LPL FINANCIAL RESEARCH

Fourth Quarter 2011

Market Insight

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LPL Financial

Introduction:
Optimism through the Volatility: Investors Still Cautious on European Debt Issues

The S&P 500 Index enjoyed its strongest quarterly return in more than two years during the fourth quarter of 2011. Extreme pessimism that plagued investment returns for risk assets in the third quarter gave way to optimism, as investors focused on improving fundamentals and reduced systemic risk emanating from Europe. While European debt problems remain an important focus for market participants, stocks were buoyed by another quarter of better-than-expected earnings announcements, positive U.S. economic data that supports moderate growth (as opposed to recession), and bold new action from European policymakers.

Although volatility persisted during the quarter, as the S&P 500 Index ranged between 1,099 and 1,285 amid multiple 2%+ single day advances and declines, all major domestic equity indexes finished the quarter higher. The U.S. economy is forecast to have grown at a 3.5% annualized pace during the fourth quarter (data will be released later in January 2012) up from 1.8% during the third quarter. In an effort to improve liquidity and help avert a crisis, the European Central Bank (ECB) cut short-term rates and provided unlimited three-year loans to European banks, following government leadership changes and meaningful efforts to curb deficits, helping to mitigate the debt problems. The U.S. labor market continued to improve, albeit at a frustratingly slow pace, as highlighted by increases in monthly job data and a downward trend in first-time filing for unemployment benefits. The elevated unemployment rate, coupled with subdued inflation forecasts, gave the Federal Reserve (Fed) the green light to maintain accommodative monetary policy and broadcast their intention to continue to do so throughout 2012, helping to stimulate economic activity.

While the stock market completely reversed course in the fourth quarter from the double-digit decline witnessed in the third quarter, high-quality bond performance followed a similar pattern to register a gain for the twelfth time in the last 13 quarters, based on Barclays Aggregate Index data. Bond investors could buy with confidence, aided by the Fed's pledge to keep interest rates low until mid-2013, which removed a great deal of interest rate risk. The 10-year Treasury yield traded within a tight range after testing record lows on lingering European sovereign debt concerns.

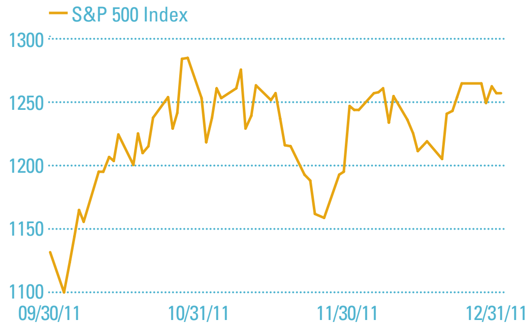
High-Grade Bonds and Equities: Two Takeaways for 2012

- High-grade bond investors should prepare for lower returns following 2011's performance, however, as extremely low yields offer little cushion against even a modest increase in interest rates.
- Equities appear poised for better return prospects given the solid fundamental backdrop in the United States with corporate earnings remaining strong and supported by attractive valuations with the forward price-to-earnings ratio near 30-year lows.

For insight into our forecasts please see our *2012 Outlook* publication.

Please note all return figures are as of December 31, 2011.

1 S&P 500 Index: Fourth Quarter Rally Left Stocks Exactly Where They Began the Year



Source: LPL Financial, FactSet 12/31/11

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

2 Energy Led Q4 2011 and 2011 Performance of S&P 500 Sectors

Sector	Q4	YTD
Energy	18.2	4.7
Industrials	16.5	-0.6
Materials	15.4	-9.8
Consumer Discretionary	12.6	6.1
Financials	10.8	-17.1
Consumer Staples	10.3	14.0
Health Care	10.0	12.7
Information Technology	8.7	2.4
Utilities	8.3	19.9
Telecommunications	7.9	6.3

Source: LPL Financial, FactSet 12/31/11

Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies. Past performance is no guarantee of future results.

Stock Markets: U.S. Consumer Sentiment Increasing Amid European Overhang

During the fourth quarter, the U.S. stock market, as measured by the S&P 500 Index, posted its most impressive gain since the third quarter of 2009, with a total return including dividends of 11.8%. The lion's share of the gain was realized in October, as the index advanced nearly 11%. November's returns were modestly negative (-0.2%), although with significant volatility, and December eked out positive gains (+1.0%) on a strong late-month rally to close out the year. [Chart 1]. Continued uncertainty over European debt problems and an eleventh hour two-month extension of U.S. payroll tax cuts gave many investors pause, and trading volumes remained light to close out the year. Still, the S&P 500 Index managed to return 2.1% in 2011, all of it coming from dividends, as the index level was, remarkably, unchanged at 1,258.

Consumer sentiment improved markedly during the fourth quarter, on the heels of improving economic data that included a better pace of job growth, helping to fuel the stock market rally. Fears of a return to recession, which dominated headlines during the third quarter, subsided following economic data releases that pointed to economic expansion during the fourth quarter at about the same pace as the first three quarters combined. While Europe remains a wildcard, new leaders in Greece, Italy and Spain pledged and successfully passed austerity measures to tackle their budget deficits, helping to restore market confidence. While the ECB took steps to avert a crisis, more needs to be done to contain the rise in sovereign borrowing costs, which remain near unsustainable levels for some countries, most notably Italy. Stepped-up secondary market bond purchases and the issuance of Eurobonds are likely the most viable solutions, although both have been met with resistance from Germany and ECB officials. Market sentiment will be tested in the early part of 2012, as European nations seek to refinance upcoming bond maturities.

As is typical during equity market rallies, cyclical sectors sharply outperformed defensive sectors during the fourth quarter. All sectors posted strong gains, and were led by Energy, which benefitted from rising oil prices to return 18.2% [Table 2]. Despite lagging all other sectors during the fourth quarter, Utilities held onto its top spot among sector performers in the S&P 500 Index year-to-date with a return of 19.9%. Industrials and Materials, sectors that are driven by global demand, each rallied more than 15%, but failed to make up for third quarter losses. Financials finished in the middle of the pack during the quarter, but suffered on a relative basis for the year, shedding -17.1% to underperform the S&P 500 for the fifth consecutive year. The tailwinds of a steep yield curve, which benefits net interest margin, solid loan demand and improved capital ratios, were overwhelmed by fears of contagion spreading from Europe and uncertainty over financial regulation.

Large-cap and mid-cap stocks posted similar returns of 11.8% and 12.3%, respectively, in the fourth quarter, while small-cap stocks were standout performers with a 15.5% return. Small-cap stocks benefited from greater economic sensitivity and less exposure to troubled economies in Europe, but still trailed large-cap stocks in 2011 with a 4.2% loss. In terms of style, Value outpaced Growth as Value's biggest sector, Financials, beat Growth's biggest sector, Technology. The Russell 2000 Value Index, a proxy for Small Value stocks, represented the best performing domestic asset class in the fourth quarter with a return of 16.0%, led by significant outperformance by regional banks and Real Estate Investment Trusts (REITS). The Russell 1000 Growth Index, a proxy for Large Growth stocks, trailed all other domestic asset classes during the quarter, but still managed an impressive 10.6% gain and led all domestic asset classes in 2011 with a 2.6% return.

For the third consecutive quarter, U.S. stocks outperformed their Large Foreign and Emerging Market counterparts on a relative basis, further widening the gap for the full-year return. Companies domiciled in the United States were rewarded for better domestic growth prospects than Europe, where stock prices reflected the likelihood of a mild recession. While growth in developing markets is forecast to continue to outpace developed markets, emerging market stocks suffered from a slowdown in exports, upon which they are highly dependent. The MSCI EAFE Index, a proxy for developed foreign markets, gained 3.4% in the quarter, held back by Japan, whose rebuilding efforts have been slow to materialize. The MSCI Emerging Markets Free Index advanced 4.5%, not nearly enough to pull the index out of its -18.2% hole for the full year. India and China, which declined -37.6% and -20.0%, respectively, represented the biggest drags to the index return during the quarter. Brazil also suffered from fears that falling commodity prices will offset easier monetary policy to crimp growth prospects.

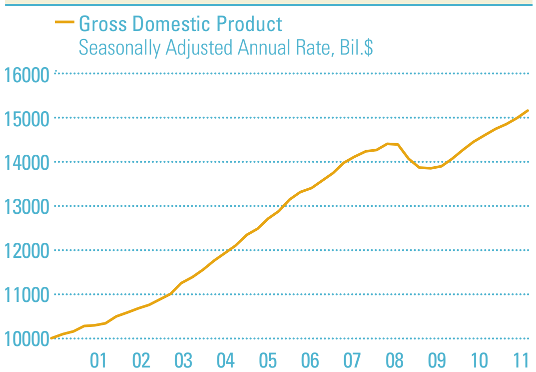
Economy:
Positive U.S. Reports Supported Market Gains

Unlike the third quarter, economic reports in the fourth quarter largely exceeded expectations, defying fears of a global economic slowdown, helping to dampen market volatility and fuel the stock market's advance.

U.S. economic growth has continued at a moderate pace. Gross domestic product (GDP) reached new all-time highs in the third quarter [Chart 3], despite downward revisions to third quarter GDP. Initially reported at 2.5%, third quarter GDP was ultimately revised down to 1.8%. Much of the decline can be attributed to a drawdown in inventories, however, setting the stage for stronger GDP growth in the fourth quarter as those inventories are restocked. Based on recent data, including retail sales, merchandise trade and construction spending, fourth quarter GDP is on pace for a 3.5% annualized pace, the strongest growth rate of the year. Consumer spending, by far the largest component of GDP, remains healthy with 3.2% year-over-year growth in same-store sales as of the end of November [Chart 4].

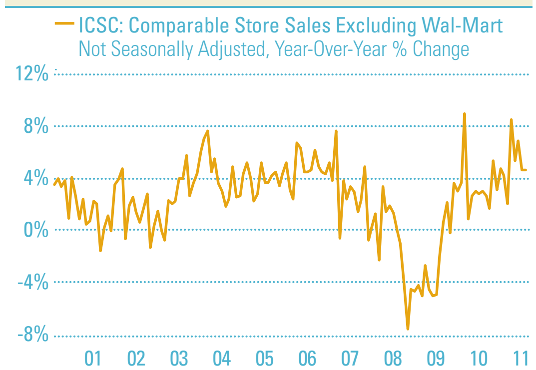
Initial jobless claims filings have registered under 400,000 for seven of the last eight weeks but have not yet declined to a level sufficient enough to contribute to a sustained drop in the unemployment rate, which remains elevated, at 8.6%. The Index of Leading Economic Indicators (LEI), a

3 Gross Domestic Product Continued Its Upward Trajectory



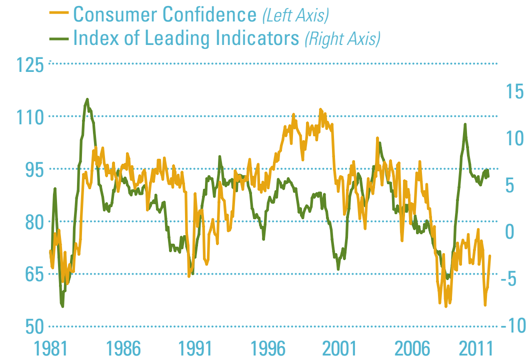
Source: Bureau of Economic Analysis, Haver Analytics 01/04/12

4 Same-Store Sales, Excluding Wal-Mart Remained Healthy



Source: ICSC, Haver Analytics 01/04/12

5 University of Michigan Consumer Sentiment (MSCI) and Leading Economic Indicators

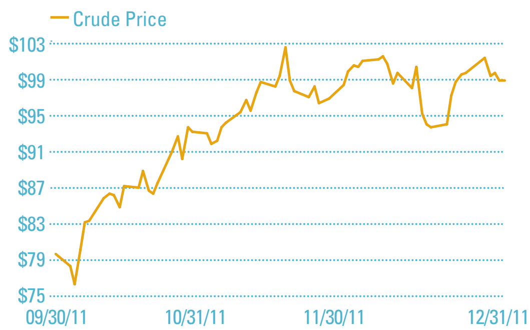


Source: LPL Financial, Bloomberg 12/31/11

MCSI is a survey of consumer confidence conducted by the University of Michigan. They use telephone surveys to gather information on consumer expectations regarding the overall economy.

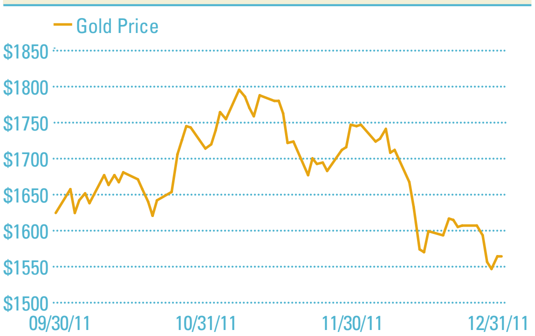
The index of leading economic indicators (LEI) is an economic variable, such as private-sector wages, that tends to show the direction of future economic activity.

6 West Texas Intermediate Crude Prices Rose Sharply in the Fourth Quarter



Source: LPL Financial, Bloomberg 12/31/11

7 Gold Prices Declined on U.S. Dollar Strength



Source: LPL Financial, Bloomberg 12/31/11

Past performance listed above is no guarantee of future results.

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.

grouping of several economic statistics that has historically helped to predict future economic conditions, continues to suggest slow growth and not a return to recession. Consumer sentiment improved dramatically during each of the last four months, as measured by the University of Michigan Consumer Sentiment report [Chart 5], but remains near levels witnessed during economic contraction, despite the lack of recessionary indicators.

Over time, these consumer spending and consumer sentiment measures are highly correlated as the more confident consumers feel, the more likely they are to spend money. However, the recent periods have seen a near historic disconnect, as consumers are responding to surveys suggesting a dismal outlook, yet they are not significantly altering spending patterns. Consumers are acting differently than they are feeling. The fundamental data shows that consumers, which make up nearly 70% of the U.S. economy, are going to the malls and spending at levels not seen since 2007. However, that fundamental data flies in the face of the sentiment data, which suggest consumers feel as gloomy and pessimistic as they have during past recessions.

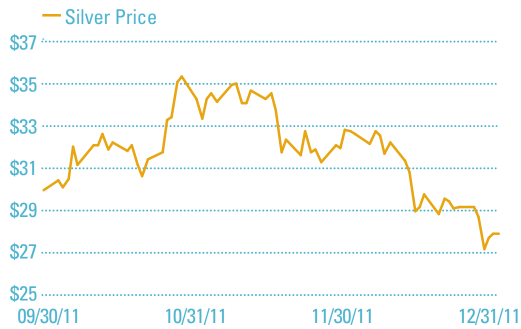
Commodities Asset Classes: Oil and Copper Were the Best Performers

Broad commodity prices were essentially flat during the fourth quarter, as the DJ-UBS Commodity Index advanced just 0.3%. However, performance across individual commodities was hardly consistent. Inflation expectations, a key driver of Federal Reserve monetary policy, rose sharply during October, but then moderated over the remainder of the quarter. Minutes from the Federal Open Market Committee (FOMC) meetings reveal a benign inflation outlook from the central bank, and continued accommodative monetary policy, generally supportive of commodity prices. While actual inflation data continues to accelerate, as evidenced by an increase in year-over-year core Consumer Price Index (CPI) inflation over the last 13 months, the Fed has pledged to keep interest rates low, citing increased risks to its economic outlook.

Commodities which are typically most sensitive to economic growth prospects, most notably oil and copper, performed best during the quarter, while precious metals such as gold and silver, frequently a refuge for investors seeking a safe-haven, experienced deep peak to trough losses. West Texas Intermediate crude oil prices started the quarter below $80/barrel but advanced nearly 25% to just under $99/barrel by the end of the year [Chart 6]. Several factors drove the advance in oil prices, including: declining inventories; a pipeline reversal in the U.S. that will enable more exports; and a flare-up of Mideast tensions.

Precious metals rallied sharply to start the quarter, owing to their inflation hedge and industrial use properties, before giving way to strength in the U.S. dollar as the euro weakened, which tends to be inversely correlated to gold prices. Gold prices were volatile during the quarter, surging to nearly $1,800/oz before retreating to under $1,600 at year-end, for a quarterly loss of 3.7%. [Chart 7].

8 Silver



Source: LPL Financial, Bloomberg 12/31/11

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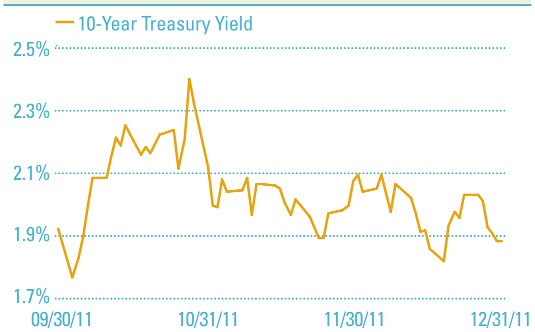
Precious metal investing is subject to substantial fluctuation and potential for loss.

9 10-Year U.S Treasury yield Ended the Quarter Unchanged



Source: LPL Financial, Bloomberg 12/31/11

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.

Silver also fell sharply from its peak, moving nearly in lockstep with gold. Silver began September just under $30 and rallied more than 18% by early November before plunging below $28 [Chart 8].

Fixed Income – Taxable: Credit Sensitive Sectors Outperformed Government Bonds

The broad bond market, as measured by the Barclays Capital Aggregate Bond Index, followed a strong third quarter with a modest gain of 1.1% in the fourth quarter, as interest rate volatility subsided from earlier in the year. High-grade bond yields were nearly flat during the quarter as income provided the bulk of the return. A modest degree of spread tightening enabled corporate bonds to outperform their government counterparts, as investors once again embraced risk assets after shunning them in the third quarter. Credit fundamentals continued to improve as positive earnings results helped companies reduce debt levels, lower their borrowing costs through refinancing and build up cash balances. The 10-year Treasury yield traded in a relatively tight range over the last two months before closing nearly unchanged for the quarter, at around 1.9% [Chart 9].

Long-term high-quality bonds, as measured by the Barclays Capital Government/Credit Long Index, posted a 2.6% return in the third quarter, benefitting from Fed Treasury purchases and outperformance from Investment-Grade Corporate bonds. The steep yield curve aided returns, as longer-maturity bonds generated additional yield. Among other high-quality bond sectors, Treasury Inflation Protected Securities (TIPS) posted an impressive 2.7% return during the quarter, enabling the sector to hold onto its top spot for the year among all fixed income asset classes, with a 13.6% gain, according to the Barclays U.S. TIPS Index. Credit sensitive sectors of the bond market rallied from a disappointing third quarter, to outperform safe haven Treasuries as spreads tightened. The Barclays High-Yield Index and JP Morgan Emerging Markets Bond Index led the way with returns of 6.5% and 5.1%, respectively. Foreign developed bonds represented one of the only bond market sectors to post a negative return for the quarter, as the Citigroup Non-US World Government Bond – Unhedged Index lost -0.5%. While that loss may appear modest, many individual European countries, most notably Italy and France, saw their bond yields skyrocket during the quarter and, as a result, their bond auctions will be closely scrutinized over the upcoming months.

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Fixed Income – Tax-Free: Municipal Bonds Finish the Year with Strong Momentum

Municipal bonds continued their impressive run in 2011, befitting from their interest rate sensitivity, a favorable supply/demand backdrop and improving fundamentals. Municipal bonds, as measured by the Barclays Capital Municipal Bond Index, returned 2.1% in the fourth quarter, bringing the full year gain to an impressive 10.7%. On the lower end of the quality spectrum, the Barclays Capital High-Yield Municipal Bond Index advanced only 0.8% for the quarter, but posted a 9.3% return for the full year 2011, easily outpacing their taxable counterparts. As was the case in prior quarters, state and municipal budgets continued to improve through a combination of revenue increases and expenditure cuts, and fears of massive defaults among municipal issuers continued to abate. While some high-profile market prognosticators called for defaults totaling hundreds of billions of dollars, actual defaults in 2011 amounted to around $4 billion.

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.

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.

The Michigan Consumer Sentiment Index (MCSI) is a survey of consumer confidence conducted by the University of Michigan. The Michigan Consumer Sentiment Index (MCSI) uses telephone surveys to gather information on consumer expectations regarding the overall economy.

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 Barclays Capital Long Government/Credit Index measures the investment return of all medium and larger public issues of U.S. Treasury, agency, investment-grade corporate, and investment-grade international dollar-denominated bonds with maturities longer than 10 years. The average maturity is approximately 20 years.

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 Citigroup World Government Bond Index is a market-capitalization-weighted index consisting of the government bond markets. Country eligibility is determined based on market capitalization and investability criteria. All issues have a remaining maturity of at least one year.

The Barclays U.S. Treasury TIPS Index is a rules-based, market value-weighted index that tracks inflation protected securities issued by the U.S. Treasury. The U.S. TIPS Index is a subset of the Global Inflation-Linked Index, with a 36.0% market value weight in the index (as of December 2007), but is not eligible for other nominal treasury or aggregate indices. In order to prevent the erosion of purchasing power, TIPS are indexed to the non-seasonally adjusted Consumer Price Index for All Urban Consumers, or the CPI-U (CPI).

J.P. Morgan Emerging Markets Bond Index Global (EMBI Global) tracks total returns for U.S. dollar denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds. Currently, the EMBI Global covers 188 instruments across 33 countries.

Russell 2000® Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

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.

Russell 1000® Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecast growth values.

Russell 2000® Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

The 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 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, and 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.