



Tactical Asset Allocation Overview



Time to Take it Up a Notch and Overweight Equities Changes Effective October 1, 2009

September 30, 2009

Overweight Equities Relative to Our Benchmark

We believe that the current market rally reflects the strengthening economic backdrop and investors' increasing appetite for risk. If we are right, in that the market will continue to improve throughout the remainder of 2009, then today is the time to invest in targeted opportunities poised to perform well in the near-term.

Summary of changes:

- Increase weight to domestic Small and Mid Cap equities
- Increase weight to Large Cap Foreign equities

The LPL Financial Research team recommends adjusting portfolio allocations to take advantage of current market opportunities. It is apparent that the most important driver of stock market performance, earnings growth, is on the rise. Our estimates for GDP, which are modestly higher than the consensus, suggest a pick-up in revenue growth. While still down from a year ago, the rebound in earnings from the low established earlier this year has been powerful. We expect the impact of aggressive cost cutting will be magnified by the return of revenue growth in the third quarter.

Historically, there is a high correlation between GDP and revenue growth. Given the lean state of U.S. companies' cost structures following the recession-driven cost cutting initiatives, we foresee better-than-expected revenue growth flowing right to bottom-line earnings. The 2009 third quarter earnings reporting season, starting on October 7, is the main catalyst driving the timing of our increase of domestic equity exposure in our models today.

Though we believe U.S. corporate earnings will be better than expected this quarter, we also believe opportunities exist outside the United States. Throughout the year, we have increased exposure to Emerging Markets. Now, given the marked improvement in economic indicators of developed nations, coupled with favorable valuations and strong technical readings, we find these regions increasingly attractive.

In summary, we are overweighting equities relative to our benchmarks by making the following portfolio shifts:

- Increasing our recommended weighting to domestic Small and Mid Cap equities
- Increasing our recommended weighting to Large Cap Foreign equities

Continuing Our Move Down the Market Capitalization Spectrum

So far this year, we have initiated three trades to incrementally shift the portfolio's domestic equity allocation down the market capitalization spectrum. We believe today represents an attractive opportunity to increase our overall domestic equity allocation and another opportunity to increase our relative weights toward Small and Mid Cap stocks.



As credit conditions continue to show signs of improvement, this disproportionately benefits smaller and mid-size companies.

During the third quarter, virtually every developed foreign nation has seen an uptrend in key measures of growth, including: manufacturing output, exports, housing activity, and business confidence. We believe we are witnessing a globally synchronized recovery.

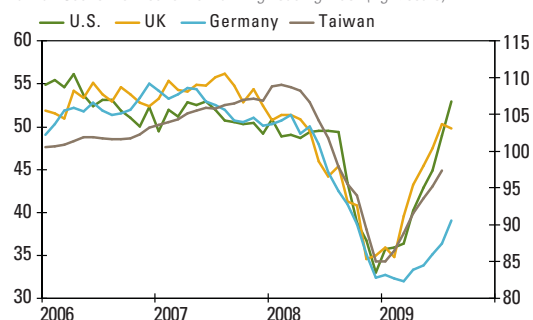
Measures of Business Activity Have Reaccelerated in Most Countries

U.S. Institute for Supply Management Purchasing Managers Index (left scale)

UK Chartered Institute of Purchasing and Supply Index (left scale)

German IFO Business Climate Index (right scale)

Taiwan Council for Economic Planning Leading Index (right scale)



Source: LPL Financial, Bloomberg, Current as of September 30, 2009

Our basis to increase Small and Mid Cap allocation includes:

- Greater Domestic Sales Exposure:** We believe the U.S. economy is likely to recover before the rest of the developed world. Since Small and Mid Cap companies have more domestic sales exposure than their Large Cap peers, they have greater leverage to increasing demand in the U.S. economy. With this in mind, on a relative basis, we expect Small and Mid Cap companies to demonstrate the greatest earnings growth.
- Historical Perspective:** Looking back over the past 80 years, smaller capitalization stocks have always outperformed larger stocks during the early stage of the economic cycle as measured by the Russell Indices. With the economy returning to a growth mode this quarter, Small- and Mid-Cap stocks are likely to be the best performers.
- More Dependent on Credit Markets:** Lower capitalization companies have a different capital structure (i.e. methods of financing business operations) than large cap companies and are more dependent upon the credit markets to fund growth. As credit conditions continue to show signs of improvement, this disproportionately benefits smaller and mid-size companies.
- Greater Merger and Acquisition (M&A) Activity:** Historically, transitioning from a depressed economic environment to one characterized by growth has driven M&A activity. In a low or negative growth environment, stock prices tend to get depressed, offering ripe opportunities to be acquired. So far, we have seen a handful of high-profile acquisitions and expect this trend to continue. Generally, the beneficiaries of M&A activity are the Small- and Mid-Cap companies.

Adding Large Cap Foreign Exposure

While we have focused on models this year to benefit from the “Twin Engines of Growth,” the United States and China, and subsequently increased allocations to Domestic Equities and Emerging Markets, we have seen early signs of economic improvement in developed foreign nations. During the third quarter, virtually every developed foreign nation has seen an uptrend in key measures of growth, including: manufacturing output, exports, housing activity, and business confidence. We believe we are witnessing a globally synchronized recovery. Coupling this economic improvement with favorable valuation leads us to find attractive investment opportunities in developed nations.

The three main reasons we are increasing our allocation to Large Cap Foreign are:

- Economy Shows Signs of Life:** As we mentioned before, economic growth in developed nations has started to show early signs of improvement. Key measures in manufacturing, exports, and business confidence are ticking higher. Because most developed nations are exporters, increased U.S. demand for goods should further exports, benefiting growth. The chart shows some examples of worldwide business activity improving.



Our outlook remains for a steady decline in the U.S. dollar.

- **Steady Decline of the Greenback:** Our outlook remains for a steady decline in the U.S. dollar. If our outlook holds, as our currency declines relative to foreign currencies, translation of foreign investments back into U.S. dollars creates an additional return for U.S. based investors.
- **Attractive Valuations:** Similar to our thesis of improving U.S. GDP leading to revenue and earnings growth, economic improvement outside the U.S. should also benefit earnings of companies in developed nations. Improved earnings should keep valuations in check.

The current market environment is dynamic and requires a more active than usual approach to asset allocation. As we evaluate the data and events that drive the economy and markets toward our 2009 base case scenario, as described in the *2009 Outlook* publication and its update, the *2009 Mid-Year Outlook*, we will make additional recommendations, as needed to enhance performance.



IMPORTANT DISCLOSURES

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

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

Asset allocation does not ensure a profit or protect against a loss.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate 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.

Stock investing involves risk including loss of principal.

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

Mid-capitalization companies are subject to higher volatility than those of large-capitalized companies.

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