LPL RESEARCH

PORTFOLIO COMPASS

May 20 2015

NAVIGATING THE MARKETS

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 May 19, 2015, unless otherwise noted.

COMPASS CHANGES

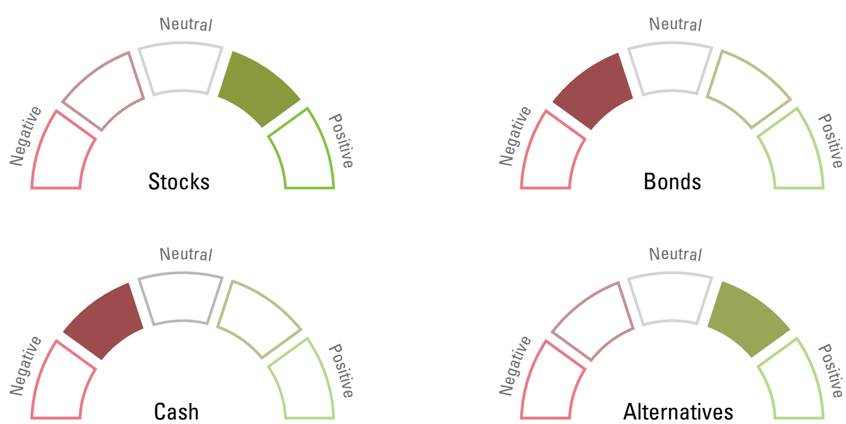
- No changes.

INVESTMENT TAKEAWAYS

- We forecast high-single-digit S&P 500 returns in 2015* despite the slowdown in earnings due to drags from a strong U.S. dollar and lower oil prices.
- We continue to favor U.S. equities over developed foreign markets; our recently upgraded EM view is driven by improving fundamentals, low valuations, and bullish technicals.
- Our recent upgrade to our energy sector view was due to the recent progress toward balancing oil supply and demand in the U.S.
- Fading U.S. dollar strength, better growth in Europe, and the rebound in oil prices have led to a reversal of the lower inflation expectations that powered bond strength for most of 2014 and early 2015.
- For fixed income allocations, we recommend a defensive duration stance and emphasize a blend of high-quality intermediate bonds and less interest rate–sensitive sectors such as high-yield 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, 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 acceleration.	Profit margins may begin to narrow; Fed rate hikes forthcoming.
	Inflation	Stabilizing commodities, improved global growth pointing to normalization.	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; potentially moderate 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; oil stabilizing.	Faster growth in other countries may help lift low valuations.
FINANCIAL CONDITIONS	**Corporate Profits**	We expect 5–10% gains in 2015, but slow start to the year makes low end more likely.	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 05/19/15

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	4.40%	10.00%	5.4%	82%	
	Labor force participation rate: year-over-year change, % of unemployed	0.4%	-1.1%	0.0%	73%	
	Part time for economic reasons: % of labor force	2.7%	6.7%	4.4%	57%	
	Long-term unemployed: 27 weeks or more, % of unemployed	15.9%	45.3%	29.0%	55%	
	Duration of unemployment: weeks	7.3	25	11.7	75%	
Employment & Work	Private payroll employment: millions	116.0	107.2	119.5	139%	Have reached or exceeded their prerecession levels
	Government payroll employment: millions	22.6	21.8	21.9	13%	
	Temporary help employment: millions	2.7	1.7	2.9	118%	Have reached or exceeded their prerecession levels
	Average weekly hours (production): hours	33.9	33.0	33.7	78%	
	Average weekly hours of persons at work: hours	39.7	36.2	38.6	69%	
	Wage rates: average hourly earnings, year-over-year % change	4.2%	1.3%	1.9%	19%	
Job Market Environment	Composite help-wanted: index	4250	2750	5362	174%	Have reached or exceeded their prerecession levels
	Hiring rate: % of payroll employment	4.5%	3.2%	3.6%	31%	
	Transition rate from unemployment to employment: % of unemployment	29.6%	15.9%	22.9%	51%	
	Jobs plentiful vs. hard to get: diffusion index	11.4	-46.1	-7.3	67%	
	Hiring plans: diffusion index	19%	-10%	11%	72%	
	Jobs hard to fill: %	31%	8%	27%	83%	
Layoffs & Quits	Insured unemployment rate: % of covered employment	1.9%	5.0%	1.7%	106%	Have reached or exceeded their prerecession levels
	Job losers unemployed less than 5 weeks: % of employment	45.4%	14.7%	31.4%	54%	
	Quit rate: % of payroll employment	60%	39%	55.8%	80%	
	Job leavers unemployed less than 5 weeks: % of employment	48.8%	17.5%	31.1%	43%	

Source: LPL Research, Bureau of Labor Statistics, Haver Analytics 05/19/15
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 Emerging Markets	Industrials Technology	High-Yield Bonds
Fundamentals	Large Growth	Technology Healthcare	Munis Bank Loans
Technicals	Mid Growth Small Growth Emerging Markets	Healthcare Technology Financials	High-Yield Bonds Preferred Stocks Bank Loans
Valuations	Emerging Markets	Technology Telecommunications Industrials	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

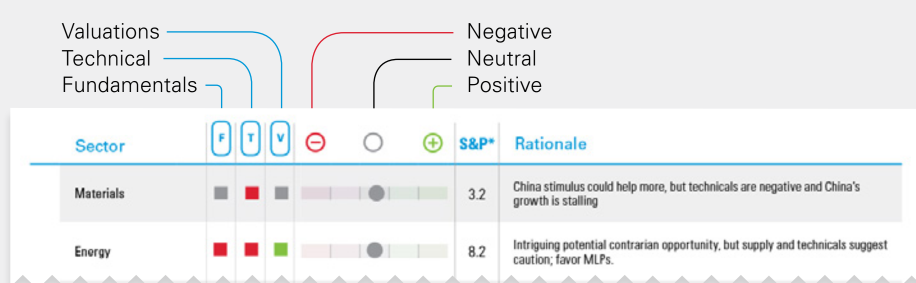
READING THE PORTFOLIO COMPASS

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 developed foreign counterparts, while our upgraded emerging markets view reflects better fundamentals, low valuations, and bullish technicals. We expect a market leadership transition to large caps to occur at some point in 2015 and favor growth over value. We find MLPs attractive, particularly for income-oriented investors, for their yields and potential to benefit from higher oil prices.

	Sector	F	T	V	⊖ ○ ⊕	Rationale
Style / Capitalization	Large Growth					We see a shift in leadership to large caps at some point in 2015 as the business cycle matures but see 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					
	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 roughly in-line with 10-year averages relative to the S&P 500.
	Mid Value					
	Small Growth					Renewed U.S. dollar strength, a U.S. economic snapback, and potential further broad market gains support the near-term view. 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. After recent outperformance versus the S&P, small cap (Russell 2000) relative valuations are now in-line with the 10-year average.
	Small Value					
Region	U.S. Stocks					We favor U.S. equities over large foreign. Better economic data—partly due to quantitative easing (QE)—and bullish technicals make us less negative on international developed markets. Still, we remain cautious on Europe due primarily to structural Eurozone challenges, slow economic growth, ongoing (though reduced) deflation risk, and potential currency drag on U.S. dollar-based returns.
	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					Our recently upgraded EM view reflects improving fundamentals, low valuations, and bullish technicals, while oil price gains and recent pause in U.S. dollar strength also help. Continue to favor Asia for better growth and financial strength while more stimulus and policy reforms are likely on the way.
REITs	REITs					Interest rate risk and deteriorating technicals are concerning, but valuations are becoming more reasonable and economic fundamentals look good; prudent choice for income investors.
MLPs	MLPs					Attractive yields, solid short-/intermediate-term distribution prospects, recent oil price gains, and improved technicals help offset interest rate risk.

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 MLPs 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 rising oil prices may limit further consumer discretionary outperformance. Meanwhile, we have upgraded our energy sector view due to the recent progress toward balancing supply and demand in the U.S. and the sector's bullish technicals.

	Sector	F	T	V	− ○ +	S&P*	Rationale
Cyclical	Materials					3.2	China stimulus, better growth outlook, and recent pause in U.S. dollar rally help, but China's transition toward a more consumer-driven economy is a challenge.
	Energy					8.1	Progress toward balancing oil market is encouraging and we see further gains in crude; potential increase in production at now higher prices and stronger dollar are risks.
	Industrials					10.3	Sector earnings were hurt by lower oil and the strong dollar; still like potential for uptick in business spending, attractive valuations; technicals bouncing back after recent weakness.
	Consumer Discretionary					12.5	Consumer still in very good shape, but higher oil prices and mixed performance record late in business cycles put us on watch for potentially lower view.
	Technology					20.0	Earnings, our business spending outlook, and valuations are supportive, along with positive technicals.
	Financials					16.3	Tough regulatory and interest rate environment remain, but good Q1 2015 earnings season and recent jump in interest rates are short-term positives; our bias is positive.
Defensive	Utilities					2.9	Our negative view reflects interest rate risk, rich valuations, and our preference for cyclicals.
	Healthcare					14.9	Favorite defensive sector on strong earnings, innovation, and Affordable Care Act (ACA)-demand lift; biotech fundamentals and technicals look good.
	Consumer Staples					9.5	Still favor cyclical sectors and the strong U.S. dollar hurts the very global staples sector; but consumers are in good shape and overseas growth picture is improving.
	Telecommunications					2.3	Interest rate and business risks remain (saturation, capital outlays) and technicals have deteriorated, but valuations are attractive.

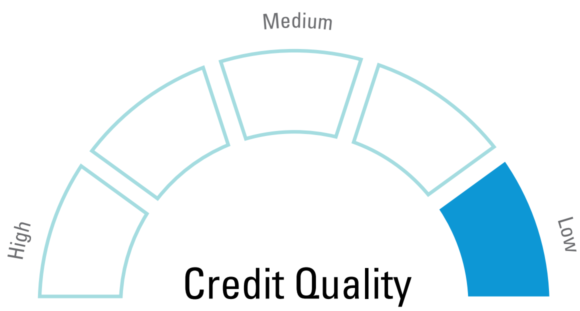
* S&P 500 Weight (%)

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.

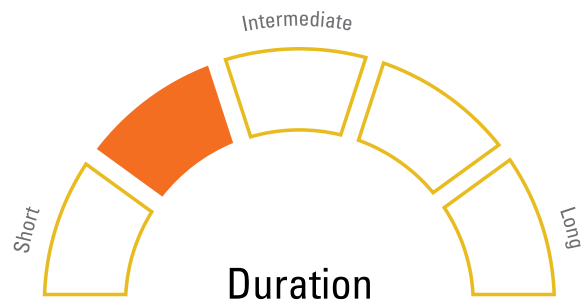
There is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Diversification does not ensure against market risk.

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					Valuations are still attractive relative to Treasuries. Upcoming difficult seasonal period may present opportunities.
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)

Poor liquidity in bond markets has exacerbated recent bond weakness, and bond prices are attempting to stabilize, but volatility may persist as bond dealers may be reluctant to participate in markets. Fading U.S. dollar strength, better growth in Europe, and the rebound in oil prices have led to a reversal of the lower inflation expectations that powered bond strength for most of 2014 and early 2015 is also a factor. 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	Green	Red	Red	After recent pullback, yields remain low and valuations high; opportunity is limited.
	TIPS	Green	Gray	Gray	Implied inflation expectations continue to increase, but are still below average; remain more attractive relative to conventional Treasuries.
	Mortgage-Backed Securities (MBS)	Green	Green	Gray	Average yield spread hovering around 0.7% above comparable Treasuries, roughly in-line with one-year average.
	Investment-Grade Corporates	Green	Gray	Gray	Corporate balance sheets remain strong and extra yield is an potential benefit.
	Preferred Stocks	Green	Green	Gray	Higher valuations and low yields warrant caution, but fundamentals are firm. April was a reminder the sector possesses some interest rate sensitivity.
	High-Yield Corporates	Green	Green	Gray	Valuations are at a level that has provided resistance in the past. Low defaults are a positive and the sector still holds notable yield advantage to Treasuries.
	Bank Loans	Green	Green	Gray	Lack of interest rate sensitivity and positive fundamentals are a plus, but performance may slow after recent price gains and good first four months of 2015.
Taxable Bonds – Foreign	Foreign Bonds – Hedged	Gray	Gray	Red	Improving European growth expectations and better corporate earnings have sparked selling. Still high valuations and low yields still warrant caution.
	Foreign Bonds – Unhedged	Gray	Gray	Red	Moderation of U.S. dollar strength is a plus, but low yields and unattractive valuations are negatives.
	Emerging Markets Debt	Gray	Green	Gray	Valuations have improved on U.S. dollar moderation and have outpaced fundamental improvement. Valuations remain fair, however, but interest rate risk may become more prominent.

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

Technicals and U.S. dollar strength keep us cautious on commodities overall, although we see further potential upside to oil based on the likelihood of a more balanced supply-demand picture in the coming months. Central bank policy divergence should lead to higher market volatility and more dispersion among assets, 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.

	Sector	F	T	V	⊖ ○ ⊕	Rationale
Commodities	Industrial Metals	■	■			China stimulus is helping copper, as is better growth in Europe and some supply disruptions; technicals have deteriorated.
	Precious Metals	■	■			Possible Fed rate hikes in late 2015, the potential for rising interest rates, which increases the carrying costs of precious metals, and our expectation for continued U.S. dollar strength keep us neutral.
	Energy	■	■			Technicals for oil have improved and energy markets have made some progress toward balancing supply and demand.
	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	■	■	■		As M&A spreads tighten, favoring solutions that may also capitalize on broader sphere of event driven strategies such as debt exchanges, restructurings, tender offers, share buybacks, and distressed opportunities.
	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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