



January 2011

# Market Insight

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# News & Views

## from LPL Financial Research

*Market Insight* is a quarterly publication intended to inform and empower your investment decision making.

The year 2010 closed on a high note. During the fourth quarter, the economy had shown signs of reaccelerating from the summer soft spot, the S&P 500 made new two-year highs, and President Obama signed into law an extension of the Bush-era tax cuts. However, as growth rebounded, the bond market suffered losses as interest rates rose.

We do not expect the wide gap in the performance of stocks and bonds seen in the fourth quarter to persist in 2011. Instead, we see a “middle-of-the-road” 2011 that offers investors modest single-digit gains for stocks, low-to-mid single-digit gains for bonds, and an economy in the United States that muddles along at a 2.5 to 3% pace.

In these pages, we seek to provide clarity and context to the issues focusing on the economy, the stock market, and the bond market.

## The U.S. Economy

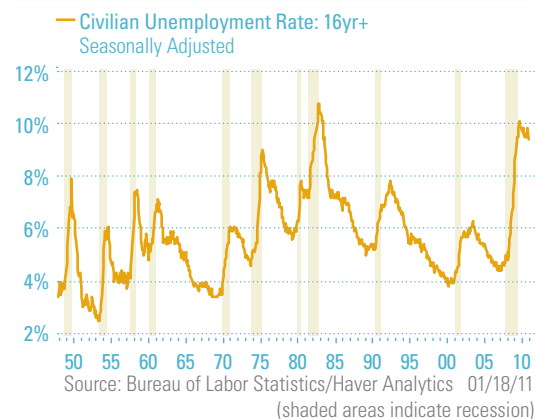
Aided by clarity around some key policy issues that weighed on the economy over much of 2010, the United States emerged from its economic summer soft spot during the fourth quarter of 2010. A weaker dollar helped to boost the U.S. manufacturing sector. The marked deceleration in the economy over the summer of 2010, along with the threat of disinflation (a slowing pace of rising prices) turning into deflation (a sustained period of falling prices and wages that may sap demand) prompted the Federal Reserve (Fed) into action. In November 2010, the Fed announced plans to purchase up to \$600 billion of Treasury securities with the goal of flooding the economy with cash. The program, also known as the second round of quantitative easing, or QE2, is aimed at jump-starting the economy in order to push the unemployment rate lower and the inflation rate higher. QE2 is scheduled to end in June 2011.

Late in the fourth quarter of 2010, yet another policy event, this time fiscal policy, provided support to the U.S. economy. President Obama, along with the Republican leadership in the House of Representatives, reached an agreement to extend the Bush-era tax rates on both income and investments for another two years. As part of the deal, emergency unemployment benefits were extended for another year. In addition, the two sides agreed to a significant cut in payroll taxes in 2011 to incentivize business owners to make capital investments in their businesses. Although none of the provisions in the 2010 tax cut deal impacted growth in the fourth quarter of 2010, the additional stimulus in the deal (over and above the extension of the Bush-era tax cuts, which only prevented a tax increase) set the stage for even stronger growth in 2011.

Despite the policy tailwind as 2010 turned into 2011, economic growth in the United States was uneven. Indeed, some policies enacted in 2010 placed downward pressure on growth. Firms were still adjusting to the large financial reform and healthcare laws. Companies in the Energy sector were adjusting to the toughened drilling and exploration regulations put in place in the wake of the massive oil spill in the Gulf of Mexico in the spring and summer of 2010. In addition, many of the economy-boosting provisions of the \$787 billion fiscal stimulus program passed in February 2009 were beginning to fade away, and the housing and auto markets were completely free of any direct government support for the first time in over a year.

In general, the economy in late 2010 was growing, but not fast enough to push the unemployment rate down or the inflation rate up. [Chart 1] The labor market was generating jobs (roughly 125,000 per month) but this pace was below the average 150,000 to 200,000 rate at which workers enter the labor force. More robust growth (in the 3.0 to 4.0% range) is likely needed to produce employment growth that exceeds growth in the labor force. A cheaper dollar, low financing rates, and strong productivity continued to support manufacturing and business spending as 2010 ended, but the inventory restocking that helped to pull the economy out of recession beginning in June 2009 began to fade. [Chart 2] Consumer spending was a bright spot during the fourth quarter, as holiday sales were the strongest since at least 2006. Modest job growth, wage and hours worked increases for the more than 90% that are employed, and low inflation continued to

1 Although the Economy Posted Modest Growth in 2010, It Did Not Expand Fast Enough to Push the Unemployment Rate Lower



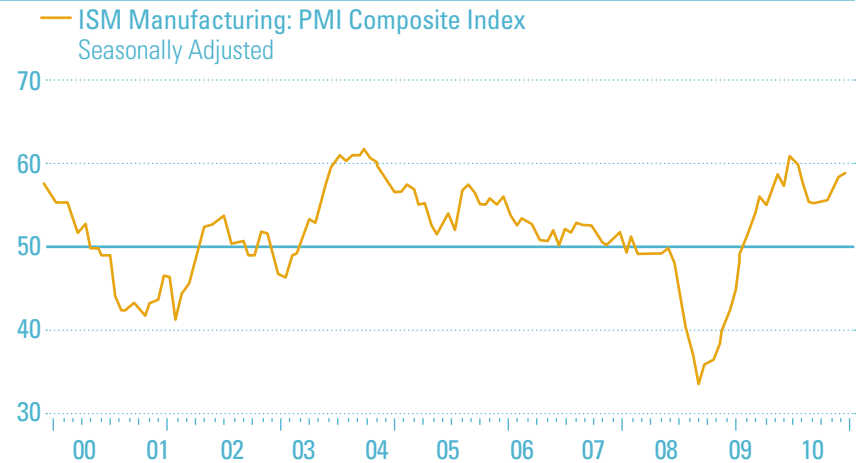
Consumer spending was a bright spot during the fourth quarter, as holiday sales were the strongest since at least 2006.

## The U.S. Economy (continued)

State and local budget cuts were a big concern throughout 2010, and will be an even bigger issue in 2011 as all levels of government struggle with too much spending relative to revenues.

allow consumers to spend a little, pay down debt, and even increase savings. Residential housing activity remained dormant despite near record-low mortgage rates. Business spending on office parks, apartments and factories showed some signs of life in the fourth quarter, but remained subdued by oversupply and a lack of bank lending. State and local budget cuts were a big concern throughout 2010, and will be an even bigger issue in 2011, as all levels of government struggle with too much spending relative to revenues.

### 2 Aided by a Weaker Dollar, Manufacturing Reaccelerated as 2010 Drew to a Close



Source: Institute for Supply Management/Haver Analytics 01/18/11

The ISM index is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management, it monitors employment, production inventories, new orders, and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys. A level of 50 or more indicates an expansion in manufacturing.

## The Stock Market

2010 ended on a high note as the fourth quarter lived up to its record as the strongest quarter of the mid-term election year with the S&P 500 posting a 10% gain. Cyclical sectors, small and mid cap, and the U.S. stock market fared the best.

- The highly economically sensitive Materials, Energy, Industrial, and Consumer Discretionary sectors were the best performers, while the defensive Consumer Staples, Utilities, and Health Care sectors lagged.
- Small- and mid-cap stocks outperformed their larger peers given their greater domestic economic sensitivity and a strong rise in merger and acquisition activity, which boosted the price of target companies.
- Overseas, developed and emerging markets posted solid returns, but lagged the U.S. stock market.

As the economy reaccelerated from the summer soft spot, the S&P 500 made new two-year highs. During the fourth quarter, policy was a major driver. The Fed embarked upon QE2 and President Obama signed into law an extension of all of the Bush tax cuts for two years, along with payroll tax cuts and expanded jobless benefits. The stock market, measured by the S&P 500, climbed all the way back to the levels that preceded the event that triggered the financial crisis: the failure of Lehman Brothers in September 2008. At a two-year high, the S&P 500 ended the quarter less than 20% below its October 9, 2007 peak of 1565—the all-time high. [Chart 3]

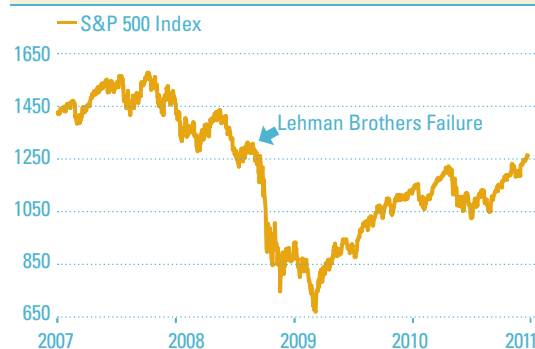
Individual investors embraced a more positive outlook. The same week the tax cuts were extended marked the first week of inflows into U.S. stock mutual funds since April 2010 (according to The Investment Company Institute). Investors ended the fourth quarter the most bullish they had been since 2004. According to the widely watched American Association of Individual Investors, the percentage of investors who were bullish on U.S. equities increased to 63.3% in late December. Those bearish on the stock market fell to just 16.4%, the lowest percentage since 2005. The last time the percentage of bulls was 55% or higher was October 2007. [Chart 4]

It seemed that nothing could shake investors' enthusiasm for stocks. The rise in interest rates during the fourth quarter did not hinder stocks as it reflected market participants' improving outlook for economic and profit growth rather than unwelcome inflation or tightening credit availability. However, if rates continue to rise at the pace seen in the fourth quarter, stocks could increasingly face a tough challenge.

Commodity prices were a key driver of the gains in the stock market in the fourth quarter. While attention is often focused on the negative effect rising commodity prices can have on consumer spending, more companies in the S&P 500 benefit from rising commodity prices than are hurt by them. This driver was evident in the performance of the Materials and Energy sectors, which led the stock market higher on the strength in commodity prices. Rising global demand, tight supply, and the Fed's intent to create more inflation all point to potential further gains for commodities asset classes.

The gains in the fourth quarter were remarkably stable. Stock market daily volatility eased in the fourth quarter with the gap between the high and low

### 3 Stock Market Has Rebounded to Pre-Crisis Levels

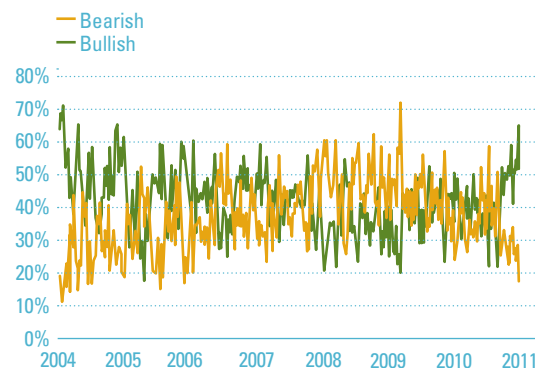


Source: LPL Financial, Bloomberg 01/14/11

The S&P 500 is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.

### 4 Investor Confidence Is High

American Association of Individual Investors  
Survey Percent Bullish and Bearish

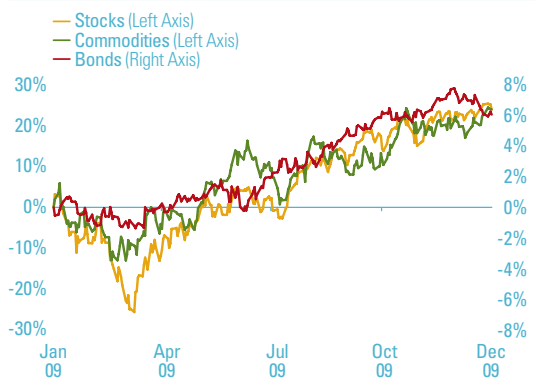


Source: LPL Financial, Bloomberg 01/14/11

## The Stock Market (continued)

### 5 Stuck Together: No Diversification in 2009

S&P 500, Commodity Research Bureau Commodity Price Index, Barclays Aggregate Bond Index



Source: LPL Financial, Bloomberg 12/17/10

All indices mentioned are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

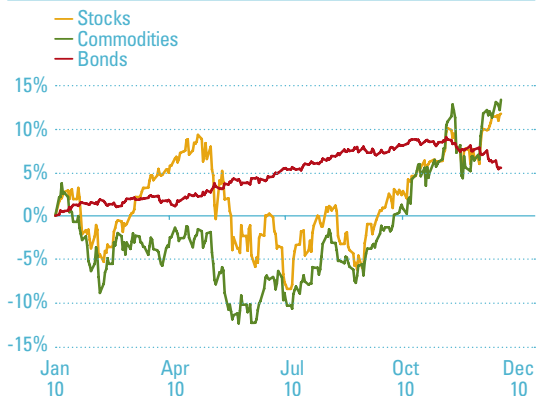
of the day in the S&P 500 averaging 0.6% in December compared to 1.1% to 1.9% during the prior six months. We do not anticipate gains to come as steadily in the quarters ahead.

The end of 2010 also seems to be setting the stage for the return of diversification. In 2008 and 2009, most markets moved together as the outlook for all financial assets was tightly linked to the global financial crisis and recovery. [Chart 5] During 2010, glimmers of the impending return of diversification became evident as markets began to behave more independently of each other. [Chart 6] In May and June of 2010, as stocks and commodities fell, bonds steadily rose in value. In the fourth quarter, as stocks and commodities surged, bonds fell. A key potential benefit of having the investments behave differently is that overall portfolio volatility is muted, which is especially valuable when taking distributions from a portfolio. The return of the effectiveness of this important investment strategy was a welcome gift as 2010 drew to a close.

Looking out to 2011, we see no stormy skies or bright sunshine for 2011; instead, we have a "middle-of-the-road" forecast, composed of a mix of clouds and sun. Recent years have seen extremes one way or the other. We see a 2011 that offers investors modest single-digit gains for stocks coupled with above-average volatility.

### 6 Spread Apart: More Diversification in 2010

S&P 500, Commodity Research Bureau Commodity Price Index, Barclays Aggregate Bond Index



Source: LPL Financial, Bloomberg 12/17/10

All indices mentioned are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

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

## The Bond Market

The fourth quarter of 2010 was one of the worst quarterly performances for high-quality bond investors since the second quarter of 2004. Despite the sell-off, high-quality bonds still managed a healthy 6.5% total return for all of 2010, as measured by the Barclays Aggregate Bond Index. Unlike 2004, the cause was not fear over Fed rate increases, which ultimately came in June of that year, but rather better economic growth expectations. During the fourth quarter of 2010, the Fed announced an expanded Treasury bond purchase program totaling \$600 billion and, in December, the tax-cut extension legislation was more positive than anticipated. High-quality bond prices declined and yields increased to reflect the better economic growth that the combination of additional monetary and fiscal stimulus would likely deliver.

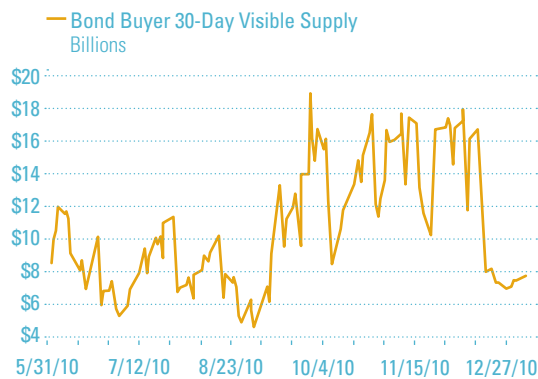
As is typically the case during bouts of rising bond yields, the highest quality bonds underperformed with long-term bonds faring worst. Among high-quality sectors, U.S. Treasury bonds performed the worst while the added income of mortgage-backed securities (MBS) provided a slight buffer, which allowed them to outperform Treasuries. Investment-grade corporate bond prices declined less than government bonds over the quarter as the better growth prospects bode well for credit quality improvement.

More economically sensitive high-yield bonds bucked the trend as prices increased over the quarter. The broad high-yield market, as measured by the Barclays High-Yield Corporate Index, rose 3.2% for the quarter and illustrated how high-yield bonds can benefit fixed income portfolios during periods of rising interest rates. Emerging market debt (EMD) outperformed comparable Treasuries, but EMD prices finished lower, unable to escape the severity of market weakness. For all of 2010, both high-yield and EMD posted double-digit returns as each benefited from economic recovery and improving credit conditions.

Municipal bonds were also adversely affected by bond market weakness, but a supply-demand imbalance exacerbated price declines and municipal bonds posted their worst quarterly performance since 1984. Uncertainty over the future of the Build America Bonds (BABs) program also weighed on the market. New issuance began to increase in early September and remained elevated throughout the fourth quarter. [Chart 7] Municipals were initially resilient but supply pressure eventually proved too much to bear for the low level of yields. Significant mutual fund redemptions also added to the downdraft. Within the municipal bond market, longer-term bonds bore the brunt of selling. High-yield municipal bonds could not escape market weakness during the quarter but outperformed for the full year within the municipal market.

Throughout the quarter, municipal investors were battered with negative news headlines about deteriorating credit quality. These stories failed to mention that defaults are actually declining. The dollar amount of defaulted debt declined in 2010 on a year-over-year basis versus 2009, according to Municipal Market Advisors data. Furthermore, the majority of defaults remained concentrated among the most speculative issues. Among defaulted issues, 80% were initially non-rated and 73% were housing-

### 7 Heavy New Issuance Overwhelmed the Municipal Market



Source: Bond Buyer, Bloomberg, LPL Financial 01/07/11

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.

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 a fund share is not guaranteed and will fluctuate.

Mortgage-Backed Securities are subject to credit, default, and 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, and interest rate risk.

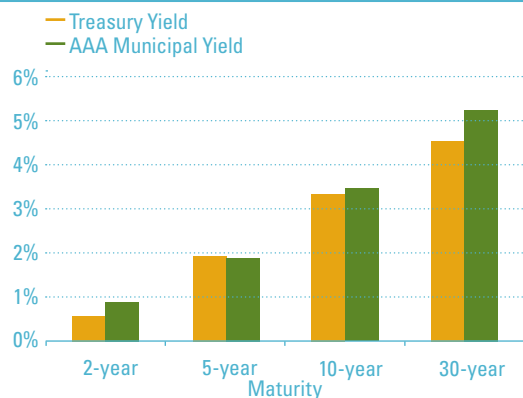
Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer, coupon rate, price, yield, maturity and redemption features.

International and emerging market investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

The issuance of Build America Bonds (BABs) began in April of 2009. They were authorized by the ARRA economic stimulus of 2009 and can be issued for qualifying infrastructure projects. They are taxable municipal bonds and are considered a category of bonds.

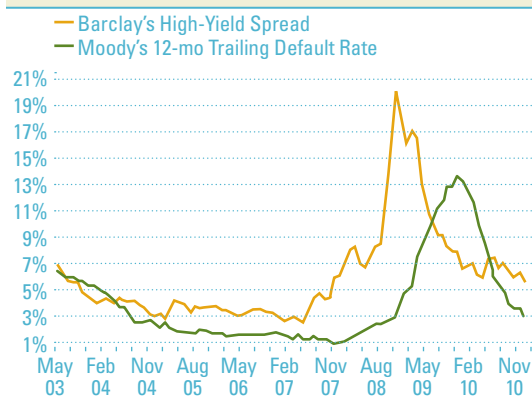
## The Bond Market (continued)

### 8 Average AAA Municipal Yields Are Equal to or Above Comparable Treasury Yields



Source: MMA data, Bloomberg, LPL Financial 01/13/11

### 9 High-Yield Bond Spreads Are Above The Rate of Defaults



Source: Bloomberg, Moody's Investors Service, Blarclays 12/31/10

Floating rate 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.

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 bonds are subject to availability, price, and to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.

related, while high-quality bond defaults remained exceedingly rare. We expect these trends to continue.

Municipal weakness persists as 2011 begins. Although new issuance has moderated, the secondary market remains flooded with bonds from mutual fund redemptions. Potential buyers remain on the sidelines waiting for signs that redemptions will ease. In the meantime, municipal bonds have become very attractive relative to comparable Treasury bonds with average AAA-rated municipal yields now equal or above Treasury yields across the maturity spectrum. [Chart 8] In other words, AAA-rated municipal bonds offer higher-than-Treasury yields but with the added benefit of tax exemption.

In the taxable bond market, we expect bond prices (and yields) to be relatively range-bound, enabling bond investors to expect low-to-mid single-digit total returns for 2011. A disappointing employment report in early January coupled with testimony by Fed Chairman Ben Bernanke, where he stated that it may take four to five years for unemployment to decline to normal levels, provided a reminder to investors that interest rates are not ready to skyrocket higher. Continued concerns over European government bonds suggest that the recent rise in yields may have adequately factored in current economic growth prospects. In sum, we do not believe recent weakness is the start of a bond bear market and expect positive, albeit lower, total returns in 2011.

High-yield bond prices may benefit from additional credit quality improvements, which have been reflected in lower defaults. Moody's Investors Service 12-month trailing global default rate declined to 3.1% at the end of 2010 and Moody's forecasts a further decline to 1.9% in 2011. In addition, corporations have done an excellent job of refinancing debt obligations and bond maturities remain light for 2011. The risk of an unexpected surge in defaults is greatly reduced and makes high-yield bonds attractive. [Chart 9] The yield advantage, or spread, to comparable Treasuries more than compensates for the level of defaults.

The yield differential between short- and intermediate-term bonds remains near a record-wide level. Historically low yields on short-term bonds also means that interest income will be a very limited offset to price declines associated with higher interest rates. During the fourth quarter of 2010, the Barclays 1-3 Year Government Bond Index, a proxy for short-term bonds, still finished the quarter with a marginal loss. We believe bank loans, or floating rate funds, may provide better protection against rising interest rates due to their shorter duration and income that can adjust upwards with higher interest rates.

This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

# Policy Perspective

The 2010 mid-term elections marked a return to balance across the aisles in Washington as the political pendulum swung back from the sweeping majority in the House and Senate that the Democrats picked up in 2006 and consolidated in 2008. This balance lowers the probability of dramatic legislative changes and is likely to result in the return of “gridlock.”

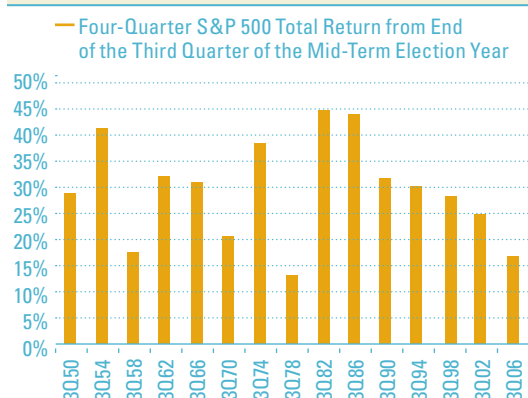
Historically, the stock market has performed better under periods of gridlock, but this record is far from consistent. Not surprisingly, other factors appear to bear more weight than politics. On the other hand, the bond market clearly has performed much better during periods of gridlock, most likely because investors assign a lower probability to the passage of new spending initiatives that would increase the debt supply.

With the start of the fourth quarter of 2010, the stock market entered what has historically been the best four-quarter period of performance during the four-year Presidential term. Since World War II, the stock market has always posted a double-digit gain from the end of the third quarter of Year Two through the end of the third quarter of Year Three of the Presidential term, and that gain has consistently averaged an impressive 30%.

Historically, this pattern of stock market performance has been driven largely by changes in monetary and fiscal stimulus to the economy. These changes are evident again this time. Our outlook for the four quarters is for modest gains that are comparatively low for similar-period performance during the past five decades; we expect the gains to be accompanied by higher-than-average volatility. The 2010 fourth quarter gain of 10% already puts this four-quarter period well on its way to posting solid results.

Interestingly, the last time the market earned a gain of less than 15% during the four-quarter period that began at the end of the third quarter of a mid-term election year was 1978—when inflation was soaring to double digits, the Fed was aggressively hiking rates, and economic growth was sliding into the recession that officially began in January 1980. In contrast to 1978, today’s environment is much more favorable. For example, inflation is relatively tame today, the Fed is providing more stimulus rather than taking it away, and we do not expect the current period to close with the same economic fate.

## 10 Mid-Term Election Stock Market Pattern



Source: LPL Financial, Bloomberg data

The S&P 500 is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.

# Markets At A Glance

Key Quarter-End Market Statistics

**11,577.51**

Dow Jones Industrial Average

**1257.64**

S&P 500

**2652.87**

Nasdaq Composite

**\$1,421.10**

Gold (per troy ounce)

**\$91.38**

Crude Oil (per barrel)

**3.30%**

Yield of Ten-Year Treasury

**0 – 0.25%**

Fed Funds Rate

Source: Factset 12/31/10

## Stock Market Asset Class Performance

Q1 2010	Q2 2010	Q3 2010	Q4 2010
Small Value 10.02	Emerging Market Equity -8.29	Emerging Market Equity 18.16	Small Growth 17.11
Mid Value 9.61	Small Growth -9.22	Large Foreign 16.53	Small Value 15.36
Mid Growth 7.67	Mid Value -9.57	Mid Growth 14.65	Mid Growth 14.01
Small Growth 7.61	Mid Growth -10.20	Large Growth 13.00	Commodities 13.41
Large Value 6.78	Commodities -10.41	Small Growth 12.83	Mid Value 12.24
Domestic Equity 5.94	Small Value -10.60	Mid Value 12.13	Large Growth 11.83
Large Growth 4.65	Large Value -10.60	Domestic Equity 11.53	Domestic Equity 11.59
Emerging Market Equity 2.45	Domestic Equity -11.32	Large Value 10.13	Large Value 10.54
Large Foreign 0.94	Large Growth -11.75	Small Value 9.72	Emerging Market Equity 7.36
Commodities -0.89	Large Foreign -13.75	Commodities 8.27	Large Foreign 6.65

Source: FactSet, LPL Research. Past performance is no guarantee of future results. Investing involves risk. Asset class returns are represented by the returns of indexes and are not ranked on an annual total return basis. It is not possible to invest directly in an index so these are not actual results an investor would achieve. Emerging Markets Equity is represented by the MSCI EMF (Emerging Markets) - Gross Return Index. Small Growth is represented by the R2000G Tot Index. Mid Value is represented by the RMIDV Tot Index. Mid Growth is represented by the RMIDG Tot Index. Small Value is represented by the R2000V Tot Index. Large Value is represented by the R1000V Tot Index. Domestic Equity is represented by the R3000 Tot Index. Large Growth is represented by the R1000G Tot Index. Large Foreign is represented by the MSCI EAFE - Gross Return Index. Government Bonds are represented by the Barclays Capital U.S. Government: Intermediate Index. Corporate Bonds are represented by the Barclays Capital US Aggregate Credit - Corporate - Investment Grade Index. Emerging Markets Debt is represented by the JP Morgan EMBI Global Index. Commodities are represented by the S&P GSCI TR.

## Bond Market Asset Class Performance

Q1 2010	Q2 2010	Q3 2010	Q4 2010
High-Yield Bonds 4.62	U.S. Treasuries 4.68	Foreign Bonds (Unhedged) 10.45	High-Yield Bonds 3.21
Emerging Market Debt 4.16	TIPS 3.82	Emerging Market Debt 8.33	Mortgages 0.31
Municipal High-Yield Bonds 4.07	Broad Bond Market 3.49	High-Yield Bond 6.71	TIPS -0.65
Corporate Bonds 2.30	Corporate Bonds 3.42	Corporate Bonds 4.71	Broad Bond Market -1.29
Broad Bond Market 1.78	Municipal High-Yield Bonds 3.10	Municipal High-Yield Bonds 4.54	Foreign Bonds (Unhedged) -1.45
Mortgages 1.72	Mortgages 2.88	Municipal Bonds 3.40	Corporate Bonds -1.60
Municipal Bonds 1.25	Municipal Bonds 2.03	U.S. Treasuries 2.73	Emerging Market Debt -1.96
U.S. Treasuries 1.12	Emerging Market Debt 1.16	TIPS 2.48	U.S. Treasuries -2.64
TIPS 0.56	High-Yield Bonds -0.11	Broad Bond Market 2.48	Municipal High-Yield Bonds -3.89
Foreign Bonds (Unhedged) -2.10	Foreign Bonds (Unhedged) -1.26	Mortgages 0.67	Municipal Bonds -4.17

Source: FactSet, LPL Research. Past performance is no guarantee of future results. Investing involves risk. Asset class returns are represented by the returns of indexes and are not ranked on an annual total return basis. It is not possible to invest directly in an index so these are not actual results an investor would achieve. The Broad Bond Market is represented by the Barclays Capital US Aggregate Index. High-Yield Bonds are represented by the Barclays Capital US Aggregate Credit - Corporate - High Yield (1983) Index. TIPS are represented by the Barclays Capital US Aggregate Government - Treasury Inflation Protected (TIPS) Index. U.S. Treasuries are represented by the Barclays Capital U.S. Treasury: Index. Corporate Bonds are represented by the Barclays Capital US Aggregate Credit - Corporate - Investment Grade Index. Municipal Bonds are represented by the Barclays Capital Municipal Bond Index. Municipal High Yield Bonds are represented by the Barclays Capital Municipal High Yield Index. Emerging Market Bonds are represented by the JP Morgan EMBI Global Index. Mortgages are represented by the BofA Merrill Lynch Mortgage Master Index. Foreign Bonds (Unhedged) are represented by the Citigroup WGBI x US (All maturities) (USD) Index.

## Fourth Quarter Trends

The table below highlights where relative strength (and relative weakness) was seen in the financial markets last quarter.

Stronger		Weaker
U.S. Equities	<b>VS.</b>	U.S. Bonds
Growth	<b>VS.</b>	Value
Small Caps	<b>VS.</b>	Large Caps
U.S. Equities	<b>VS.</b>	Foreign Equities
Corporates	<b>VS.</b>	U.S. Treasuries

Source: LPL Financial, FactSet

## IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

International and emerging markets investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

Small cap stocks may be subject to a higher degree of risk than more established companies' securities. The illiquidity of the small cap market may adversely affect the value of these investments.

Non-rated bonds have not been issued a rating by bond rating agencies such as Standard and Poor's and Moody's. Bonds that have not been rated by an agency are usually considered to be junk bonds or fall below investment grade.

Stock investing involves risk including loss of principal.

The Investment Company Institute (ICI) is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). Members of ICI manage total assets of \$11.18 trillion and serve nearly 90 million shareholders.

Moody's Credit Rating: Moody's Corporation is the holding company for Moody's Investors Service, which performs financial research and analysis on commercial and government entities. The company also ranks the credit-worthiness of borrowers using a standardized ratings scale. The company has a 40% share in the world credit rating market, as does its main rival.

An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

Spread is the difference between the bid and the ask price of a security or asset.

## INDEX DEFINITIONS

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Barclays 1-3 Year Government/Corporate Bond Index is a market value weighted performance benchmark for government and corporate fixed-rate debt issues with maturities between one and three years.

The Barclays U.S. Corporate High Yield Index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes Emerging Markets debt. The index was created in 1986, with index history backfilled to January 1, 1983. The U.S. Corporate High Yield Index is part of the U.S. Universal and Global High Yield Indices

Purchasing Managers Index (PMI) is an indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

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May Lose Value

Not Guaranteed by any Government Agency

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