9785 Towne Centre Drive
San Diego, CA 92121-1968

75 State Street, 24th Floor
Boston, MA 02109-1827

June 29, 2012

Dear Valued Investor,

At the end of last year finding a middle ground, or Meeting in the Middle, was key for growth in the markets and economy. So far, this has been reflected in economic and market data. Notably, at this year's midpoint, the gap between consumer confidence and leading economic indicators has narrowed about halfway. However, when divergent rational facts and emotional feelings attempt to converge, it usually comes with some ups and downs. We have experienced this in the first half of 2012, with large upswings and dramatic downdrafts in market performance. We do anticipate that this volatility will persist for the rest of 2012 — though it hopefully mellows a bit as we get some clarity around the November elections.

We continue to believe that:

- The U.S. economy will grow about 2%, supported by soft sentiment and hard data continuing to converge.
- The U.S. stock market will likely post high single-digit to low double-digit gains, backed by mid-to-high single-digit earnings growth.
- Corporate bonds will post modest single-digit gains and outperform government bonds.
- Policy-driven events will hold major consequences for investors.*

In our *2012 Outlook,* we stated that the party that emerges in control following the November 2012 elections will forge the decisions that represent one of the biggest shifts in the federal budget policy since World War II. During the next several months, the elections will likely become an increasingly potent driver of the overall markets and particular investments as well as determine whether our expectations for the year come to fruition.

In our *Mid-Year Outlook*, we explore the potential investment impacts of policy and legislative changes resulting from the election. Our outlook over the second half of 2012 for the economy, the stock market, and the bond market are on track based on our *2012 Outlook* forecasts. However, financial markets will react in anticipation of potential election impacts and influence stock and bond market performance. In the stock market, we continue to focus on sectors that derive more of their growth from more rapidly growing emerging markets and business spending. In the bond market, we continue to focus on higher yielding sectors that may outperform in a low-yield environment resulting from political uncertainty, sluggish economic growth, and ongoing risks from Europe.

This election can be broken down into many issues for analysis. We can think of these issues as campaign stops on our journey across the current political landscape. As we explore these issues, we will be making stops at the White House, Congress at the Capitol Building, and the Federal Reserve. We will head down Main Street to discuss the budget, move on to talk taxes in the town square, and then make a pit stop to talk about the sector impacts of policy changes on Wall Street. Finally, we will move on to Europe for the impact of the numerous elections on the second half of 2012.

As always, if you have questions, I encourage you to contact your advisor.

Sincerely,

Jeffrey Kleintop, CFA
Chief Market Strategist
LPL Financial