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 September 29, 2015, unless otherwise noted.

September 30 2015

NAVIGATING THE MARKETS

COMPASS CHANGES

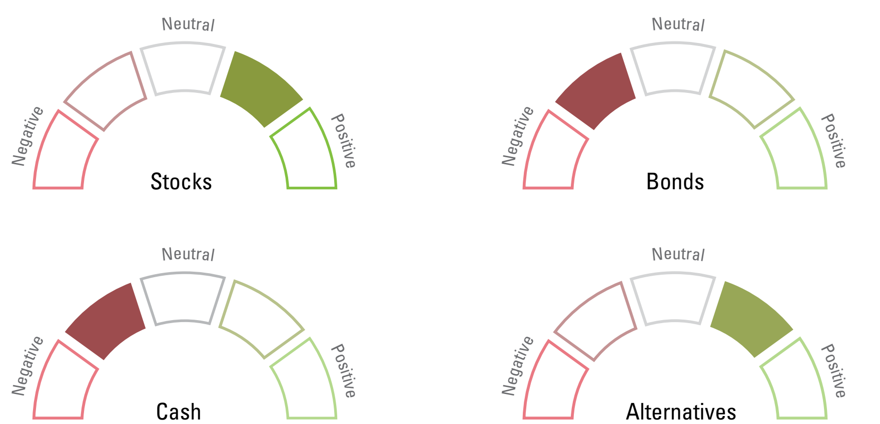
- Upgraded REITs from negative/neutral to neutral.

INVESTMENT TAKEAWAYS

- Reaching the low end of our 5–9%* year-end S&P 500 return forecast may prove difficult, although we continue to expect a late-year stock market rally.
- We favor U.S. equities but suggest investors maintain modest emerging markets allocations despite the China slowdown.
- Technicals drive our upgraded REIT view amid a favorable U.S. economic backdrop.
- Although MLP valuations appear cheap, U.S. crude oil production declines, fund outflows, and technical weakness could lead to more near-term volatility.
- Expensive high-quality valuations argue for below-average interest rate sensitivity in fixed income.
- Corporate bond valuations are attractive and we believe weakness is overdone given still good fundamentals outside of energy.
- Among high-yield bonds, we find default expectations among energy companies as too pessimistic.
- Technically, the S&P 500 price remains below its 200-day simple moving average, which continues to increase pressure on the 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 assuming mid-single-digit earnings gains. 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	We expect 3% or slightly higher GDP growth in the second half of 2015.	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 pressure in a few fields.	Profit margins may begin to narrow; Fed rate hikes forthcoming.
	Inflation	Steady global growth pointing to normalization once commodities stabilize.	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 but pace has slowed.	Drag on foreign market returns, hurts U.S. profits.
	Global GDP Growth	Modest improvement in 2015 led by developed markets.	Supports multinational technology and industrials.
POLICY	Fiscal	Federal deficit has declined for three consecutive years.	Helps dollar, but high debt-to-GDP is a longer-term headwind.
	Monetary	Expect Fed tightening in late 2015.	Modest negative for bonds; manageable risk for stocks.
	Government	Republican leadership reshuffle increases uncertainty around funding measures, debt ceiling.	11th hour resolutions likely, but messy process could drive volatility.
RISKS	Financial	Outside of energy complex, most measures of financial stress are stable.	We still expect potential stock market gains in 2015.
	Geopolitical & Other	Watching China, Ukraine, Islamic State.	May contribute to higher stock volatility.
OVERSEAS	Developed Overseas Economies	Japan and Europe looking a little stronger.	Favor U.S. equities; monitor developed foreign.
	Emerging Markets Economies	China's central bank adding stimulus but growth concerns creating volatility.	Faster growth outside China may help lift low valuations.
FINANCIAL CONDITIONS	Corporate Profits	We expect mid-single-digit earnings gains in the second half of 2015.	Supportive of mid-cycle stock market gains.
	Main Street	Fed Beige Book depicts optimistic economic outlook despite concerns about energy, dollar.	Supportive of consumer cyclicals.

Source: LPL Research, U.S. Department of Energy, Haver Analytics 09/29/15

*This forecast matches the average growth rate over the past 50 years, and is based on contributions from consumer spending, business capital spending, and housing, which are poised to advance at historically average or better growth rates in 2015. Net exports and the government sector should trail behind

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	4.4%	10.0%	5.1%	88.0%
	Labor force participation rate: year-over-year change, % of unemployed	0.4%	-1.1%	-0.3%	53.0%
	Part time for economic reasons: % of labor force	2.7%	6.7%	4.3%	59.0%
	Long-term unemployed: 27 weeks or more, % of unemployed	15.9%	45.3%	27.7%	60.0%
	Duration of unemployment: weeks	7.3	25.0	12.1	73.0%
Employment & Work	Private payroll employment: millions	116.0	107.2	120.3	149.0%
	Government payroll employment: millions	22.6	21.8	22.0	24.0%
	Temporary help employment: millions	2.7	1.7	2.9	121.0%
	Average weekly hours (production): hours	33.9	33.0	33.7	78.0%
	Average weekly hours of persons at work: hours	39.7	36.2	38.9	77.0%
	Wage rates: average hourly earnings, year-over-year % change	4.2%	1.3%	1.9%	20.0%
Job Market Environment	Composite help-wanted: index	4250	2750	5419	178.0%
	Hiring rate: % of payroll employment	4.5%	3.2%	3.5%	23.0%
	Transition rate from unemployment to employment: % of unemployment	29.6%	15.9%	24.1%	60.0%
	Jobs plentiful vs. hard to get: diffusion index	11.4	-46.1	0.8	82.0%
	Hiring plans: diffusion index	19.0%	-10%	13.0%	79.0%
	Jobs hard to fill: %	31.0%	8.0%	29.0%	91.0%
Layoffs & Quits	Insured unemployment rate: % of covered employment	1.9%	5.0%	1.7%	106.0%
	Job losers unemployed less than 5 weeks: % of employment	45.4%	14.7%	26.5%	38.0%
	Quit rate: % of payroll employment	60.0%	39.0%	57.0%	86.0%
	Job leavers unemployed less than 5 weeks: % of employment	48.8%	17.5%	32.7%	49.0%

Have reached or exceeded their prerecession levels

Source: LPL Research, Bureau of Labor Statistics, Haver Analytics 09/29/15
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	Healthcare Industrials Technology	High-Yield Bonds
Fundamentals	Large Growth	Healthcare Technology	Munis
Technicals	Large Growth	Consumer Discretionary Consumer Staples Technology	Mortgage-Backed Securities Munis
Valuations	Emerging Markets	Industrials Technology Telecommunications	High-Yield Bonds Munis

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

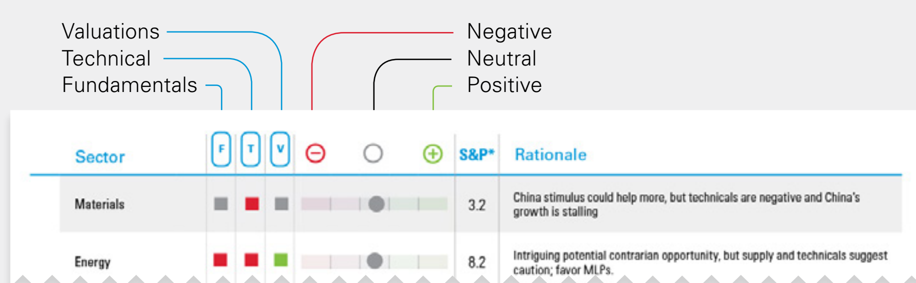
READING THE PORTFOLIO COMPASS

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

After the latest stock market downdraft, reaching the low end of our 5–9% year-end S&P 500 return forecast may prove difficult, although we continue to expect a late-year stock market rally. We favor U.S. equities but also recommend investors with modest exposure to emerging markets maintain those allocations, where appropriate. We have warmed up to developed foreign markets in recent months as data in Europe have improved, although Japan's economic performance has been mixed. Although MLP valuations are cheap and yields attractive, U.S. crude oil production declines, fund outflows, and technical weakness may lead to continued near-term volatility.

	Sector	F	T	V	⊖ ○ ⊕	Rationale
Style/Capitalization	Large Growth	⊕	⊕	○	⊕	We continue to believe a shift in leadership to large caps is forthcoming as the business cycle matures, but expect 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 stocks to rally back into positive territory by year-end 2015. Recent market volatility may dampen the benefit from acquisition activity. Mid cap valuations are about in-line with their 10-year average relative to the S&P 500.
	Mid Value	○	○	○	○	
	Small Growth	⊕	○	⊖	○	Better U.S. economic growth and our positive stock market view are supportive of small caps, 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 the second half of 2015. Small cap (Russell 2000) relative valuations are now above their 10-year average.
	Small Value	○	○	○	○	
Region	U.S. Stocks	⊕	⊕	○	⊕	We still prefer to focus equity portfolios in the U.S., but valuations suggest making room for EM, and economic momentum has picked up some in Europe.
	Large Foreign	⊕	○	○	○	Better recent economic data—partly due to quantitative easing (QE)—have caused us to warm up to Europe. A weak yen is boosting exports and the outlook for earnings for Japanese companies, but recent economic data out of Japan has been mixed and we still have concerns about whether the country's stimulus programs will drive a sustained improvement in growth.
	Small Foreign	○	○	○	⊖	
	Emerging Markets	○	⊖	⊕	⊕	Technical deterioration suggests caution if considering adding EM exposure tactically, but attractive valuations and bold Chinese stimulus efforts (with more likely to come) may help offset Chinese growth risk, in our view, for the intermediate- to longer-term time horizon. Within EM, we continue to favor Asia for growth, financial strength, and stimulus/policy reform prospects.
REITs	REITs	○	⊕	⊖	○	Improved technicals drive upgraded view amid favorable U.S. economic backdrop with attractive yields; rising interest rates and valuations still give us some pause.
MLPs	MLPs	○	⊖	⊕	○	Although valuations are cheap and yields attractive, U.S. crude oil production declines, fund outflows, and technical weakness may lead to continued near-term volatility.

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 despite China growth fears and latest bout of market volatility. We maintain our positive healthcare view and see recent biotech weakness as a potential opportunity, based on likely congressional inaction on high drug prices. Consumer discretionary continues to benefit from low gas prices and generally strong consumer balance sheets. Delayed supply response to lower oil prices and technical deterioration keep us neutral on energy.

	Sector	F	T	V	⊖ ○ ⊕	S&P*	Rationale
Cyclical	Materials					2.8	China's economic slowdown and transition to more consumer-oriented economy suggest continued caution; technicals remain negative.
	Energy					6.9	Process of balancing supply and demand has taken longer than anticipated and is delaying oil's return to fair value, which we see as the $50–60 range.
	Industrials					10.0	Earnings have been hurt by lower oil and a strong dollar; but we still see potential uptick in business spending, valuations are attractive, and technicals have improved.
	Consumer Discretionary					13.1	Consumer still in good shape and lower gas prices help, but mixed performance record late in business cycles puts us on watch for potential lower view.
	Technology					20.5	Solid earnings growth, attractive valuations, and our still optimistic business spending outlook are all supportive.
	Financials					16.6	Lower for longer message from the Fed may delay benefit of higher interest rates, while tough regulatory environment remains; our bias is slightly negative.
Defensive	Utilities					3.1	Our negative view reflects interest rate risk, rich valuations, and our preference for cyclical sectors.
	Healthcare					14.5	Fundamentals look very good on strong earnings, ACA benefit, and drug development trends; we see biotech weakness as potential opportunity on likely congressional inaction on high drug prices.
	Consumer Staples					10.0	Still favor cyclical sectors but consumers are in good shape; developed international growth has improved, commodity input costs are low, and consumers' energy cost savings help.
	Telecommunications					2.5	Interest rate and business risks remain (saturation, capital outlays), while technicals are weaker, suggesting continued de-emphasis despite attractive valuations.

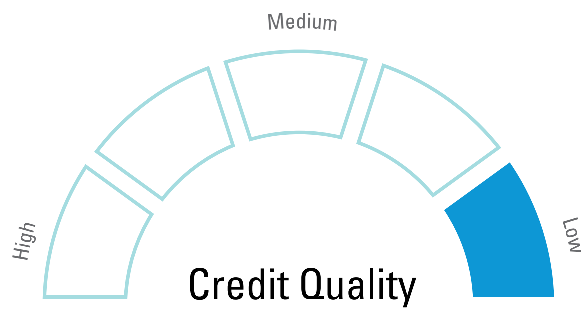
* S&P 500 Weight (%)

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.

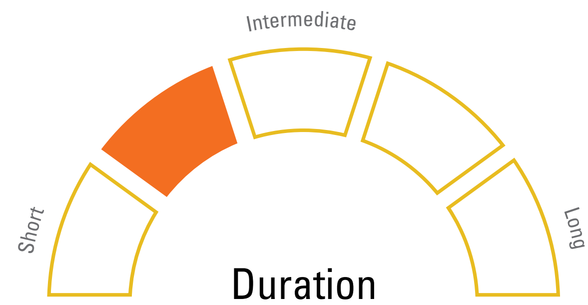
There is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Diversification does not ensure against market risk.

FIXED INCOME

Illiquid trading conditions and lingering growth concerns pressured corporate bonds at the end of September. Valuations are attractive and we believe weakness is overdone given still good fundamentals outside the energy sector. Higher Treasury prices have boosted high-quality bond returns, but expensive valuations keep upside potential limited. We remain vigilant against fundamental deterioration, but expensive high-quality valuations argue for a defensive stance on fixed income by maintaining a lower than average portfolio interest rate sensitivity.



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 lower yields limit appeal.
	Munis–Intermediate-Term					Beneficiary of high-quality bond strength but have lagged Treasuries, leading to cheaper valuations.
	Munis–Long-Term					High-quality bond strength provided a lift but have lagged Treasuries, leading to cheaper valuations, which may provide a buffer against a reversal in rates.
	Munis–High-Yield					Puerto Rico continues to struggle but no contagion. Potential 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)

High-quality bond valuations remain expensive by historical comparison, and low future returns for high-quality bonds are possible. High-yield bonds and emerging markets debt prices resumed weakening over the latter half of September amid pessimistic sentiment over global growth. Among high-yield bonds, we find default expectations among energy companies as too pessimistic. 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 for suitable investors.

	Sector	F	T	V	Rationale
Taxable Bonds – U.S.	Treasuries				Prices increased across the maturity spectrum and valutions are still very expensive.
	TIPS				Implied inflation expectations decreased further but the sector remains attractive, in the longer term, relative to conventional Treasuries.
	Mortgage-Backed Securities (MBS)				Average yield spread is still hovering near 0.7% above comparable Treasuries, roughly in-line with one-year average.
	Investment-Grade Corporates				Equity volatility and China concerns have pressured the sector and led to wider yield spreads. Fundamentals remain healthy, however.
	Preferred Stocks				Higher valuations and low yields warrant caution, but fundamentals are firm.
	High-Yield Corporates				Valuations, as measured by yield spreads, have cheapened further. Low defaults and a 6.8% yield advantage to Treasuries are compelling characteristics despite volatile markets.
	Bank Loans				Lack of interest rate sensitivity and positive fundamentals are a plus. Much less energy exposure compared with high-yield.
Taxable Bonds – Foreign	Foreign Bonds – Hedged				Still high valuations and low yields still warrant caution.
	Foreign Bonds – Unhedged				Lingering U.S. dollar strength, low yields, and unattractive valuations are negatives and require caution.
	Emerging Markets Debt				Valuations, as measured by yield spreads, are above 4.0%, an attractive valuation; but China uncertainty and commodity concerns remain headwinds.

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

Technical weakness and U.S. dollar strength keep us cautious on commodities broadly. Oil may remain range bound for the foreseeable future. Divergent central bank policy may lead to higher market volatility and more asset dispersion, creating a more fertile environment for macro strategies. Although the stock selection environment in both the long and short space has noticeably improved, we continue to favor more long-biased strategies, which is consistent with our positive equity market outlook.

	Sector	F	T	V	⊖ ○ ⊕	Rationale
Commodities	Industrial Metals	gray	red		between ⊖ and ○	Lowered view reflects continued weak Chinese demand and resulting technical deterioration, despite bold policy reforms and monetary stimulus efforts.
	Precious Metals	gray	red		between ⊖ and ○	Impending Fed rate hikes, the related likelihood of rising interest rates and a strong U.S. dollar, our preference for riskier assets, and technical weakness lead us to suggest steering clear of precious metals.
	Energy	gray	red		○	Some progress has been made to balance oil markets, but technical weakness has led to our recent caution; oil prices may remain range bound between the upper $40s and $60 for the foreseeable future.
	Agricultural	gray	red		between ⊖ and ○	Recent crop reports and export data have been supportive for grains, but may not be enough to buck the complex's long-term downtrend. China slowdown fears continue to weigh on agricultural commodities.

	Sector	TE	CT	VO	⊖ ○ ⊕	Rationale
Alternatives	Long/Short Equity	green	green	red	○	Improvement in both the long and short stock selection environment has made long/short equity more attractive. Continue to favor more directional strategies as opposed to lower net and market neutral–oriented funds
	Event Driven	gray	green	red	○	M&A spreads have tightened while concerns have begun to develop over potential overcrowding in top merger positions.
	Managed Futures	gray	green	gray	○	Expectation of rising volatility across currency and commodity markets may be beneficial, along with more persistent trends across asset classes.
	Global Macro	gray	green	gray	between ○ and ⊕	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.

IMPORTANT DISCLOSURES

All performance referenced is historical and is no guarantee of future results.

There is no assurance that the techniques and strategies discussed are suitable for all investors or will yield positive outcomes. The purchase of certain securities may be required to affect some of the strategies.

Stock and Pooled Investment Risks

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

Bond and Debt Equity Risks

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond and bond mutual fund values and yields will decline as interest rates rise and bonds are subject to availability and change in price.

Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

Alternative Risks

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.

Long/short equity strategies are subject to normal alternative investment risks, including potentially higher fees; while there is additional management risk, as the manager is attempting to accurately anticipate the likely movement of both their long and short holdings. There is also the risk of “beta-mismatch,” in which long positions could lose more than short positions during falling markets.

Event driven strategies, such as merger arbitrage, consist of buying shares of the target company in a proposed merger and fully or partially hedging the exposure to the acquirer by shorting the stock of the acquiring company or other means. This strategy involves significant risk as events may not occur as planned and disruptions to a planned merger may result in significant loss to a hedged position.

Managed futures strategies use systematic quantitative programs to find and invest in positive and negative trends in the futures markets for financials and commodities. Futures and forward trading is speculative, includes a high degree of risk that the anticipated market outcome may not occur, and may not be suitable for all investors.

DEFINITIONS

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

The Beige Book is a commonly used name for the Federal Reserve’s (Fed) report called the Summary of Commentary on Current Economic Conditions by Federal Reserve District. It is published just before the Federal Open Market Committee (FOMC) meeting on interest rates and is used to inform the members on changes in the economy since the last meeting.

Quantitative easing (QE) refers to the Federal Reserve’s (Fed) current and/or past programs whereby the Fed purchases a set amount of Treasury and/or mortgage-backed securities each month from banks. This inserts more money in the economy (known as easing), which is intended to encourage economic growth.

INDEX DEFINITIONS

All indexes are unmanaged and cannot be invested into directly.

The **Russell 2000 Index** measures the performance of the small cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

The **S&P 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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