LPL RESEARCH

PORTFOLIO COMPASS

December 16 2015

NAVIGATING THE MARKETS

COMPASS CHANGES

- Downgraded emerging market (EM) equities to neutral from neutral/positive.

INVESTMENT TAKEAWAYS

- We expect mid-single-digit returns for stocks in 2016,* as discussed in *Outlook 2016: Embrace the Routine*, led by large caps, cyclical growth, and healthcare.
- Better economic growth, more stimulus, and attractive valuations may lead international markets to outperform the U.S. in 2016. Technical weakness suggests caution toward EM may be warranted in the short term.
- A low-return fixed income environment is likely to persist. We emphasize a blend of high-quality intermediate bonds and less interest rate–sensitive sectors such as high-yield and bank loans for suitable investors.
- High-yield bonds represent value with an average yield spread in excess of 7%, but a lack of liquidity through year-end may cause volatility to persist. In general, we find default expectations among energy companies—and the overall high-yield market—too pessimistic.
- From a technical perspective, the S&P 500 price, if sustained above its 200-day simple moving average, increases the likelihood for a long-term bullish trend.

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.

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All performance referenced herein is as of December 15, 2015, unless otherwise noted.

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 mid-single-digit gain, including dividends, for U.S. stocks in 2016 as measured by the S&P 500. This gain is derived from earnings per share (EPS) for S&P 500 companies assuming mid- to high-single-digit earnings gains, and a largely stable price-to-earnings ratio (PE). Earnings gains are supported by our expectation of improved global economic growth and stable profit margins in 2016.

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MACROECONOMIC VIEWS

	Economic Factor	Outlook	Investing Impact
ECONOMY	**U.S. GDP Growth**	We expect near trend 2.5–3% GDP growth in 2016.	No recession or overheating in 2016 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.
	Inflation	Steady global growth pointing to normalization once commodities stabilize.	Interest rates likely to rise but process will probably 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	Dollar remains strong, helped by foreign central bank stimulus.	Drag on foreign market returns, hurts U.S. profits.
	Global GDP Growth	Modest improvement in 2016 overseas ex-China amid lower expectations.	Supports multinational technology and industrials, global diversification.
POLICY	**Fiscal**	Federal deficit has declined for three consecutive years.	Helps dollar, but high debt-to-GDP is a longer-term headwind.
	Monetary	Expect gradual Fed tightening in early 2016.	Modest negative for bonds; potentially moderate impact on stocks.
	Government	Major initiative in election year unusual, but smaller tax deal such as profit repatriation possible.	May benefit multinationals.
RISKS	**Financial**	Outside of energy complex, most measures of financial stress are stable.	May support stocks, credit-sensitive bonds in 2016.
	Geopolitical & Other	Monitoring Chinese economy, Russia, Islamic State.	May contribute to higher stock volatility.
OVERSEAS	**Developed Overseas**	Supportive monetary policy may contribute to stronger growth.	Favor U.S. equities, but geographic diversification looking more attractive.
	Emerging Markets	China searching for right policy mix to smooth transition to consumer-driven economy.	Faster growth outside China may help lift low valuations.
FINANCIAL CONDITIONS	**Corporate Profits**	Expect earnings growth to possibly accelerate in 2016.	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 12/15/15

*Our forecast for GDP growth of between 2.5–3% is based on the historical mid-cycle growth rate of the last 50 years. Economic growth is affected by changes to inputs such as: business and consumer spending, housing, net exports, capital investments, and government spending.

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.

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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. Labor markets have strengthened sufficiently for the Fed to begin raising rates in December 2015, but the pace of additional hikes may be gradual and reflect continued progress in that various labor indicators listed here as well as inflation.

"*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%	5.0%	89%
	Labor force participation rate: year-over-year change, % of unemployed	0.4%	-1.1%	-0.4%	47%
	Part time for economic reasons: % of labor force	2.7%	6.7%	4.1%	66%
	Long-term unemployed: 27 weeks or more, % of unemployed	15.9%	45.3%	25.7%	67%
	Duration of unemployment: weeks	7.3	25.0	10.8	80%
Employment & Work	Private payroll employment: millions	116.0	107.2	120.9	156% ●
	Government payroll employment: millions	22.6	21.8	22.0	23%
	Temporary help employment: millions	2.7	1.7	2.9	122% ●
	Average weekly hours (production): hours	33.9	33.0	33.7	78%
	Average weekly hours of persons at work: hours	39.7	36.2	38.3	60%
	Wage rates: average hourly earnings, year-over-year % change	4.2%	1.3%	2.0%	25%
Job Market Environment	Composite help-wanted: index	4250	2750	5685	196% ●
	Hiring rate: % of payroll employment	4.5%	3.2%	3.6%	31%
	Transition rate from unemployment to employment: % of unemployment	29.6%	15.9%	25.1%	67%
	Jobs plentiful vs. hard to get: diffusion index	11.4	-46.1	-6.3	69%
	Hiring plans: diffusion index	19.0%	-10%	11.0%	72%
	Jobs hard to fill: %	31.0%	8.0%	27.0%	83%
Layoffs & Quits	Insured unemployment rate: % of covered employment	1.9%	5.0%	1.6%	110% ●
	Job losers unemployed less than 5 weeks: % of employment	45.4%	14.7%	34.0%	63%
	Quit rate: % of payroll employment	60.0%	39.0%	57.0%	86%
	Job leavers unemployed less than 5 weeks: % of employment	48.8%	17.5%	30.3%	41%

● Have reached or exceeded their prerecession levels

Source: LPL Research, Bureau of Labor Statistics, Haver Analytics 12/15/15
The time frame for all data is the last 10 years: 2004–2014.

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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	Mortgage-Backed Securities Munis
Technicals	Large Growth	Consumer Discretionary Healthcare Technology	Munis
Valuations	Emerging Markets	Healthcare Industrials Telecommunications	Bank Loans 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.

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EQUITY ASSET CLASSES

In 2016, we expect mid-single-digit returns with large cap and growth leadership, as discussed in our just released *Outlook 2016: Embrace the Routine* publication. While we have been recommending investors focus allocations in the U.S., better economic growth, more stimulus, and relatively attractive valuations may lead overseas markets to outperform in 2016. In the short-term, technicals suggest some caution with regard to EM but we continue to expect EM to perform well over the next year.

	Sector	Rationale
Style/Capitalization	Large Growth	We expect large cap leadership in 2016, consistent with our views for a maturing market cycle. We continue to prefer growth over value due to our cyclical sector preferences — including our positive technology and consumer discretionary views and cautious stance on interest rate–sensitive sectors.
	Large Value	
	Mid Growth	Positive mid growth view reflects our preference for cyclical sectors and slightly above-market earnings growth, although gains may be limited in the modest return environment we expect. Acquisition activity may continue to provide support with stocks back near 2015 highs. Mid cap valuations have fallen below their 10-year average relative to the S&P 500.
	Mid Value	
	Small Growth	The age of the business cycle (past the midpoint in our view) suggests taking opportunities to reduce small cap exposure when appropriate. Small cap (Russell 2000) relative valuations are roughly in-line with their 10-year average.
	Small Value	
Region	U.S. Stocks	We continue to focus equity portfolios in the U.S., but improved economic growth outlooks overseas, potential for more stimulus, and valuations suggest making room for more international in 2016.
	Large Foreign	Short term, mixed earnings and lack of relative performance momentum suggest waiting for a more attractive entry point. But developed international markets may outperform the U.S. in 2016, with Europe earlier in its recovery and poised for potentially stronger earnings, while valuations are relatively attractive. We expect marginal improvement in Japan in 2016, buoyed by a weak yen currency and additional stimulus. Modest dollar strength may reward investors who choose to hedge currency exposure.
	Small Foreign	
	Emerging Markets	Mixed technical picture suggests caution in the near term in EM, but attractive valuations, favorable demographics, likely additional China stimulus, and potential oil price stability may lead to EM outperformance in 2016. Within EM, we continue to favor Asia for growth, financial strength, and stimulus/policy reform prospects.
REITs	REITs	Improved technicals, generally favorable U.S. economic backdrop, and solid yields are supportive, but the potential for rising interest rates post-Fed rate hike still give us some pause.
MLPs	MLPs	Although valuations are cheap and yields are attractive, U.S. crude oil production declines 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.

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EQUITY SECTORS

We continue to favor cyclical growth sectors as the economic expansion continues, as noted in our *Outlook 2016* publication, including technology and industrials. We continue to believe regulatory scrutiny has created an attractive opportunity in healthcare. Consumer discretionary continues to benefit from low gas prices and healthy consumer balance sheets. Slow supply response to lower oil prices keeps us neutral on energy for now, but we expect a sector turnaround in 2016 and we will be watching for opportunities to invest.

	Sector	S&P*	Rationale
Cyclical	Materials	2.8	China's slowdown and transition to a consumer-oriented economy suggest caution; better opportunities may arise in 2016.
Cyclical	Energy	6.5	Process of balancing supply and demand may continue well into 2016; still, we believe fair value for oil is over $50 and expect a sector turnaround within the next six months.
Cyclical	Industrials	10.1	Commodities weakness and a strong dollar are headwinds, but we expect improving global growth and an uptick in business spending to help in 2016; valuations are attractive.
Cyclical	Consumer Discretionary	13.1	Consumers are still in good shape, lower gas prices help, and technicals are strong; our next change in view is likely to be a move toward neutral due to the sector's mixed performance record later in business cycles.
Cyclical	Technology	21.1	Solid earnings growth, attractive valuations, our still optimistic business spending outlook, and the sector's role as enabler of productivity are all supportive.
Cyclical	Financials	16.3	Should benefit from upward pressure on interest rates in the short term following the Fed rate hike, but the regulatory environment and margin pressures still give us pause.
Defensive	Utilities	2.9	Our negative view reflects interest rate risk, rich valuations, and our preference for cyclical sectors.
Defensive	Healthcare	14.9	Strong earnings, the Affordable Care Act (ACA), favorable drug development trends, and more attractive valuations have increased the attractiveness of healthcare and biotech amid drug pricing controversy.
Defensive	Consumer Staples	9.9	Still favor cyclical sectors and valuations have richened, but consumers are in good shape, commodity input costs are low, and energy cost savings are helping consumers.
Defensive	Telecommunications	2.4	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.

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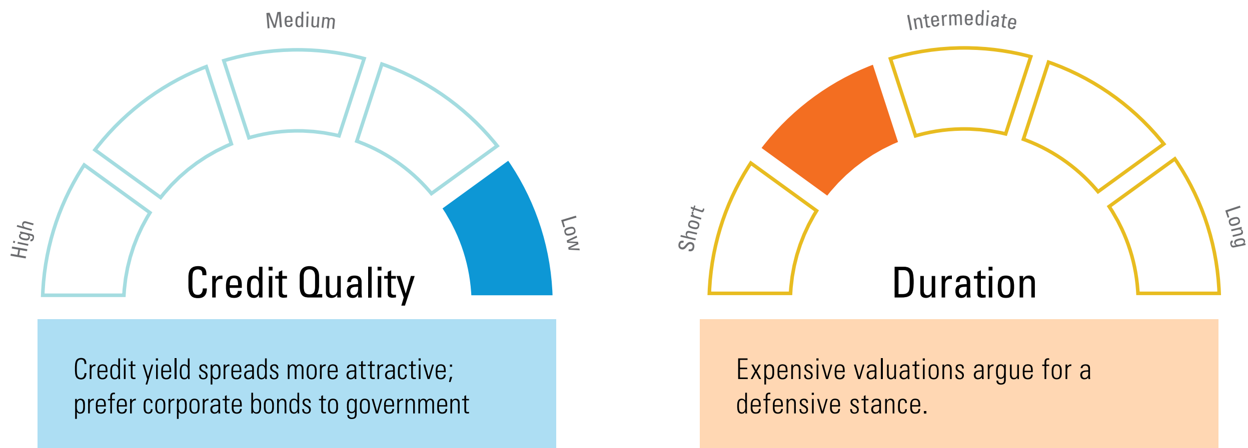
FIXED INCOME

Municipal bonds proved more resilient to the recent creep higher in yields compared with other fixed income sectors, but valuations remain elevated. A seasonal decline in supply is providing additional support, but after a good five-month run, municipal bonds may be more influenced by Treasuries. Municipal bonds' credit quality remains generally good; problem issuers remain isolated and have not impacted the broader market.



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				Attractive in longer term, but relative outperformance likely to stall as valuations are now higher. Average yield is below Treasuries.
	Munis–Long-Term				Yields still higher to comparable Treasuries, but relative outperformance likely to stall as valuations are now higher.
	Munis–High-Yield				Potential interest rate sensitivity partially offsets above-average yield. Valuations are only fair.

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.

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FIXED INCOME (CONTINUED)

A low-return environment will potentially persist as opportunity remains limited. High-yield bonds have endured the worst stretch since August 2011 and the peak of European debt fears. High-yield bonds represent value with an average yield spread in excess of 7%, but a lack of liquidity through year-end may cause volatility to persist. In general, we find default expectations among energy companies—and the overall high-yield market—too pessimistic, and a "coupon clipping" environment may still aid investors. For suitable fixed-income investors, 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	Rationale
Taxable Bonds – U.S.	Treasuries	Still priced expensively and do not fully price in Fed rate hike risks for 2016.
	TIPS	Implied inflation expectations remain low and the sector remains attractive relative to conventional Treasuries.
	Mortgage-Backed Securities (MBS)	Historically resilient against Fed rate hikes but valuations are fair to expensive.
	Investment-Grade Corporates	Interest rate sensitivity has offset the benefit of cheaper valuations for now. Among high-quality options modestly attractive.
	Preferred Stocks	Low yields warrant caution but fundamentals are firm.
	High-Yield Corporates	Average yield spread is back above 6% and still offers value given low defaults.
	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	Given easing bias of foreign central banks, the sector may be more resilient if U.S. rates continue to rise.
	Foreign Bonds – Unhedged	Benefits of additional quantitative easing (QE) from the European Central Bank (ECB) are priced in. Lingering U.S. dollar strength, low yields, and unattractive valuations are negatives.
	Emerging Markets Debt	Valuations, as measured by yield spreads, are below 4.0%, representing only fair valuation given lingering challenges from China and lower commodity prices.

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, although we expect oil may engineer a turnaround in 2016. 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	Rationale
Commodities	Industrial Metals	Lowered view reflects continued weak Chinese demand and resulting technical deterioration, despite bold policy reforms and monetary stimulus efforts.
	Precious Metals	A strong U.S. dollar, rising interest rates, and our preference for riskier assets suggest caution, but the expected gradual pace of Fed rate hikes may support the short-term outlook.
	Energy	Some progress has been made to balance oil markets; we continue to believe fair value is closer to $50 than $40 and expect a turnaround in 2016.
	Agricultural	Agricultural commodities recently took another leg down, resuming their longer-term downward trend. China slowdown fears and a strong dollar continue to weigh on the complex.

	Sector	Rationale
Alternatives	Long/Short Equity	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 strategies.
	Event Driven	Recent equity volatility has led to a widening of deal spreads, moderately increasing the attractiveness of merger arbitrage; however, we remain mindful of the overcrowding in certain widespread industry positions.
	Managed Futures	Expectation of rising volatility across currency and commodity markets may be beneficial, along with more persistent trends across asset classes. Recent performance has been mixed; however, short commodity exposure continues to support overall returns, notably within energy.
	Global Macro	The potential for rising volatility and the ability to position portfolios ahead of market inflection points may be constructive. Short euro positioning has weighed on recent performance, as European Central Bank (ECB) policy has fallen short of many market participants' expectations.

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.

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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.

This research material has been prepared by LPL Financial LLC.

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