative for bonds; manageable risk for stocks.
	Government	Trans-Pacific trade agreement facing final hurdles.	Passage should help U.S. exports and support global growth.
RISKS	**Financial**	Most measures of financial stress are stable.	We still expect potential stock market gains in 2015.
	Geopolitical & Other	Watching China, Ukraine, Islamic State.	May contribute to higher stock volatility.
OVERSEAS	**Developed Overseas Economies**	Japan and Europe looking a little stronger.	Favor U.S. equities; monitor developed foreign.
	Emerging Markets Economies	China's central bank adding stimulus but growth concerns creating volatility.	Faster growth outside China may help lift low valuations.
FINANCIAL CONDITIONS	**Corporate Profits**	We expect mid-single-digit earnings gains in the second half of 2015.	Supportive of mid-cycle stock market gains.
	Main Street	Fed Beige Book depicts optimistic economic outlook despite concerns about energy, dollar.	Supportive of consumer cyclicals.

Source: LPL Research, U.S. Department of Energy, Haver Analytics 09/01/15

*This forecast matches the average growth rate over the past 50 years, and is based on contributions from consumer spending, business capital spending, and housing, which are poised to advance at historically average or better growth rates in 2015. Net exports and the government sector should trail behind

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

WHAT WE'RE WATCHING

As we highlighted in our *Outlook 2015: In Transit*, the Federal Reserve (Fed) is watching a number of labor market indicators to help determine an appropriate timetable for interest rate hikes. We expect the Fed to begin its rate hike campaign in late 2015, but the pace of hikes will likely be gradual and reflect the progress in the various labor indicators listed here. Fed Chair Yellen's labor market indicators are making progress, but have not yet reached full health, providing support for continued monetary policy support from the Fed.

> "*What We're Watching*" features indicators that are keys to the current LPL Research macroeconomic outlook. Economic and market dynamics will dictate featured topics and their durability.

	Description	Prerecession High	Recession Low	Current Reading	Percentage from Prerecession Levels
Unemployment & Underemployment	Unemployment rate: % of labor force	4.4%	10.0%	5.3%	84.0%
	Labor force participation rate: year-over-year change, % of unemployed	0.4%	-1.1%	-0.3%	53.0%
	Part time for economic reasons: % of labor force	2.7%	6.7%	4.2%	61.0%
	Long-term unemployed: 27 weeks or more, % of unemployed	15.9%	45.3%	26.9%	63.0%
	Duration of unemployment: weeks	7.3	25.0	11.3	77.0%
Employment & Work	Private payroll employment: millions	116.0	107.2	120.1	147.0% ●
	Government payroll employment: millions	22.6	21.8	21.9	15.0%
	Temporary help employment: millions	2.7	1.7	2.9	119.0% ●
	Average weekly hours (production): hours	33.9	33.0	33.7	78.0%
	Average weekly hours of persons at work: hours	39.7	36.2	38.8	74.0%
	Wage rates: average hourly earnings, year-over-year % change	4.2%	1.3%	1.8%	19.0%
Job Market Environment	Composite help-wanted: index	4250	2750	5384	176.0% ●
	Hiring rate: % of payroll employment	4.5%	3.2%	3.7%	38.0%
	Transition rate from unemployment to employment: % of unemployment	29.6%	15.9%	23.6%	56.0%
	Jobs plentiful vs. hard to get: diffusion index	11.4	-46.1	0.0	80.0%
	Hiring plans: diffusion index	19.0%	-10%	12.0%	76.0%
	Jobs hard to fill: %	31.0%	8.0%	25.0%	74.0%
Layoffs & Quits	Insured unemployment rate: % of covered employment	1.9%	5.0%	1.7%	106.0% ●
	Job losers unemployed less than 5 weeks: % of employment	45.4%	14.7%	34.0%	63.0%
	Quit rate: % of payroll employment	60.0%	39.0%	56.0%	80.0%
	Job leavers unemployed less than 5 weeks: % of employment	48.8%	17.5%	39.0%	69.0%

● Have reached or exceeded their prerecession levels

Source: LPL Research, Bureau of Labor Statistics, Haver Analytics 09/01/15
The time frame for all data is the last 10 years: 2004–2014.

ASSET CLASS & SECTOR TOP PICKS

Below we provide our top overall ideas across the various asset classes and sectors covered in this publication, as well as our best ideas within the three disciplines of our investment process: fundamentals, technicals, and valuations. More details on these and other investment ideas can be found in subsequent pages.

Characteristics	EQUITY ASSET CLASSES	EQUITY SECTORS	FIXED INCOME
BEST OVERALL IDEAS	Large Growth	Healthcare Industrials Technology	High-Yield Bonds
Fundamentals	Large Growth	Healthcare Technology	Bank Loans Munis
Technicals	Large Growth	Consumer Discretionary Financials Healthcare	High-Yield Bonds Munis Preferred Stocks
Valuations	Emerging Markets	Industrials Technology Telecommunications	High-Yield Bonds Munis

Characteristics	ALTERNATIVE ASSET CLASSES
BEST OVERALL IDEAS	Global Macro
Catalysts	Event Driven Global Macro
Trading Environment	Managed Futures
Volatility	Global Macro

READING THE PORTFOLIO COMPASS

RATING	ICON	
Negative	■	●
Negative/Neutral		●
Neutral	■	●
Positive/Neutral		●
Positive	■	●
Previous Position	◄	

Fundamental, technical, and valuation characteristics for each category are shown by their blue icons below, and displayed as colored squares.

Negative, neutral, or positive views are illustrated as a colored circle positioned over the scale, while an outlined black circle with an arrow indicates change and shows the previous view.

Rationales for our views are provided on the right side.

Growth-oriented funds may underperform when value investing is in favor and growth stocks may be more volatile than other stocks because they are more sensitive to investor perceptions of the issuing company's growth of earnings potential.

Global macro strategy is a hedge fund strategy that selects it holdings primarily on the macroeconomic and political views of various countries, and is subject to numerous risks such as: geopolitical, derivative, commodity, volatility, currency, and regulatory.

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EQUITY ASSET CLASSES

We are maintaining our mid- to high-single-digit S&P 500 return forecast for 2015 driven by mid-single-digit earnings growth, despite recent market volatility. We favor U.S. equities but also recommend investors with modest exposure to emerging markets maintain those allocations, where appropriate, due to the long-term value in the asset class. We have warmed up to developed foreign markets in recent months as data in Europe have improved, although Japan's economic performance has been more mixed. Small caps versus large may be a pitched battle in the near term, while our sector preferences continue to support growth over value.

	Sector	F	T	V	⊖ ○ ⊕	Rationale
Style/Capitalization	Large Growth	Green	Green	Gray	Positive	We continue to believe a shift in leadership to large caps is forthcoming as the business cycle matures, but expect somewhat of a pitched battle in the near term. Our cyclical sector preferences — including our positive technology and consumer discretionary views and cautious stance on interest rate–sensitive sectors — drive our preference for growth over value.
	Large Value	Gray	Gray	Gray	Neutral	
	Mid Growth	Green	Green	Gray	Positive	Positive mid growth view reflects our preference for cyclical sectors, above-market earnings growth, and potential up-capture, as we expect the stock market to rise in 2015. Mid caps may also benefit from continued healthy acquisition activity. Mid cap valuations have fallen to slightly below their 10-year averages relative to the S&P 500.
	Mid Value	Gray	Gray	Gray	Neutral	
	Small Growth	Green	Gray	Red	Neutral	Better U.S. economic snapback and our positive stock market view are supportive of small caps, but the age of the business cycle (past the midpoint in our view) suggests a transition in leadership from small toward large may take place in the second half of 2015. Small cap (Russell 2000) relative valuations are now above their 10-year average.
	Small Value	Gray	Gray	Gray	Neutral	
Region	U.S. Stocks	Green	Green	Gray	Positive	We still prefer to focus equity portfolios in the U.S., but valuations suggest making room for EM and developed foreign economies have gained some momentum.
	Large Foreign	Green	Gray	Gray	Neutral	Better recent economic data — partly due to quantitative easing (QE) — and, to a lesser extent, the Greece resolution, have caused us to warm up to Europe. A weak yen is boosting exports and the outlook for earnings for Japanese companies, but recent economic data out of Japan has been mixed and we still have concerns about whether the country's stimulus programs will drive a sustained improvement in growth.
	Small Foreign	Gray	Gray	Gray	Negative	
	Emerging Markets	Gray	Red	Green	Positive	Technical deterioration suggests caution if considering adding EM exposure tactically, but attractive valuations and bold Chinese stimulus efforts (with more likely to come) may help offset Chinese growth risk, in our view, for the intermediate- to longer-term time horizon. We continue to favor EM Asia for growth, financial strength, and stimulus/policy reform prospects.
REITs	REITs	Gray	Gray	Red	Negative	Technicals have improved and U.S. economic backdrop is favorable, but rising interest rates rate will likely be a drag fairly soon. REITs still a prudent choice for suitable income investors.
MLPs	MLPs	Gray	Red	Green	Neutral	Technical weakness and still low oil prices are concerning while interest rate risk remains, but attractive yields and recent distribution increases are positives.

Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

Investing in MLPs involves additional risks as compared with the risks of investing in common stock, including risks related to cash flow, dilution, and voting rights. MLPs may trade less frequently than larger companies due to their smaller capitalizations, which may result in erratic price movement or difficulty in buying or selling. MLPs are subject to significant regulation and may be adversely affected by changes in the regulatory environment, including the risk that an MLP could lose its tax status as a partnership. Additional management fees and other expenses are associated with investing in MLP funds.

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EQUITY SECTORS

We continue to favor cyclical growth sectors despite China growth fears and increased market volatility in August. Our positive healthcare view is largely driven by strong earnings and development trends. Consumer discretionary is benefiting from depressed back to school expectations and still low gas prices. Delayed supply response to lower oil prices and technical deterioration keep us neutral on energy. Technicals drove our recently lowered materials view.

	Sector	S&P*	Rationale
Cyclical	Materials	2.9	Technical weakness and the market's related concerns about the Chinese economy suggest continued caution.
	Energy	7.3	Process of balancing supply and demand has taken longer than anticipated and is delaying oil's return to fair value, which we see as the $50–60 range.
	Industrials	9.9	Earnings have been hurt by lower oil and a strong dollar, and technicals are mixed; we still see a potential uptick in business spending and valuations are attractive.
	Consumer Discretionary	12.9	Consumer still in good shape, lower gas prices and depressed back to school expectations help; mixed performance record late in business cycles puts us on watch for potential lower view.
	Technology	20.0	Solid earnings growth, our optimistic business spending outlook, low back to school expectations, and valuations are all supportive.
	Financials	16.7	Relatively good Q2 2015 earnings, positive technical picture, and potential for higher interest rates offset tough regulatory environment and time lag for higher interest rates to translate into profits.
Defensive	Utilities	3.0	Our negative view reflects interest rate risk, rich valuations, and preference for cyclicals, although Q2 2015 earnings performance has been encouraging.
	Healthcare	15.2	Fundamentals look very good on strong earnings, increased number of insured under the ACA, drug development trends, and merger activity, particularly in biotech; strong technicals.
	Consumer Staples	9.7	Still favor cyclical sectors but consumers are in good shape; developed international growth picture has improved, commodity input costs are low, and consumers' energy cost savings help.
	Telecommunications	2.4	Interest rate and business risks remain (saturation, capital outlays), while technicals have deteriorated, leading to our recently lowered view, despite attractive valuations.

* S&P 500 Weight (%)

Because of its narrow focus, specialty sector investing, such as healthcare, financials, or energy, will be subject to greater volatility than investing more broadly across many sectors and companies.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Diversification does not ensure against market risk.

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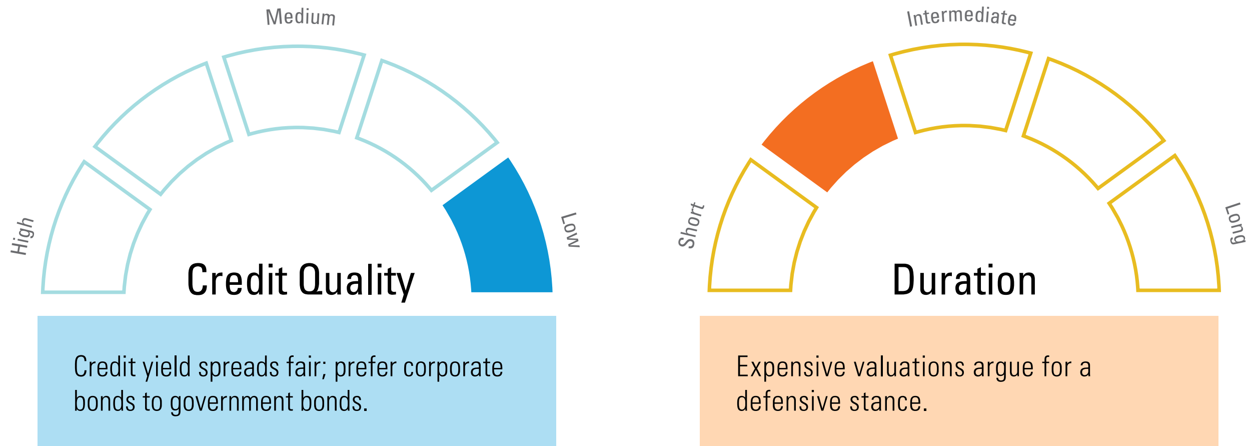
FIXED INCOME

We prefer corporate bonds over higher-quality government bonds due to their relatively higher yields and the financial health of corporate America. Bond yields remain low and and valuations expensive, which argues for a defensive stance on fixed income by maintaining a lower than average portfolio interest rate sensitivity.



Yield spread is the difference between yields on differing debt instruments, calculated by deducting the yield of one instrument from another. The higher the yield spread, the greater the difference between the yields offered by each instrument. The spread can be measured between debt instruments of differing maturities, credit ratings, and risk.

	Sector	F	T	V	⊖ ○ ⊕	Rationale
Tax-Free Bonds	Munis–Short-Term	Green	Green	Gray	Negative	Higher relative valuations and lower yields limit appeal.
	Munis–Intermediate-Term	Green	Green	Gray	Positive	Valuations remain attractive, with less interest rate risk relative to longer-term municipal bonds.
	Munis–Long-Term	Green	Green	Green	Neutral	Modest beneficiary of long-term, high-quality bond strength this summer despite lagging Treasuries. Valuations remain attractive.
	Munis–High-Yield	Green	Green	Gray	Neutral	Contagion risk from Puerto Rico is low, but potential interest rate sensitivity partially offsets above-average yield.

Continued on next page.

For the purposes of this publication, intermediate-term bonds have maturities between 3 and 10 years, and short-term bonds are those with maturities of less than 3 years.

All bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availably and change in price.

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 interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.

Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate, and credit risk, as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

FIXED INCOME (CONTINUED)

Despite a volatile August, bond prices generally witnessed modest weakness and slightly higher yields. Still, valuations remain expensive by historical comparison and low future returns for high-quality bonds are possible. Oil declines and equity market volatility pressured high-yield bonds, but we find default expectations too pessimistic. For fixed income allocations, we emphasize a blend of high-quality intermediate bonds coupled with less interest rate–sensitive sectors such as high-yield bonds and bank loans for suitable investors.

	Sector	Rationale
Taxable Bonds – U.S.	Treasuries	Short-term prices are threatened by possible rate hike, while longer-term issues are benefiting from lower inflation expectations. Valutions are still very expensive.
	TIPS	Implied inflation expectations decreased further but the sector remains attractive, in the longer term, relative to conventional Treasuries.
	Mortgage-Backed Securities (MBS)	Average yield spread is hovering around 0.7% above comparable Treasuries, roughly in-line with one-year average.
	Investment-Grade Corporates	Record-setting new issuance and equity volatility have pressured the sector and led to wider yield spreads. Fundamentals remain healthy, however.
	Preferred Stocks	Higher valuations and low yields warrant caution, but fundamentals are firm.
	High-Yield Corporates	Valuations, as measured by yield spreads, are now cheaper than late-2014 levels following growth concerns and lower oil prices. Low defaults and a near 6% yield advantage to Treasuries are notable positives.
	Bank Loans	Lack of interest rate sensitivity and positive fundamentals are a plus. Much less energy exposure compared with high-yield.
Taxable Bonds – Foreign	Foreign Bonds – Hedged	Improving European growth expectations may resume pressuring prices. Still high valuations and low yields still warrant caution.
	Foreign Bonds – Unhedged	Lingering U.S. dollar strength, low yields, and unattractive valuations are negatives and require caution.
	Emerging Markets Debt	Valuations, as measured by yield spreads, are above 4.5% and near most attractive valuations of past few years, but China and commodity concerns remain headwinds.

Investing in foreign and emerging markets debt securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards.

Mortgage-backed securities are subject to credit, default, prepayment risk that acts much like call risk when you get your principal back sooner than the stated maturity, extension risk, the opposite of prepayment risk, market and interest rate risk.

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 (CPI)—while providing a real rate of return guaranteed by the U.S. government. Investing in foreign and emerging markets debt securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical, and regulatory risk, and risk associated with varying settlement standards.

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COMMODITIES & ALTERNATIVE ASSET CLASSES

Technical weakness and U.S. dollar strength keep us cautious on commodities broadly, although oil prices may be nearing another bottom. Divergent central bank policy may lead to higher market volatility and more asset dispersion, creating a more fertile environment for macro strategies. Although the stock selection environment in both the long and short space has noticeably improved, we continue to favor more long-biased strategies, which is consistent with our positive equity market outlook.

	Sector	F	T	V	– ○ +	Rationale
Commodities	Industrial Metals					Lowered view reflects continued weak Chinese demand and resulting technical deterioration, despite bold policy reforms and monetary stimulus efforts.
	Precious Metals					Impending Fed rate hikes, the related likelihood of rising interest rates and a strong U.S. dollar, our preference for riskier assets, and technical deterioration lead us to suggest steering clear of precious metals.
	Energy					Some progress has been made to balance oil markets, but technical weakness has led to our recent caution; oil prices may remain range bound between the upper $40s and $60 for the foreseeable future.
	Agricultural					After a weather-related bump in June, the agriculture complex overall has moved lower since. Better than expected crop reports and fear of a slowdown in Chinese demand weigh on the complex.

	Sector	TE	CT	VO	– ○ +	Rationale
Alternatives	Long/Short Equity					Improvement in both the long and short stock selection environment has made long/short equity more attractive. Continue to favor more directional strategies as opposed to lower net and market neutral–oriented funds
	Event Driven					M&A spreads have tightened while concerns have begun to develop over potential overcrowding in top merger positions.
	Managed Futures					Expectation of rising volatility across currency and commodity markets may be beneficial, along with more persistent trends across asset classes.
	Global Macro					Expectation of rising volatility may be beneficial, while the ability to position in advance of market inflection points will also be a useful tool.

LEGEND

CHARACTERISTICS	ICON	DEFINITION
Catalysts	CT	Potential for favorable macroeconomic and/or idiosyncratic market developments that may benefit the investment strategy.
Trading Environment	TE	Market characteristics present sufficient investment opportunities for this investment style.
Volatility	VO	The current volatility regime provides a constructive environment that an investment of this style can capitalize on.

Alternative strategies may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments.

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IMPORTANT DISCLOSURES

All performance referenced is historical and is no guarantee of future results.

There is no assurance that the techniques and strategies discussed are suitable for all investors or will yield positive outcomes. The purchase of certain securities may be required to affect some of the strategies.

Stock and Pooled Investment Risks

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

Bond and Debt Equity Risks

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond and bond mutual fund values and yields will decline as interest rates rise and bonds 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 fund shares is not guaranteed and will fluctuate.

Alternative Risks

Currency risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

Long/short equity strategies are subject to normal alternative investment risks, including potentially higher fees; while there is additional management risk, as the manager is attempting to accurately anticipate the likely movement of both their long and short holdings. There is also the risk of "beta-mismatch," in which long positions could lose more than short positions during falling markets.

Event driven strategies, such as merger arbitrage, consist of buying shares of the target company in a proposed merger and fully or partially hedging the exposure to the acquirer by shorting the stock of the acquiring company or other means. This strategy involves significant risk as events may not occur as planned and disruptions to a planned merger may result in significant loss to a hedged position.

Managed futures strategies use systematic quantitative programs to find and invest in positive and negative trends in the futures markets for financials and commodities. Futures and forward trading is speculative, includes a high degree of risk that the anticipated market outcome may not occur, and may not be suitable for all investors.

DEFINITIONS

The Simple Moving Average is an arithmetic moving average that is calculated by adding the closing price of the security for a number of time periods and then dividing this total by the number of time periods. Short-term averages respond quickly to changes in the price of the underlying, while long-term averages are slow to react.

Up-capture is a statistical measure of an investment manager's overall performance in up-markets. The up-market capture ratio is used to evaluate how well an investment manager performed relative to an index during periods when that index has risen.

The PE ratio (price-to-earnings ratio) is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher PE ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower PE ratio.

Beta measures a portfolio's volatility relative to its benchmark. A beta greater than one suggests the portfolio has historically been more volatile than its benchmark. A beta of less than one suggests the portfolio has historically been less volatile than its benchmark.

The Beige Book is a commonly used name for the Federal Reserve's (Fed) report called the Summary of Commentary on Current Economic Conditions by Federal Reserve District. It is published just before the Federal Open Market Committee (FOMC) meeting on interest rates and is used to inform the members on changes in the economy since the last meeting.

Quantitative Easing (QE) refers to the Federal Reserve's (Fed) current and/or past programs whereby the Fed purchases a set amount of Treasury and/or Mortgage-Backed securities each month from banks. This inserts more money in the economy (known as easing), which is intended to encourage economic growth.

INDEX DEFINITIONS

All indexes are unmanaged and cannot be invested into directly.

The **Russell 2000 Index** measures the performance of the small cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

The **S&P 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.

This research material has been prepared by LPL Financial.

To the extent you are receiving investment advice from a separately registered independent investment advisor, please note that LPL Financial is not an affiliate of and makes no representation with respect to such entity.

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