

October 18 2017

NAVIGATING THE MARKETS

The *Portfolio Compass* provides a snapshot of LPL Research’s views on equity, equity sectors, fixed income, and alternative asset classes. This monthly 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 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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COMPASS CHANGES

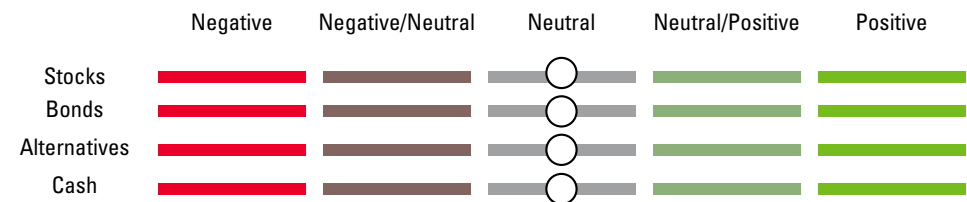
- Lowered mortgage-backed securities (MBS) view from neutral/positive to neutral.

INVESTMENT TAKEAWAYS

- In the near term, stocks may be more susceptible to policy risks, central bank disruption, or geopolitical tensions. Still, we expect further S&P 500 Index gains over the next year, supported by expected earnings gains on better economic growth and resilient corporate profit margins.
- Growth outperformance may begin to moderate over the balance of 2017, with the financials and energy sectors acting as keys to a potential value rebound.
- Expected gradual Federal Reserve (Fed) rate hikes and moderate economic growth are supportive of bonds near term, though rising interest rates may be a headwind longer term.
- Balance sheet normalization isn’t likely to impact Treasuries or MBS prices near term but is worth monitoring over time.
- For fixed income allocations, we emphasize a blend of high-quality intermediate bonds and a small allocation to less interest rate-sensitive sectors, such as bank loans or high-yield bonds, for suitable investors.
- From a technical perspective, the S&P 500 price continues to operate above its 200-day moving average, increasing the likelihood of a sustained long-term bullish trend.

BROAD ASSET CLASS VIEWS

LPL Research’s views on stocks, bonds, cash, and alternatives are illustrated below.



All performance referenced herein is as of October 17, 2017, unless otherwise noted.

*As noted in our *Midyear Outlook 2017: A Shift In Market Control*, we expect the S&P 500 Index total return to be 6–9%, driven by 1) a pickup in U.S. economic growth; 2) mid- to high-single-digit earnings gains; 3) a stable price-to-earnings ratio (PE) of 19–20; and 4) prospects for a fiscal policy boost to earnings in 2018.

MACROECONOMIC VIEWS

	Economic Factor	Outlook	Investing Impact
ECONOMY	U.S. GDP Growth	We expect gross domestic product (GDP) growth near 2.5% in 2017 with a similar run rate into 2018.*	Absence of a recession would likely support equity markets.
	Consumer Spending	Possible tax stimulus, a strong labor market, and stock gains may help, but pace of growth has been moderate in 2017.	Supports consumer cyclicals, but potential growth in business spending may be more important.
	Business Spending	Tax reform and deregulation may help; watching legislative hurdles and trade policy.	Industrials would be most likely to benefit; upside for technology but some policy risks.
	Housing	Tight supply and years of underbuilding may help, but higher rates a potential headwind.	A stronger turnaround could support housing and financials stocks.
	Import/Export	Weaker dollar helps exports; service sector exports strong; uncertainty around trade.	May support technology and business services; some uncertainty for multinationals.
	Labor Market	Steadily improving overall; early signs of wage pressure appearing.	May put modest pressure on margins.
	Inflation	Stubbornly low, but wages, economic growth, and policy agenda may raise expectations.	Interest rates likely to rise but only gradually. May help financials.
	Business Cycle	Still mid-cycle but have likely moved into latter third.	Equity markets may have room to run, but expect more volatility.
	Dollar	Weaker in 2017 as markets unwind some post-election policy assumptions and international growth improves.	Weakness starting to benefit earnings for U.S. multinationals.
	Global GDP Growth	Improvement likely in 2017, helped by international growth. Trade uncertainty remains a risk.	Upside with risks for global multinationals; global diversification may provide benefits.
POLICY	Fiscal	Tax reform likely, but there are still many hurdles; infrastructure may come later.	May provide a short-term economic lift, but government debt still a potential long-term headwind.
	Monetary	Rate hikes on pause but may resume in late 2017/early 2018. Balance sheet normalization has begun.	May be a modest headwind for quality bonds.
	Government	Legislative uncertainty persists; looking for greater policy clarity.	May contribute to volatility; markets likely to welcome progress on tax reform.
RISKS	Financial	Political environment may lead to looser credit standards and accelerate deregulation.	Net positives in the short term, but higher volatility would still be normal for this point in the business cycle.
	Geopolitical & Other	Monitoring Chinese economy, escalating North Korean tensions, Islamic State, and trade.	May contribute to higher stock volatility.
OVERSEAS	Developed Overseas	Risks from European elections have declined; Brexit negotiation still presents challenges.	International equities may provide diversification benefits.
	Emerging Markets	Economic growth may have peaked in China. Indian economy seems to be improving and Latin America is starting to rebound.	Faster growth ex-China may help lift low valuations.
FINANCIAL CONDITIONS	Corporate Profits	Improved earnings in 2017 driven by better economic outlook, rebounding energy sector profits, and resilient profit margins.	May be supportive of modest stock market gains over the balance of 2017 and into 2018.
	Main Street	Fed Beige Book supports positive outlook.	Supports cyclical sector performance.

Source: LPL Research, U.S. Department of Energy, Haver Analytics 10/17/17

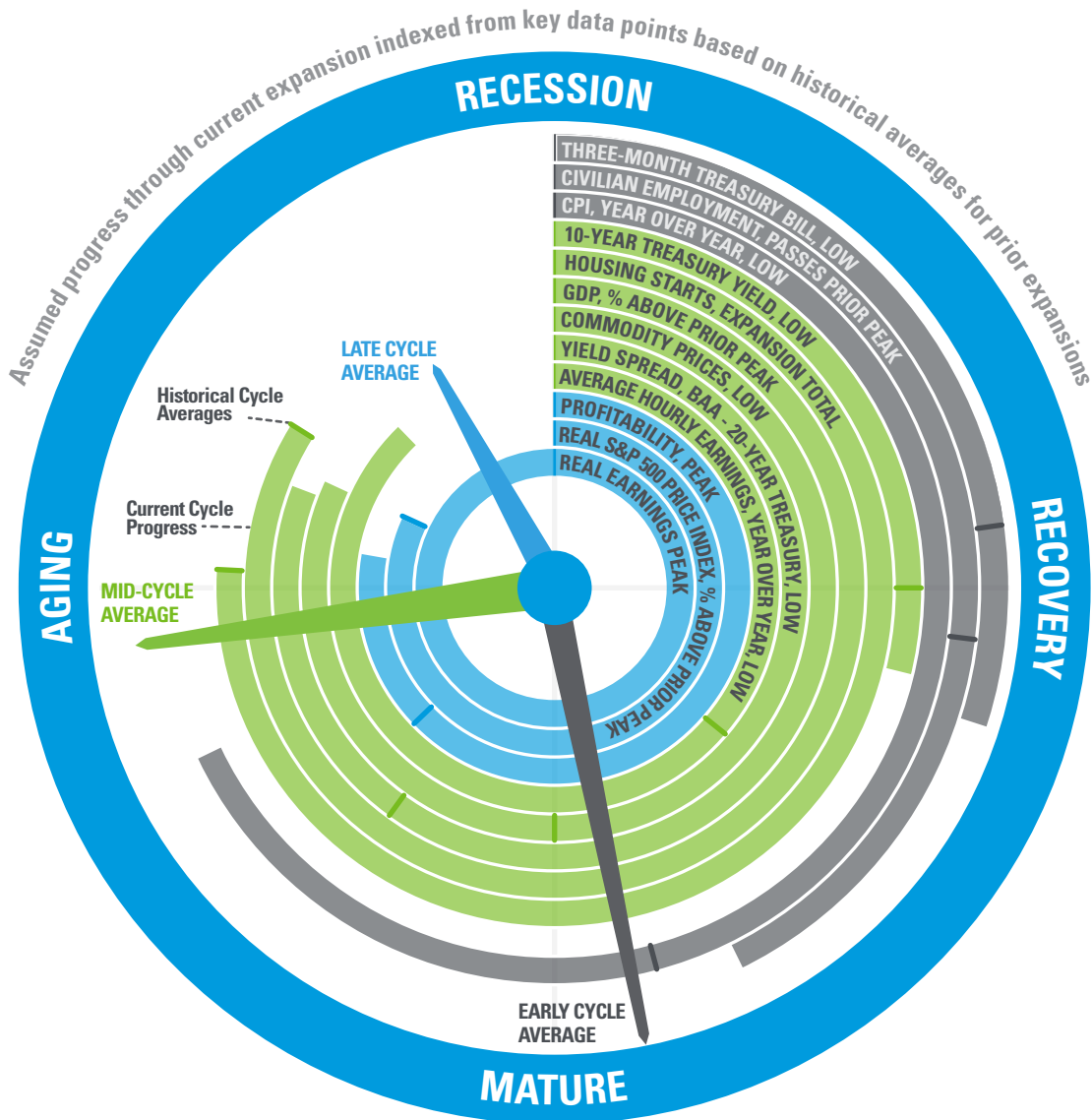
*Our forecast for GDP growth near 2.5% is based on the historical mid-cycle growth rate of the last 50 years. Economic growth is affected by changes to inputs such as: business and consumer spending, housing, net exports, capital investments, and government spending. Potential delays in passing major fiscal policies introduce some risk to the downside.

The opinions voiced in this material are for general information only and are not intended to provide or be construed as providing specific investment advice or recommendations for your clients. Any economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

WHAT WE'RE WATCHING

The Cycle Clock suggests we are in the mid-to-late stage of the current expansion. Monetary policy is still exhibiting mid-cycle behavior, with lows from yields still relatively recent. Some items relating to corporate profits are showing late cycle behavior, although they may reset if profits improve.

"What We're Watching" features indicators that are key to the current LPL Financial Research macroeconomic outlook. Economic and market dynamics will dictate featured topics and their durability.



Sources: LPL Research, Federal Reserve, U.S. Bureau of Economic Analysis (BEA), U.S. Bureau of Labor Statistics, U.S. Bureau of the Census, Standard & Poor's, Robert Shiller, National Bureau of Economic Research, Haver Analytics 10/17/17

The 10-year Treasury yield hit a new low for the current cycle in July 2016 (based on the daily average), shifting us to earlier in the cycle by that metric.












Data for all series are as of October 17, 2017. Starting point for all series is June 1954 except housing starts (March 1961), hourly earnings (December 1970), and commodity prices (December 1970). Real prices and real earnings determined using the Consumer Price Index for all urban consumers (CPI-U). Commodity prices are based on the GSCI Total Return Index. Profitability is based on real profit per unit value added for non-financial corporate business based on current production as calculated by the BEA.

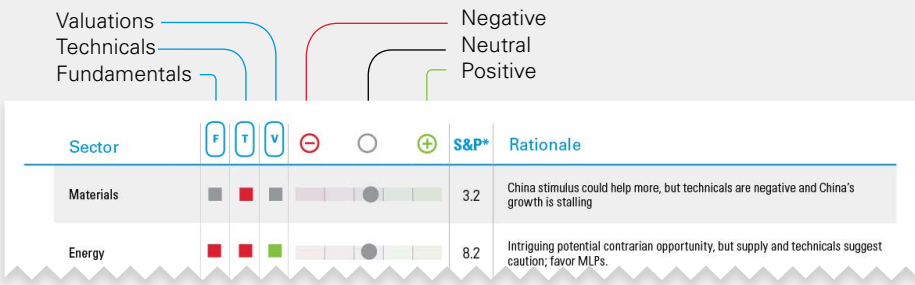
ASSET CLASS & SECTOR TOP PICKS

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	Characteristics	ALTERNATIVE ASSET CLASSES
BEST OVERALL IDEAS	Emerging Markets (EM) U.S. Stocks	Financials Industrials Technology	Bank Loans Investment-Grade Corporates MBS	BEST OVERALL IDEAS	Long/Short Equity
Fundamentals	Master Limited Partnerships (MLP) U.S. Small Caps U.S. Stocks	Financials Industrials Technology	Bank Loans Treasury Inflation-Protected Securities (TIPS)	Catalysts	Event Driven Global Macro Long/Short Equity
Technicals	EM U.S. Small Caps U.S. Stocks	Financials Industrials Technology	Bank Loans Investment-Grade Corporates Municipal Bonds	Trading Environment	Long/Short Equity
Valuations	EM Large Foreign	Healthcare Telecommunications	MBS	Volatility	Global Macro Long/Short Equity Managed Futures

READING THE PORTFOLIO COMPASS

RATING	ICON	
Negative	 	Fundamental, technical, and valuation characteristics for each category are shown by their blue icons below, and displayed as colored squares.
Negative/Neutral	 	Negative, neutral, or positive views are illustrated as a colored circle positioned over the scale, whereas an outlined black circle with an arrow indicates change, and shows the previous view.
Neutral	 	Rationales for our views are provided on the right side.
Positive/Neutral	 	
Positive	 	
Previous Position		



Valuations — Technicals — Fundamentals — Negative — Neutral — Positive

Sector	F	T	V	S&P*	Rationale
Materials				3.2	China stimulus could help more, but technicals are negative and China's growth is stalling
Energy				8.2	Intriguing potential contrarian opportunity, but supply and technicals suggest caution; favor MLPs.

Global macro strategy is a hedge fund strategy that selects its 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.

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.

EQUITY ASSET CLASSES

In the near term, stocks may be more susceptible to risks such as budget or tax reform negotiations, a policy mistake by a central bank, or geopolitical tensions. Still, we expect further S&P 500 gains over the next year, supported by expected earnings gains on better economic growth, resilient corporate profit margins, and rebounding energy sector profits; meanwhile, fiscal policy and the U.S. dollar are potential wildcards. Growth outperformance may begin to moderate, with financials and energy sector performance being key to a potential value rebound. We expect improved small and mid cap performance as prospects for corporate tax reform potentially begin to improve. Geographically, we favor U.S. and EM.

	Sector	F	T	V	⊖	○	⊕	Rationale
Style/Capitalization	Large Growth	■	■	■	—	●	—	Mid-to-late stages of economic cycle, potential repatriation of overseas cash at lower tax rates, and technicals are positive for large caps, but small caps would likely benefit more from any progress on Trump's policy agenda. Our style views are generally balanced given that we like the biggest growth (technology) and biggest value (financials) sectors; improving economic growth and rising interest rates likely needed to get value going.
	Large Value	■	■	■	—	●	—	
	Mid Growth	■	■	■	—	●	—	Mid cap valuations have become attractive relative to large caps and we may see more merger and acquisition activity as policy clarity emerges, which may help mid caps. Positive bias.
	Mid Value	■	■	■	—	●	—	
	Small Growth	■	■	■	—	●	—	Small caps benefit from a potentially lower corporate tax rate and may actually benefit from potential changes in U.S. trade policy. An aging business cycle and possible tax reform stumbles are key risks.
	Small Value	■	■	■	—	●	—	
Region	U.S. Stocks	■	■	■	—	●	—	Among developed markets, we remain U.S. focused and are monitoring U.S. trade policy, earnings, international elections, and currency movements to assess international opportunities. U.S. valuations are relatively high.
	Large Foreign	■	■	■	—	●	—	International stocks have been boosted by the weaker U.S. dollar in 2017, but as earnings have rebounded, international valuations have remained relatively attractive; our structural concerns regarding the Eurozone remain while the Japan outlook has improved.
	Small Foreign	■	■	■	—	●	—	
	EM	■	■	■	—	●	—	Emerging market earnings have been good recently and valuations remain very attractive. China is delivering stable and potentially even slightly improving growth rates.
MLPs	MLPs	■	■	■	—	●	—	MLPs have been volatile with oil this year, but we believe that this is still an attractive opportunity for suitable investors as Texas and Oklahoma become the de facto swing energy producers.

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 maintain our preference for cyclical sectors as the U.S. economic expansion continues. Technology may be due for a bit of a pause after such a strong year but is seeing solid earnings growth; business investment is picking up. Industrials may benefit from increased infrastructure and defense spending, as well as improving global demand. Financials remain positioned to benefit from deregulation that may free up capital for lending and dividends, while tighter monetary may help steepen the yield curve. Healthcare valuations remain attractive despite 2017 outperformance.

Sector	F	T	V	⊖	○	⊕	S&P*	Rationale
Cyclical	Materials	■	■	■	●		3.0	Stable, if not improving Chinese growth outlook, infrastructure spending potential, and earnings rebound are supportive, but lack of inflation and trade and currency risks keep us neutral.
	Energy	■	■	■	●		6.0	Saudi cuts and Middle East tensions are helping, but U.S. production gains and technical weakness are concerning; fair value for oil prices is probably not much above \$55.
	Industrials	■	■	■		●	10.2	Potentially stronger global growth, business spending pickup, more infrastructure and defense spending, energy stability, and reasonable valuations point to potential upside.
	Consumer Discretionary	■	■	■	●		11.9	Add hurricanes' impacts to the list of issues including weaker earnings, the age of the business cycle, and e-commerce disruption in retail.
	Technology	■	■	■		●	23.6	Solid earnings, pickup in business spending, and sector's role as productivity enabler help offset higher valuations; but after strong gains in 2017, some caution is probably prudent.
	Financials	■	■	■		●	14.6	Deregulation is supportive but a potentially steeper yield curve and stronger loan demand may be needed for next leg higher. Hurricane impacts on insurers make for a challenging Q3 earnings season.
Defensive	Utilities	■	■	■	●		3.2	Valuations slightly above the S&P 500 levels are expensive; we continue to favor cyclical sectors at this stage of the cycle and see limited potential for a boost from lower interest rates.
	Healthcare	■	■	■		●	14.3	Valuations remain attractive despite strong 2017 gains; federal spending likely to stay at or near current levels and demographics are favorable, though executive order to eliminate ACA subsidies increases risks for health insurers.
	Consumer Staples	■	■	■	●		8.2	Our preference for cyclical sectors and interest rate risk suggests caution with this defensive, dividend-oriented sector; would likely help provide some cushion in a potential stock market correction.
	Telecommunications	■	■	■	●		2.0	Sluggish sector growth outlook and interest rate risk drive caution despite rich yields, low valuations, and deregulation potential.
	Real Estate	■	■	■		●	3.0	Stock market pullback may be required to reverse relative weakness after summer drop in interest rates failed to help, despite solid yields and generally favorable real estate fundamentals.

* S&P 500 Weight (%)

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.

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.

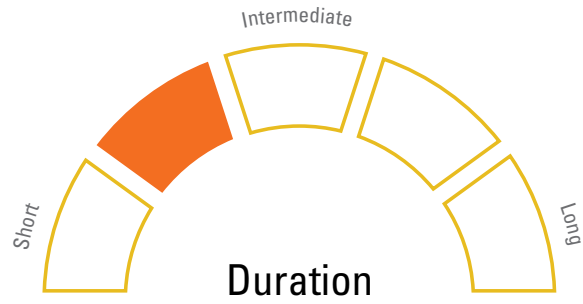
There is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Diversification does not ensure against market risk.

FIXED INCOME

Municipal bonds (as measured by the Bloomberg Barclays Municipal Bond Index) returned -0.5% in September, as rates moved higher across the yield curve. Markets are still awaiting more details on the Trump administration’s policy impact. Optimism for near-term infrastructure spending has taken a back seat recently, though tax reform remains a topic of conversation. Municipal bonds’ credit quality remains generally good; problem issuers remain isolated and have not impacted the broader market.



Maintaining a cautious approach as valuations richen further, but still prefer corporate bonds to government bonds.



Interest rate sensitivity is less defensive but still lower than the benchmark due to expensive valuations.

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
Munis–Short-Term	■	■	■	⊖	○	⊕	Valuations relative to Treasuries remain expensive.
Munis–Intermediate-Term	■	■	■	⊖	○	⊕	Valuations have richened over the past month and remain above the 5-year average.
Munis–Long-Term	■	■	■	⊖	○	⊕	Long-term yields are more attractive than short-term yields, though longer duration may be a headwind if rates rise.
Munis–High-Yield	■	■	■	⊖	○	⊕	Valuations richened further over the course of the month and are on the expensive side of recent history, though additional yield remains a factor. Long duration may be a headwind if rates continue to rise.

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 availability 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)

For fixed income allocations, we continue to emphasize a blend of high-quality intermediate bonds coupled with a small allocation to less interest rate-sensitive sectors such as bank loans or high-yield bonds for suitable investors. Though near-term policy hopes have faded somewhat, positive longer-term expectations continue to drive expensive valuations across spread sectors like investment-grade corporates, high yield, and emerging market debt (EMD). We maintain a cautious approach with credit-sensitive areas of the market, but a “coupon-clipping” environment may still aid suitable investors.

Sector	F	T	V	⊖	○	⊕	Rationale
Taxable Bonds – U.S.	Treasuries	■	■	■	●		Yield spreads to overseas alternatives are off recent highs, but remain elevated relative to history. This may continue to keep a lid on rates in the near term.
	TIPS	■	■	■	●		Breakeven inflation remains well off year-to-date (YTD) highs, leaving some potential opportunity if inflation increases. Interest rate sensitivity remains a headwind.
	MBS	■	■	■	●	●	Despite recent positive performance, balance sheet normalization remains a risk over time. Yield per unit of duration remains attractive relative to other high-quality options.
	Investment-Grade Corporates	■	■	■	●		Spreads below 1% are tight, especially on a historical basis. However, we still find incremental value in corporate bonds.
	Preferred Stocks	■	■	■	●		Fundamentals are firm for U.S. banks, but low yields, above-average valuations, and very strong YTD performance warrant caution. Post-election bond sell-off and subsequent recovery showed the sector’s sensitivity to interest rates.
	High-Yield Corporates	■	■	■	●		Average yield spread at 3.4% largely prices in lowered default expectations and leaves little room for error, but yields remain attractive. Oil price or equity market weakness could be negative drivers.
	Bank Loans	■	■	■	●	●	Floating rates may benefit holders if short-term rates continue to rise, though valuations are less attractive than they were earlier this year and call risk is a concern in some areas of the sector. 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 move higher.
	Foreign Bonds – Unhedged	■	■	■	●		Potential currency volatility, low yields, and unattractive valuations are negatives.
	EMD	■	■	■	●		Spreads remain tight relative to history. Protectionist trade policy remains a risk.

Investing in foreign and emerging market debt (EMD) 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 (MBS) 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

Still high U.S. production may cap oil prices in the mid-\$50s range. Prices have recovered from hurricane-related price drops as refineries have restarted, soaking up crude supply, while Middle East tensions have escalated amid speculation of an extension of the Saudi/Russia production agreement. Industrial metals have gotten a China boost recently, while precious metals have struggled with the interest rate and currency environments in addition to the market’s preference for riskier assets. Agriculture prices generally fell as better weather led to another year of bumper crops and lower prices. We remain constructive on long/short equity strategies, which continue to benefit from low levels of internal correlation among stocks and sectors.

Sector	F	T	V	⊖	○	⊕	Rationale
Commodities	Industrial Metals	■	■		●		Base metals get a technical upgrade this week to green after Chinese demand-driven gains. Latest period of dollar strength presents risk to further gains in commodity prices. On the flip side, there may be upside potential to prices should the U.S. increase infrastructure spending.
	Precious Metals	■	■		●		U.S. dollar gains, Fed hawkishness, higher interest rates, lack of inflation fears, and the market’s preference for riskier assets have all reduced gold’s appeal. Negative bias.
	Energy	■	■		●		Higher U.S. production may cap oil price gains in the mid-\$50s range in 2017. The extended Saudi-led global production agreement helped some but is not likely to drive an oil breakout above 2017 highs. The oil market is slowly rebalancing as Saudi production wanes and Texas increasingly becomes the swing oil producer.
	Agricultural	■	■		●		Good weather (not including the hurricane impact on a few crops like cotton or orange juice) has caused higher crop yields and lower prices. Agriculture is becoming increasingly sensitive to overseas demand, and by extension the U.S. dollar and trade policy in general.

Sector	T E	C T	V O	⊖	○	⊕	Rationale
Alternatives	Long/Short Equity	■	■	■		●	We continue to be cautious on more directional equity managers and favor those with conservative or variable net exposures and a history of generating alpha from their short positioning. The strategy continues to benefit from low levels of correlation between sectors, as well as favorable sector positioning. We remain aware of underlying factor exposures, given the potential for rapid market rotation.
	Event Driven	■	■	■		●	Corporate transaction activity remains healthy; however, political and regulatory uncertainty persists. We prefer managers with the ability to hedge equity beta and focus solely on idiosyncratic risk.
	Managed Futures	■	■	■		●	The industry continues to favor long fixed income, while overall long equity exposure has been marginally reduced due to the brief increase in volatility and weakening medium-term trends in select markets. We continue to favor either multi-managers or a combination of uncorrelated trading strategies to smooth return profiles.
	Global Macro	■	■	■		●	We maintain a constructive view of the global macro investing environment, as the potential for shifts in fiscal policy, increasing global political uncertainty, and economic divergences are all constructive components of an attractive opportunity set. YTD performance for many strategies has been hampered by U.S. dollar weakness.

CHARACTERISTICS	ICON	DEFINITION	
LEGEND	Catalysts	■ C T	Potential for favorable macroeconomic and/or idiosyncratic market developments that may benefit the investment strategy.
	Trading Environment	■ T E	Market characteristics present sufficient investment opportunities for this investment style.
	Volatility	■ V O	The current volatility regime provides a constructive environment that an investment of this style can capitalize on.

Note that ratings for commodities and alternative investments were initially misaligned in the September issue of the Compass. There were no actual changes from August to September. The error has been corrected in the posted version of the September Compass and is up to date in the current Compass.

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

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.

Global macro strategy is a hedge fund strategy that selects its 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.

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.

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.

Technical Analysis is a methodology for evaluating securities based on statistics generated by market activity, such as past prices, volume and momentum, and is not intended to be used as the sole mechanism for trading decisions. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns and trends. Technical analysis carries inherent risk, chief amongst which is that past performance is not indicative of future results. Technical Analysis should be used in conjunction with Fundamental Analysis within the decision making process and shall include but not be limited to the following considerations: investment thesis, suitability, expected time horizon, and operational factors, such as trading costs are examples.

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.

Alpha measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive (negative) Alpha indicates the portfolio has performed better (worse) than its Beta would predict.

Beta measures a portfolio's volatility relative to its benchmark. A Beta greater than 1 suggests the portfolio has historically been more volatile than its benchmark. A Beta less than 1 suggests the portfolio has historically been less volatile than its benchmark.

INDEX DEFINITIONS

All indexes are unmanaged and cannot be invested into directly.

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.

The Bloomberg Barclays U.S. Municipal Bond Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

This research material has been prepared by LPL Financial LLC.

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