LPL Financial

9785 Towne Centre Drive
San Diego, CA 92121-1968

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

November 27, 2012

Dear Valued Investor:

In 2013, many different forces will combine to influence the direction of the markets to follow the path of least resistance leading to modest single-digit returns in the U.S. stock and bond markets.* The path for the year may be set at the end of 2012, or in early 2013, as critical decisions are implemented:

- Washington will likely finally rise to the challenge of this self-imposed crisis and form the compromise between the parties that will meet the least resistance — extending some of the Bush-era tax cuts and cancelling some of the scheduled spending cuts. However, going down this path risks delaying progress toward a more permanent solution that makes the government's finances sustainable.

- The Federal Reserve (Fed) is likely to continue its bond-buying program of quantitative easing (QE). This open-ended QE is the path of least resistance among Fed decision makers and one which will buy the Fed more time to determine if more aggressive monetary policy easing is needed or if the economy can withstand a lessening of stimulus.

- Major hurdles to further European integration overcome in 2012 set the stage for progress toward a tighter fiscal, economic, and banking union. A high degree of resistance to splitting apart counterbalanced with strong stances against unconditional support is likely to keep Europe on a middle path toward slow continued integration.

- The U.S. economy faces the weakest global economic backdrop since the Great Recession of 2008–09 heading into the looming fiscal drag of tax increases and spending cuts. These forces are only partially offset by the benefits of Fed stimulus, the positive consumer wealth effect driven by the rebounding housing and stock markets, and the lifting of business uncertainty as the budget decisions are resolved. The combination is likely to result in a path leading to flat-to-weak growth for the U.S. economy.

Our base case path is supported by our view that key decision makers will find it is better to determine a way to overcome an avoidable and unnecessary economic recession, buy time to actually propose and vote on competing long-term fiscal visions, and do something to help restore confidence in Washington's ability to govern. Ideally, this could help maintain investors' appetites for U.S. equities and Treasuries. For the markets, the path of least resistance is likely to include modest single-digit returns for stocks as sluggish profit growth dampens stronger gains, but prices are supported by low valuations and improving clarity as uncertainties begin to fade. Bond yields may rise only slightly, restrained by sluggish growth and a Fed committed to keeping rates low, leaving returns to be limited to interest income at best.

However, there are paths that differ from this base case outcome: a bear path where the consequences of fiscal contraction damage confidence as well as the economy, and a bull path where an historic opportunity to address the U.S.'s long-term fiscal challenges is embraced and leads to sustainable solutions. Which of these three is the path of least resistance is likely to be determined by the end of the first quarter of 2013.

As always, please contact your financial advisor with any questions.

Sincerely,

Jeffrey Kleintop, CFA
Chief Market Strategist
Executive Vice President, Research

*Equity market forecast is for the S&P 500 Index and is based upon a low-single-digit earnings growth rate supported by modest share buybacks combined with 2% dividend yields and little change in valuations. Bond market forecast is for the Barclays Aggregate Index and is based upon a less than one percentage point rise in rates, with price declines offset by interest income.

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.