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.

CONTENTS

All performance referenced herein is as of April 21, 2015, unless otherwise noted.

April 22 2015

NAVIGATING THE MARKETS

COMPASS CHANGES

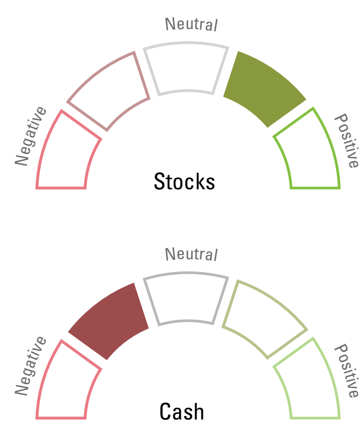
- Downgraded agricultural commodities to negative/neutral from neutral.

INVESTMENT TAKEAWAYS

- We forecast high-single-digit S&P 500 returns in 2015, supported by earnings, though the strong U.S. dollar and energy drags make the lower end of our 5–10% earnings growth forecast more likely.*
- We continue to favor U.S. equities, but have become less negative on developed foreign markets recently. Improved technicals and signs of oil stability may help emerging markets, where we are considering a more positive view.
- We continue to favor cyclical growth sectors, plus healthcare, while signs of improving energy fundamentals have begun to emerge.
- Despite the Federal Reserve's (Fed) recent lower for longer message, low yields and unattractive valuations argue for a defensive stance on fixed income duration and for low potential future high-quality bond returns.
- For fixed income allocations, we emphasize a blend of high-quality intermediate bonds and less interest rate–sensitive sectors such as high-yield bonds and bank loans.
- From a technical perspective, the S&P 500 price remains above a positively sloping 200-day simple moving average, which supports a 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.

MACROECONOMIC VIEWS

	Economic Factor	Outlook	Investing Impact
ECONOMY	U.S. GDP Growth	2015 GDP 3.0–3.5%.	No recession or overheating in 2015 may support equity markets.
	Consumer Spending	Low oil prices, stock market, and home price gains 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	Cheaper oil, more oil exports, and "know-how" service sectors helping trade imbalances.	Supports technology, business services.
	Labor Market	Steadily improving but wage growth lagging.	Profit margins may begin to narrow; Fed rate hikes forthcoming.
	Inflation	Commodity declines, tepid wage growth creating downward pressure.	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.	Drag on foreign market returns, hurts U.S. profits.
	Global GDP Growth	Modest improvement in 2015.	Supports multinational technology and industrials.
POLICY	Fiscal	Potentially minimal impact on U.S. economy.	Drag from 2013 rolled off, helping calm markets.
	Monetary	Expect Fed tightening in late 2015.	Modest negative for bonds; manageable risk for stocks.
	Government	Supreme Court ruling on provision of ACA expected in late June.	Odds slightly favor ruling friendly to healthcare sector.
RISKS	Financial	Most measures of financial stress are stable.	We expect potential stock market gains in 2015.
	Geopolitical & Other	Watching Ukraine, Greece, Islamic State, Yemen. Greece concerns rising.	May contribute to higher stock volatility.
OVERSEAS	Developed Overseas Economies	Japan and Europe looking a little stronger; uncertainty still high.	Favor U.S. equities; monitor developed foreign.
	Emerging Markets Economies	China's central bank adding stimulus; growth stabilizing at about 7%.	Faster growth in other countries may help lift low valuations.
FINANCIAL CONDITIONS	Corporate Profits	We expect 5–10% gains in 2015	Supportive of mid-cycle stock market gains.
	Main Street	Fed Beige Book depicts stable economy, labor market despite harsh winter, dollar, port strikes.	Supportive of consumer cyclicals.

Source: LPL Research, U.S. Department of Energy, Haver Analytics 04/21/15

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 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	4.40%	10.00%	5.5%	80%
	Labor force participation rate: year-over-year change, % of unemployed	0.4%	-1.1%	-0.5%	40%
	Part time for economic reasons: % of labor force	2.7%	6.7%	4.5%	54%
	Long-term unemployed: 27 weeks or more, % of unemployed	15.9%	45.3%	29.8%	53%
	Duration of unemployment: weeks	7.3	25	12.2	72%
Employment & Work	Private payroll employment: millions	116.0	107.2	119.3	137%
	Government payroll employment: millions	22.6	21.8	21.9	12%
	Temporary help employment: millions	2.7	1.7	2.9	116%
	Average weekly hours (production): hours	33.9	33.0	33.7	78%
	Average weekly hours of persons at work: hours	39.7	36.2	38.7	71%
	Wage rates: average hourly earnings, year-over-year % change	4.2%	1.3%	1.8%	16%
Job Market Environment	Composite help-wanted: index	4250	2750	5466	181%
	Hiring rate: % of payroll employment	4.5%	3.2%	3.5%	23%
	Transition rate from unemployment to employment: % of unemployment	29.6%	15.9%	23.1%	53%
	Jobs plentiful vs. hard to get: diffusion index	11.4	-46.1	-4.8	72%
	Hiring plans: diffusion index	19%	-10%	10%	69%
	Jobs hard to fill: %	31%	8%	24%	70%
Layoffs & Quits	Insured unemployment rate: % of covered employment	1.9%	5.0%	1.7%	106%
	Job losers unemployed less than 5 weeks: % of employment	45.4%	14.7%	26.2%	37%
	Quit rate: % of payroll employment	60%	39%	57.8%	89%
	Job leavers unemployed less than 5 weeks: % of employment	48.8%	17.5%	32.5%	48%

Have reached or exceeded their prerecession levels

Source: LPL Research, Bureau of Labor Statistics, Haver Analytics 04/21/15
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	Industrials Technology	High-Yield Bonds
Fundamentals	Large Growth	Industrials Technology Healthcare	Munis Bank Loans
Technicals	Mid Growth Small Growth Emerging Markets	Consumer Discretionary Healthcare Technology	High-Yield Bonds Preferred Stocks Investment-Grade Corps
Valuations	Emerging Markets	Technology Telecommunications	Munis High-Yield Bonds

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

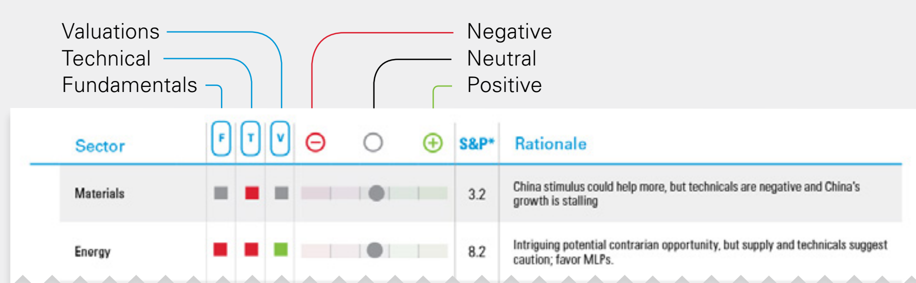
READING THE PORTFOLIO COMPASS

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.

EQUITY ASSET CLASSES

We forecast high-single-digit S&P 500 returns for 2015, supported by earnings growth that may fall near the low end of our 5–10% forecast due to drag from the strong U.S. dollar and low oil prices, and a stable PE ratio amid a favorable economic backdrop. We favor U.S. equities over their large foreign counterparts, although we have become less negative on foreign markets in recent weeks due to better European economic data and better investment performance, while we maintain a positive emerging markets bias. We expect a market leadership transition to large caps to occur in 2015 and favor growth over value. We find MLPs attractive, particularly for income-oriented investors, for their yields and potential upside if oil prices recover.

	Sector	F	T	V	⊖ ○ ⊕	Rationale
Style / Capitalization	Large Growth					Recent small cap outperformance following underperformance in 2014 may continue, but we see a shift in leadership to large caps in 2015 as the business cycle matures. 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					
	Mid Growth					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 are in-line to slightly above long-term averages relative to the S&P 500.
	Mid Value					
	Small Growth					U.S.-centric small cap strength may continue as the U.S. dollar rises and small caps continue to recoup 2014 underperformance. 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 2015. Relative to the large caps (S&P 500), small cap growth valuations are above average.
	Small Value					
Region	U.S. Stocks					We favor U.S. equities over large foreign. Our cautious view of Europe primarily reflects structural constraints restricting credit, sluggish (but improving) economic growth, deflation risk, and potential currency drag on U.S. dollar-based returns. But better recent economic data—partly due to quantitative easing (QE)—and bullish technical analysis signals have made us less negative on international developed markets recently.
	Large Foreign					Although Japan emerged from a technical recession during Q4 2014 and the weak yen is boosting exports, we are not convinced that the country's stimulus programs will drive a sustained improvement in growth.
	Small Foreign					
	Emerging Markets					Improving fundamentals and low valuations make EM one of our best ideas for 2015. We are encouraged by improved technicals and signs of oil price stability and are considering a more positive view. Within EM, our preference is for Asia due to relatively stronger current account balances and cheap oil.
REITs	REITs					Interest rate risk and above-average valuations keep us neutral; still a prudent choice for suitable income investors.
MLPs	MLPs					Very attractive yields, solid short-/intermediate-term distribution prospects despite oil decline, and upside potential as oil recovers offset interest rate risk and technical weakness.

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.

EQUITY SECTORS

We continue to favor cyclical growth sectors, which tend to do well during the middle to late stages of the business cycle. Our focus is on industrials and technology, while low energy prices underpin our positive consumer discretionary view. Meanwhile, we continue to watch the energy sector for potential contrarian opportunities, but have not quite seen enough evidence of a sustainable turn in oil prices or sector fundamentals to upgrade our view.

	Sector	F	T	V	⊖ ○ ⊕	S&P*	Rationale
Cyclical	Materials					3.2	China stimulus and stable growth help, but strong U.S. dollar and China's economic transition are offsets.
	Energy					8.4	Positive bias amid progress toward balancing supply and demand, but supply glut remains; favor MLPs.
	Industrials					10.3	Better potential business spending may help; recent weakness due to commodity sensitivity, strong USD.
	Consumer Discretionary					12.5	Cheaper oil helps near-term outlook although late-cycle performance record is mixed; may temper view as oil rises.
	Technology					19.7	Earnings, our business spending outlook, and valuations are supportive, along with positive technicals.
	Financials					16.1	Tough regulatory and interest rate environment; good start to Q1 earnings on lower legal costs, trading.
Defensive	Utilities					3.0	Our negative view reflects interest rate risk, rich valuations, and our preference for cyclicals.
	Healthcare					14.9	Favorite defensive sector on solid earnings, innovation, and Affordable Care Act (ACA)-demand lift.
	Consumer Staples					9.6	Still favor cyclical sectors, strong dollar hurts; but low commodity prices help margins and overseas growth has stabilized.
	Telecommunications					2.3	Interest rate and business risks remain (saturation, capital outlays) and technicals have deteriorated, but valuations are attractive.

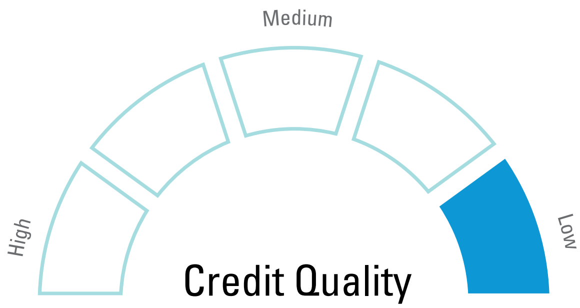
* S&P 500 Weight (%)

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.

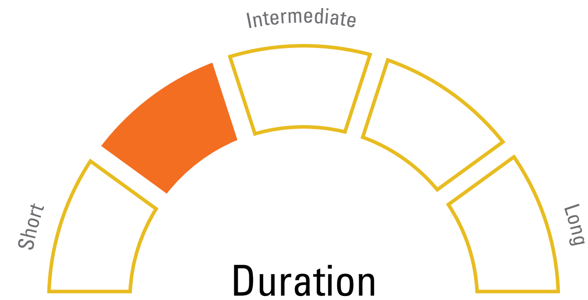
There is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Diversification does not ensure against market risk.

FIXED INCOME

We prefer corporate bonds over higher-quality government bonds due to their relatively higher yields and the financial health of corporate America. Despite the Fed's recent lower for longer message, low yields and unattractive valuations argue for a defensive stance on fixed income duration.



Credit yield spreads fair; prefer corporate bonds to government bonds.



Expensive valuations argue for a defensive stance.

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					Higher relative valuations and low yields limit appeal.
Tax-Free Bonds	Munis–Intermediate-Term					Valuations attractive relative to Treasuries, but offset by low absolute yields. Intermediate is our preferred spot on the yield curve.
Tax-Free Bonds	Munis–Long-Term					A surge in supply has led to cheaper valuations relative to Treasuries, but yields remain very low.
Tax-Free Bonds	Munis–High-Yield					Default risk is low, but greater 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)

Bonds have been range bound since mid-March as investors assess how transitory weaker first quarter growth, oil price stability, and low inflation will be. Futures pricing reflects a later start and slower pace of rate hikes compared with the Fed's recently reduced rate forecasts. On a longer-term basis, yields remain low and valuations above average, suggesting low future returns for high-quality bonds. 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.

	Sector	F	T	V	⊖	○	⊕	Rationale
Taxable Bonds – U.S.	Treasuries							Yields may be range bound near term and provide limited opportunity.
	TIPS							Implied inflation expectations have increased from a four-year low, but are still well below average; remain more attractive relative to conventional Treasuries.
	Mortgage-Backed Securities (MBS)							Average yield spread hovering around 0.75% above comparable Treasuries.
	Investment-Grade Corporates							Corporate balance sheets remain very strong and extra yield is an additional benefit.
	Preferred Stocks							Higher valuations and lower yields warrant caution, but fundamentals are firm.
	High-Yield Corporates							Average yield spread of 5% suggests sector still offers value and oil price impact is fading. Low defaults are a positive.
	Bank Loans							Potentially attractive due to short-term nature and above-average yield; less energy exposure than high-yield.
Taxable Bonds – Foreign	Foreign Bonds – Hedged							Despite high valuations, early indications from the start of ECB QE suggest bond prices may remain supported from significant reduced supply.
	Foreign Bonds – Unhedged							Low yields, unattractive valuations, and lingering U.S. dollar strength may pose risks.
	Emerging Markets Debt							Valuations have improved but remain fair. Uncertainty over pace of growth and Fed rate hike sensitivity may limit additional improvement.

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.

COMMODITIES & ALTERNATIVE ASSET CLASSES

Central bank policy divergence should lead to higher market volatility and more dispersion among assets, which may create a more fertile environment for macro strategies. Since narrowly led equity markets have proven difficult for equity-oriented alternative strategies, we favor higher beta options in that space until individual stock selection is better rewarded. On commodities, technical weakness and the strong U.S. dollar keep us cautious, although industrial metals have bucked the trend as a copper rebound has driven a technical upgrade.

	Sector	F	T	V	⊖ ○ ⊕	Rationale
Commodities	Industrial Metals					Copper is struggling with less demand from China.
	Precious Metals					Likely Fed rate hikes in late 2015, the potential for rising interest rates, which increases the carrying costs of precious metals, and the strong U.S. dollar keep us neutral on precious metals.
	Energy					Technicals for oil have improved and energy markets have made some progress toward balancing supply and demand, but ongoing inventory glut, still steady production, and the strong U.S. dollar lead us to temper optimism.
	Agricultural					Agricultural commodities broadly remain in a downtrend amid strong harvests and abundant supplies.

	Sector	TE	CT	VO	⊖ ○ ⊕	Rationale
Alternatives	Long/Short Equity					May benefit from higher volatility and rising dispersion across equity sectors and securities. Favor more directional as opposed to lower net and market neutral–oriented funds.
	Event Driven					M&A activity continues to rise as firms search for new areas of growth, while deal spreads have tightened moderately since the beginning of the year.
	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.

Event-driven strategies, such as merger arbitrage, long/short equity strategies, and futures trading are highly speculative, include a high degree of risk, and may not be suitable for all investors.

DEFINITIONS:

EQUITY AND ALTERNATIVES ASSET CLASSES

Large Growth: Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

Large Value: Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

Mid Growth: The U.S. mid cap range for market capitalization typically falls between $1 billion and $8 billion and represents 20% of the total capitalization of the U.S. equity market. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

Mid Value: The U.S. mid cap range for market capitalization typically falls between $1 billion and $8 billion and represents 20% of the total capitalization of the U.S. equity market. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

Small Growth: Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

Small Value: Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

U.S. Stocks: Stock of companies domiciled in the U.S.

Large Foreign: Large cap foreign stocks have market capitalizations greater than $5 billion. The majority of the holdings in the large foreign category are in the MSCI EAFE Index.

Small Foreign: Small cap foreign stocks typically have market capitalizations of $250 million to $1 billion. The majority of the holdings in the small foreign category are in the MSCI Small Cap EAFE Index.

Emerging Markets: Stocks of a single developing country or a grouping of developing countries. For the most part, these countries are in Eastern Europe, Africa, the Middle East, Latin America, the Far East, and Asia.

REITs: REITs are companies that develop and manage real estate properties. There are several different types of REITs, including apartment, factory-outlet, health care, hotel, industrial, mortgage, office, and shopping center REITs. This would also include real estate operating companies.

Commodities – Industrial Metals: Stocks in companies that mine base metals such as copper, aluminum, and iron ore. Also included are the actual metals themselves. Industrial metals companies are typically based in North America, Australia, or South Africa.

Commodities – Precious Metals: Stocks of companies that do gold- silver-, platinum-, and base-metal mining. Precious metals companies are typically based in North America, Australia, or South Africa.

Commodities – Energy: Stocks of companies that focus on integrated energy, oil and gas services, oil and gas exploration and equipment. Public energy companies are typically based in North America, Europe, the United Kingdom, and Latin America.

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.

Event Driven: A hedge fund strategy in which the stocks of two merging companies are simultaneously bought and sold to create a riskless profit. A merger arbitrageur looks at the risk that the merger deal will not close on time, or at all. Because of this slight uncertainty, the target company's stock will typically sell at a discount to the price that the combined company will have when the merger is closed. This discrepancy is the arbitrageur's profit.

Long/Short: An investment strategy generally associated with hedge funds. It involves buying long equities that are expected to increase in value and selling short equities that are expected to decrease in value.

Managed Futures: Managed futures use systematic quantitative programs to find and invest in positive and negative trends in the futures markets for financials and commodities. Historically, the benefit of managed futures have been solid long-term returns with very low correlation to equities and fixed income securities.

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 a 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 less than one suggests the portfolio has historically been less volatile than its benchmark.

FIXED INCOME

Credit Quality: One of the principal criteria for judging the investment quality of a bond or bond mutual fund. As the term implies, credit quality informs investors of a bond or bond portfolio's credit worthiness, or risk of default.

Duration: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. The bigger the duration number, the greater the interest rate risk or reward for bond prices.

Munis – Short-Term: Bonds issued by various state and local governments to fund public projects. The income from these bonds is generally free from federal taxes. These bonds generally have maturities of less than three years.

Munis – Intermediate: Bonds issued by various state and local governments to fund public projects. The income from these bonds is generally free from federal taxes. These bonds generally have maturities of between 3 and 10 years.

Munis – Long-Term: Bonds issued by various state and local governments to fund public projects. The income from these bonds is generally free from federal taxes. These bonds generally have maturities of more than 10 years.

Munis – High-Yield: Bonds issued by various state and local governments to fund public projects. The income from these bonds is generally free from federal taxes. These bonds generally offer higher yields than other types of bonds, but they are also more vulnerable to economic and credit risk. These bonds are rated BB+ and below.

Treasuries: A marketable, fixed-interest U.S. government debt security. Treasury bonds make interest payments semiannually and the income that holders receive is only taxed at the federal level.

TIPS (Treasury Inflation-Protected Securities): A special type of Treasury note or bond that offers protection from inflation. Like other Treasuries, an inflation-indexed security pays interest every six months and pays the principal when the security matures. The difference is that the underlying principal is automatically adjusted for inflation as measured by the consumer price index (CPI).

Mortgage-Backed Securities: A type of asset-backed security that is secured by a mortgage or collection of mortgages. These securities must also be grouped in one of the top two ratings as determined by a accredited credit rating agency, and usually pay periodic payments that are similar to coupon payments. Furthermore, the mortgage must have originated from a regulated and authorized financial institution.

Investment-Grade Corporates: Securities issued by corporations with a credit rating of BBB or higher. Bond rating firms, such as Standard & Poor's, use different designations consisting of upper- and lower-case letters A and B to identify a bond's investment-grade credit quality rating. AAA and AA (high credit quality) and A and BBB (medium credit quality) are considered investment-grade.

Preferred Stocks: A class of ownership in a corporation that has a higher claim on the assets and earnings than common stock. Preferred stock generally has a dividend that must be paid out before dividends to common stockholders and the shares usually do not have voting rights.

High-Yield Corporates: Securities issued by corporations with a credit rating of BB+ and below. These bonds generally offer higher yields than investment-grade bonds, but they are also more vulnerable to economic and credit risk.

Bank Loans: In exchange for their credit risk, these floating-rate bank loans offer interest payments that typically float above a common short-term benchmark such as the London Inter-Bank Offered Rate, or LIBOR.

Foreign Bonds – Hedged: Non-U.S. fixed income securities generally from investment-grade issuers in developed countries, with hedged currency exposure.

Foreign Bonds – Unhedged: Non-U.S. fixed income securities normally denominated in major foreign currencies.

Emerging Markets Debt: The debt of sovereigns, agencies, local issues, and corporations of emerging markets countries and subject to currency risk.

IMPORTANT DISCLOSURES

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 any individual. To determine which investments may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indexes are unmanaged and cannot be invested into directly.

Past performance is no guarantee of future results.

Stock investing involves risk including loss of principal.

Preferred stock investing involves risk, which may include loss of principal.

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.

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