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The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful. Unless otherwise indicated, all data referenced is as of the date of this publication.



—Notes From the Field—

At this year's halfway point, we offer the LPL Financial Research Mid-Year Outlook 2014; Investor's Almanac Field Notes containing key observations and updates to our outlook for 2014. Similar to a farming almanac, our Investor's Almanac is a publication containing a guide to patterns, tendencies, and seasonal observations important to growing. The goal of farming is not merely to grow crops, but to sustain living things—investing shares the same goal.

As we expected, markets in 2014 have been less influenced by politics and policymakers than in 2013 and more dependent upon growth. Growth is an essential characteristic of all living things, and in 2014, growth is vital to our outlook for the economy and markets. Our notes from the field contain these key observations and reaffirm our forecasts:

- After an extreme winter weather-induced slowdown in the first quarter, the U.S. economy began to thaw with the warmer temperatures in the spring. We continue to believe U.S. economic growth is on track to accelerate by about 1% over last year, owing to the return of business spending and the elimination of the drag from fiscal policy. As a result, the Federal Reserve (Fed) is likely to continue to taper its bond purchases and end its bond-buying program in the fall, leaving rate hikes on the calendar for some time next year.
- Stocks spent the winter months dormant, but emerged in the spring rising to new highs and producing a gain of about 6% by early June—halfway to our target range of 10–15% for the full-year of 2014.* Historically, double-digit gains are typical for years in the middle stage of the economic cycle. The current mid-cycle environment has even produced double-digit gains in 4 of the past 10 quarters. Critical to our outlook, earnings growth for S&P 500 companies are on track for 5–10% growth—with 6% achieved in

the relatively weak first quarter. Confidence in the durability of growth may contribute to a slight rise in valuations and, along with earnings growth, may potentially generate a low double-digit gain for stocks in 2014.

- Opportunities in the bond market have become scarce. Current yields are unattractive and gains are not likely in the second half. We find fewer sectors attractive than at the beginning of the year. We expect yields to rise in the second half of 2014 as global growth strengthens and inflation picks up from the low point in the first half.

The primary risk to our outlook, the possibility that better growth in the economy and profits does not develop, has gained even sharper focus as we move from the threshold of the new year into the midst of 2014. That risk is likely to be more significant in the second half of the year than the distractions posed by the end of the Fed's bond-buying program and the mid-term elections.

Farmers' almanacs have been a source of wisdom, rooted in the core values of independence and simple living, for American growers for over 200 years. In our Investor's Almanac Field Notes, we seek to provide a trusted guide to the second half of the year filled with a wealth of wisdom for investors. We forecast a healthy investment environment in which to cultivate a growing portfolio.



*As noted in our Outlook 214: The Investor's Almanac, the stock market may produce a total return in the low double digits (10–15%). This gain is derived from earnings per share (EPS) for S&P 500 companies growing 5–10% and a rise in the price-to-earnings ratio (PE) of about half a point from just under 16 to 16.5, leaving more room to grow. The PE gain is due to increased confidence in improved growth allowing the ratio to slowly move toward the higher levels that marked the end of every bull market since World War II (WWII).

LPL Financial Research's
Mid-Year Outlook
2014
At A Glance



3% Growth*
As economic drags fade and global growth improves, growth may accelerate to its fastest pace in nearly a decade.



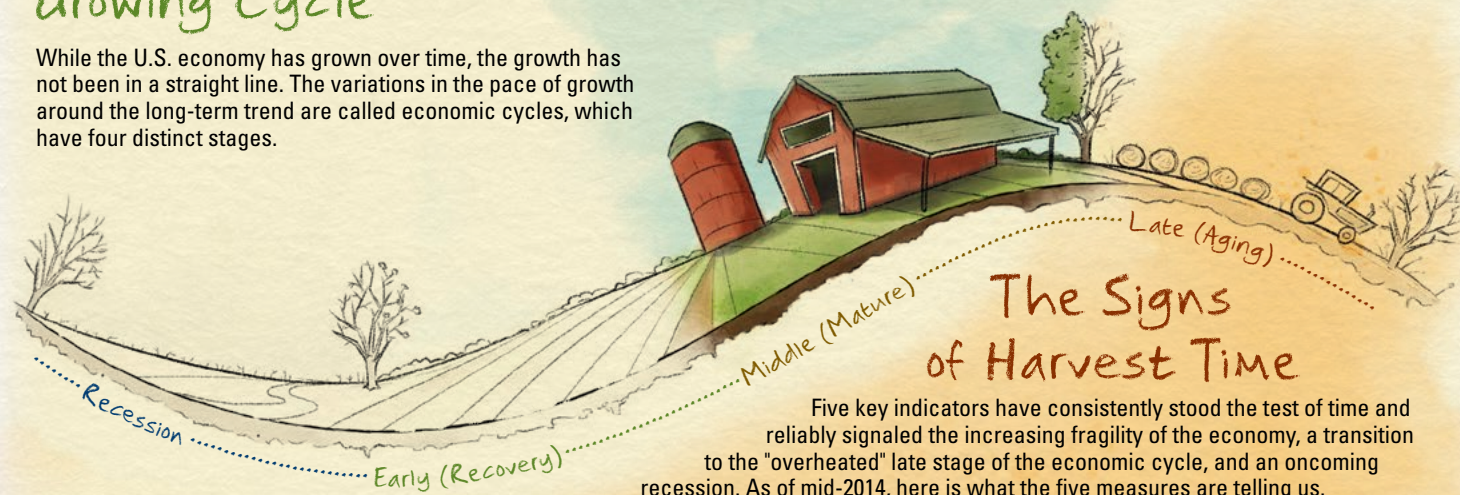
10-15% Growth
This annual return forecast is based on high single-digit earnings growth and a modest rise in PE.



Flat Returns
Interest rates will move higher and bond prices lower as economic growth improves.

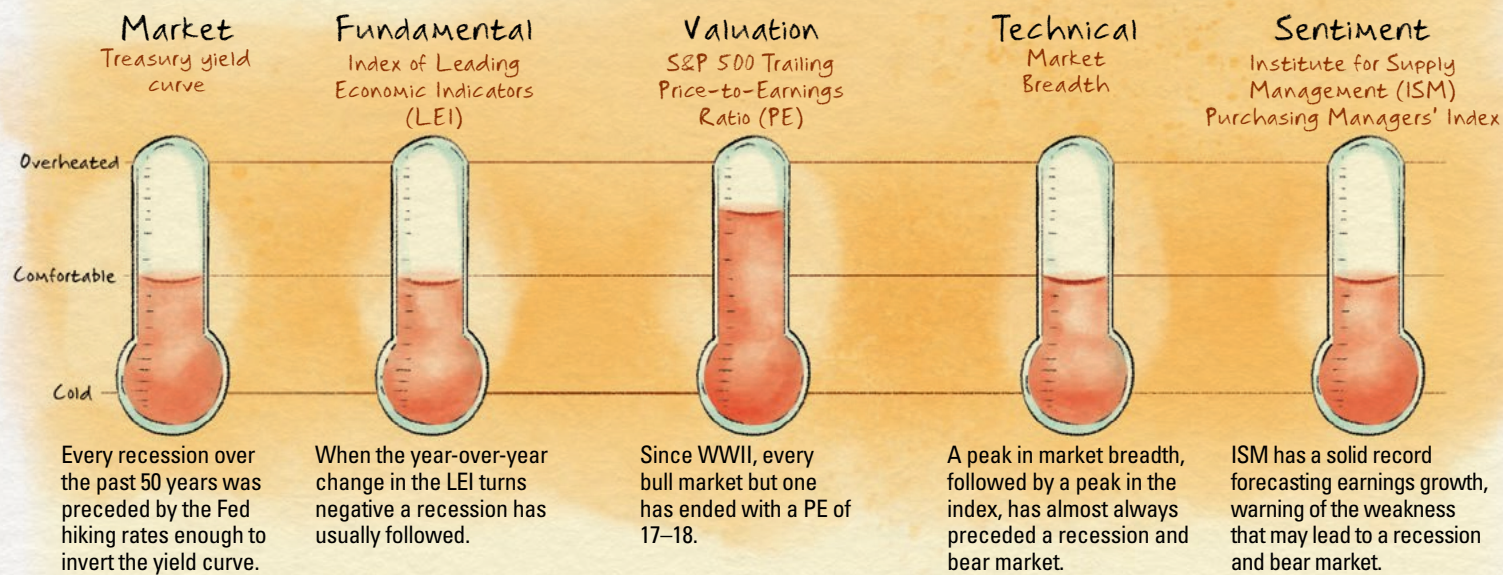
Middle of the Growing Cycle

While the U.S. economy has grown over time, the growth has not been in a straight line. The variations in the pace of growth around the long-term trend are called economic cycles, which have four distinct stages.



The Signs of Harvest Time

Five key indicators have consistently stood the test of time and reliably signaled the increasing fragility of the economy, a transition to the "overheated" late stage of the economic cycle, and an oncoming recession. As of mid-2014, here is what the five measures are telling us.



Source: LPL Financial Research 06/18/14

*As noted in the Outlook 2014: The Investor's Almanac, LPL Financial Research expects GDP to accelerate from the 2% pace of recent years to 3% in 2014. Since 2011, government spending subtracted about 0.5% each year from GDP growth. Government spending should be less of a drag on growth, which when combined with better global growth and business spending would result in +1% increase for 2014.

Guide to
Growing & Preserving
Your Portfolio

Mid-year & mid-cycle portfolio investment considerations



Consider adding some of these to your growing portfolio

- International (Developed Market) Stocks
- Emerging Market Stocks
- Fixed Income Alternatives
- Emerging Market Debt
- Bank Loans



Ensure plenty of portfolio space for these

- V.S. Large Cap Stocks
- Cyclical Stocks
- Intermediate-Term Bonds
- High-Yield Bonds
- V.S. Small Cap Stocks



Consider reaping these that are not in season

- Defensive Stocks
- High-Quality Bonds
- Long-Term Bonds
- International (Developed Market) Bonds
- Investment-Grade Corporate Bonds
- Municipal Bonds



Beyond the Cycle

The economic cycle is relevant for managing risk and return over the short and intermediate term. However, it also makes sense to look beyond the economic cycle to investing themes that may reward investors over a longer time horizon.

Super Themes

We believe there are three broad categories of long-term investment opportunities, which we call "super themes"



Waves of Innovation

What new inventions are likely to impact companies?



Consumer Currents

What are consumers likely to increasingly spend their money on?



Global Policy & Income Climate

What impact will changes in global policies have on the markets and economies?

Source: LPL Financial Research 06/18/14

Investing involves risk including loss of principal.



We predicted that this year the economy would finally break out of its subpar, post-crisis pace of growth and provide a lift to stock prices and bond yields. At the end of 2013, we forecast the economy, measured by gross domestic product (GDP) growth, would accelerate over the pace of 2013 by about 1% in 2014, stocks would post low double-digit gains, and bond returns would be flat as interest rates rose.

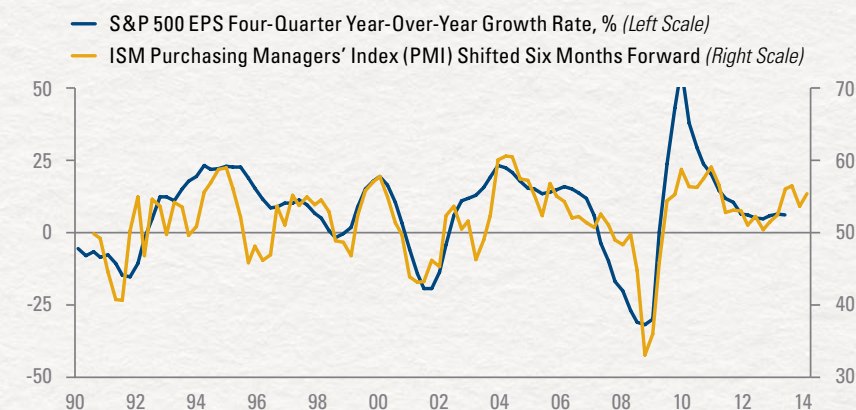
But for much of the first half of the year, 2014 appeared to be on a path leading away from all of those outcomes. In the first quarter, GDP was negative, stocks were relatively flat, and bond yields fell to 2.5%, leading bonds to post modest gains. Of course, there was an easy excuse for this: weather. An unusually cold and snowy winter in the United States, consisting of 26 named winter storms, set many new records and locked up port traffic, manufacturing, and retail supply chains; weighed on employment; and kept many buyers at home—away from shopping malls and auto lots.

The stormy weather contributed to stormy markets, with the stock market at one point suffering a “market storm” of a greater than 5% pullback while bond yields fell about 0.5%. Economic data disappointed expectations with the Citigroup Economic Surprise Index, which tracks how data are faring relative to expectations, turning down sharply (the index falls when the data are coming in weaker than expected and rises when coming in better). The big question facing investors in the first half of the year was: is the slowdown due solely to the weather—or not?

The arrival of spring became a moment of truth. If the economic data continued to weaken, it would mean that something was more deeply wrong with the economy than merely the weather. If spring led to a rebound, then it meant the weakness in the first quarter was weather related, and our forecast for a breakout in the economy to a faster pace of growth was still on track. Spring arrived, and fortunately, so did the economic snapback.

- In manufacturing, key measures like shipping traffic and new orders rebounded. The widely followed Institute for Supply Management (ISM) Purchasing Managers’ Index has a solid track record forecasting earnings growth in coming quarters. While the ISM slid in the first quarter—from December 2013’s reading of 56.5 to January 2014’s 51.2—this indicator has recovered [Figure 1] and now points to a 5–10% earnings per share growth rate on a year-over-year basis in the coming quarters as the economy thaws from the first quarter’s deep freeze.
- The consumer has come out of hibernation. Retail sales jumped in late April and early May with year-over-year sales doubling the pace of the prior three months, according to data from the International Council of Shopping Centers. Automakers saw the best month in May since before the recession. May sales came in much better than expected and were the strongest ever for Audi, Nissan, BMW, and Mercedes.
- Job growth improved in April and May, and those filing for unemployment benefits for the first time fell to post-recession lows.

1 Earnings Indicator Pointing to Improving Growth



Source: LPL Financial Research, Thomson Financial, Bloomberg data 06/18/14

Past performance is no guarantee of future results.

- The markets also warmed up with the weather. The second quarter saw a return to the environment we anticipated with GDP growth tracking to a range of 4–5% (based on data released thus far) leading stocks to post gains and bond yields to climb off of their lows. We remain committed to our forecasts for 2014.

As we noted in our Investor’s Almanac, the biggest risk to our outlook is that stronger earnings growth does not develop and economic growth remains lackluster, bond yields fall, and stocks fail to post gains. “Growth scares” have already led to market storms this year, with a 6% decline in January. Historically, the S&P 500 Index has experienced four 5% or more pullbacks per year, on average. Economic data rarely move in a straight line, and more volatility from growth scares may be in store for the second half. We are increasingly focused on broadening signs of sustainable, renewed growth. However, there is still a risk growth does not pick up beyond last year’s pace stemming from the potential impact of non-weather-related extreme events from geopolitics or policy changes.

We continue to believe domestic politics will pose less risk to the markets and the economy in 2014 relative to the budget and debt ceiling battles seen in 2013. In fact, politics may actually act as a small positive. There are 21 Democratic seats and 15 Republican seats up for re-election in the Senate this year. With the current 55–45 split, Republicans would need to pick up six seats to take effective control of the Senate. Based on state polling and analysis from non-partisan experts like Charlie Cook, the odds appear to favor the Republicans picking up the Senate, which would give them control of both houses of Congress and make President Obama’s last two years in office even more of a lame duck session.

The latest report from the National Federation of Independent Business, the leading small business association in the United States, shows that taxes and government regulation are most frequently cited as the two biggest problems facing U.S. businesses. In fact, taxes and regulation have eclipsed sales growth, which had been cited as the number one problem in recent years [Figure 2]. Regulation has been the only category of problems that has been rising for the past five years and stands closest of all problems to its 40-year high. Whether this business menace is real or just perceived, it may be sapping the confidence of business leaders and investors, and the idea of change in Congress to a more business-friendly environment may be a welcome thought for small business owners, potentially leading to a faster pace of hiring and investment.

Mid-Term Election and Republican Control of Congress

Historically, when Republicans control both the House and Senate, the stock market produces above-average gains. However, it is not a robust data set—there have only been two periods when the Republicans held both houses since 1950. Both were generally favorable periods for the stock market: from November 8, 1994 to November 7, 2000, the S&P 500 Index rose 23% on an annualized basis; and from November 5, 2002 to November 7, 2006, stocks rose at a 13% annualized pace. This is interesting, but not really convincing as the driving factor of performance, given all the other events that occurred during those two periods.



2 May 2014 National Federation of Independent Business Survey: Single Most Important Problem

Problem	Current	Survey High	Survey Low
Taxes	25	32	8
Govt. Reqs. & Red Tape	20	27	4
Poor Sales	12	34	2
Quality of Labor	10	24	3
Cost/Avail. of Insurance	9	29	4
Comp. From Large Bus.	8	14	4
Other	5	31	1
Inflation	4	41	0
Cost of Labor	4	9	2
Fin. & Interest Rates	3	37	1

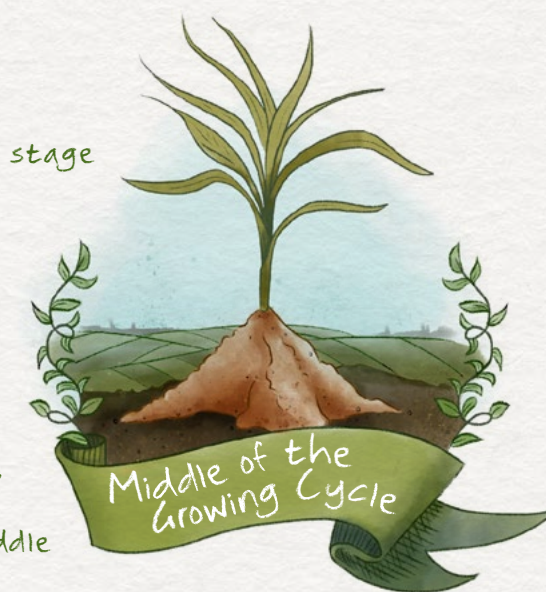
Source: LPL Financial Research, National Federation of Independent Business data 06/18/14

Based on a survey of small and independent business owners.

With the cold weather now behind us and the hot air of the political season ahead, 2014 is poised to break out of the subpar, post-crisis pace of growth in the economy and provide a lift to stock prices and bond yields.

The United States is in the middle stage of the economic cycle, presenting unique investment opportunities and risks for investors.

While the U.S. economy has grown over time, the growth has not been in a straight line. The variations in the pace of growth around the long-term trend are called economic cycles. Economic cycles have four distinct stages: recession, early (recovery), middle (mature), and late (aging).



The early stage of the economic cycle following a recession, usually referred to as a recovery, is typically characterized by stimulus from the Fed as economic activity, employment, and the stock market recover the losses stemming from the recession. The U.S. economy has passed this early stage:

- Economic activity has fully recovered with key measures of output, like industrial production, hitting a new post-recession high in late 2013.
- All of the jobs lost during the recession have been recovered as of May 2014.
- The S&P 500 Index recouped all of its losses and hit a new all-time high in 2013.
- The Fed is tapering its bond-buying program and will almost certainly end it later this year.



While the early stage, or recovery, is complete, we believe the late-cycle, aging stage is still at least a year or two away. The late-cycle environment is considered an "overheated" stage when the economy is poised to slip into recession and typically is characterized by:

- Above-trend rates of inflation
- Slowing economic growth
- Increasingly restrictive monetary policy from the Fed
- Tightening credit availability
- Deteriorating corporate profit margins
- Building inventories

We will present the key indicators of the rising risks to investors of the late-cycle stage to watch out for in the next section.



We have entered the middle stage, or mature phase, of the U.S. economic cycle. The second half of 2014 will be characterized by a mid-cycle environment that will likely continue to be in place for

many quarters ahead—not just the next two that make up the rest of the year. The mature, mid-cycle stage of this business cycle may have these typical characteristics:

- Moderate GDP growth
- Global growth that is not dramatically out of sync with the United States
- Slow return of inflation from below-average levels
- Gradual normalization of Fed policy
- Rising interest rates
- A yield curve that is steep, but flattening

- Individual investors increasingly putting money to work in the stock market, which helps to drive what are typically double-digit annual returns
- Periods of volatility and corrections that result in inconsistent sector performance
- Corporate profit margins peaking

The Seasons of the Economic Cycle

While the U.S. economy has grown over time, the growth has not been in a straight line. The variations in the pace of growth around the long-term trend are called economic cycles, which have four distinct stages.



U.S. Economy

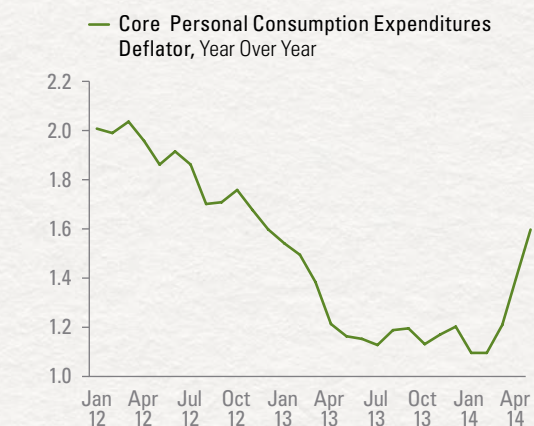
In June 2014, the U.S. economy will begin the sixth year of the economic expansion that began in June 2009, according to the National Bureau of Economic Research. The U.S. economy is firmly in the middle stage of the economic cycle. Economic growth tends to be moderate as the business cycle matures, averaging 3–4% growth in GDP. In addition, the drivers of growth tend to shift with the pace of consumer spending moderating and business spending accelerating. We look forward to a recovery in business spending in the quarters ahead.

Consistent with the typical characteristics of the mature, middle stage of the business cycle, our forecast for U.S. GDP growth in 2014 remains at 3%. Specifically, we expect a snapback in growth in the second quarter from the harsh winter weather in the first quarter, and then above-trend growth in the second half of the year. This growth is likely to be led by solid consumer spending, a pickup in business spending, and an ongoing recovery in housing construction. In addition, government spending—which has been a drag on growth for the past several years as spending cuts took effect—should be a small plus in the second half of this year. The consensus of economists tracked by Bloomberg for GDP growth outlook is 2.5%. Our view on the economy for 2014 remains above the consensus.*

Over the past 50 years, the middle stage of the business cycle is often a turning point for inflation. In five of the six economic expansions since 1960, the inflation rate, as measured by the core Personal Consumption Expenditures (PCE) deflator (the Fed's preferred measure of inflation), ran at a faster pace in the second half of the recovery than it did in the first half. As the economy improves modestly over the second half of the year, a better labor market should allow wages to drift a bit higher, which, in turn, will likely put a floor under inflation. The PCE deflator excluding food and energy (known as the core PCE deflator) fell as low as 1.1% in early 2014, but accelerated to 1.5% in May 2014 [Figure 3]. We expect inflation to continue to rise modestly over the remainder of 2014. However, it is important to note that the Fed does not see this measure of inflation reaching its long-term target of 2.0% until at least 2016.

The Fed's actions typically shift in the middle stage of the economic cycle. In the first half of five of the six economic cycles since 1960, the Fed cut rates to encourage borrowing and aid growth. However, the opposite occurred in the second half of six of the economic cycles since 1960 in an effort to normalize interest rates and cool the economy. The transition from lower to higher interest rate policy typically happens during the mature stage of the cycle, after the recovery stage, but well ahead of the aging stage of the cycle when the Fed goes beyond normalizing rates and takes short-term rates higher to cool down an overheated economy.

3 Inflation Re-accelerating



Source: LPL Financial, Bloomberg data 06/26/14

Personal Consumption Expenditures (PCE) is a measure of price changes in consumer goods and services. Personal consumption expenditures consist of the actual and imputed expenditures of households; the measure includes data pertaining to durables, non-durables, and services. It is essentially a measure of goods and services targeted toward individuals and consumed by individuals.

*As noted in the Outlook 2014: The Investor's Almanac, LPL Financial Research expects GDP to accelerate from the 2% pace of recent years to 3% in 2014. Since 2011, government spending subtracted about 0.5% each year from GDP growth. Government spending should be less of a drag on growth, which when combined with better global growth and business spending would result in +1% increase for 2014.

As the transition in Fed policy develops, the Fed will likely continue to taper its bond-buying program by \$10 billion per meeting, which will lead to an exit from the program altogether by the end of 2014, and begin to raise interest rates by late 2015. That schedule assumes the economy tracks closely to the Fed's forecast of near 3.0% GDP growth for 2014 and 2015, the unemployment rate declines steadily to around 5.5%, and inflation ticks up to near 2.0%. We believe these are reasonable assumptions for the years ahead, but we believe the Fed will take a go-slow approach to attempt to ensure robust economic improvement before raising rates.

Global Economy

Unlike in 2008 and early 2009, when virtually all global economies were in recession, and mid-to-late 2009 through 2010, when most global economies were in recovery, the global economic cycle has become more "multi-speed" in recent years, with many economies falling out of sync with the U.S. economic cycle. Some economies are slowing, others are accelerating. Likewise, a few central banks are cutting rates, while others are raising rates, and many others are firmly on hold. This is the case for both developed economies and emerging markets. Generally speaking, we continue to expect that the global economy is likely to accelerate in 2014 relative to 2013's growth rate.

More specifically, interest rate cuts by the European Central Bank (ECB) at mid-year and the huge bond-buying program from the Bank of Japan may provide markets with comfort that the global economy is indeed poised to accelerate in the second half of this year. In addition, in May and June 2014, Chinese authorities, including the central bank, initiated several attempts to stimulate growth in China. For example, the central bank has encouraged lending by banks, and the central government has urged provincial and local governments to speed up spending on infrastructure projects to boost growth. We continue to expect that China's economy may grow 7–7.5% in 2014 (as targeted by the Chinese central government), avoiding a hard landing (~5% growth), but not returning to the booming growth of about 10% of the early 2000s, either.

Finally, accelerating growth in the U.K. economy—the world's fifth largest—thus far in 2014 has been a tailwind for global growth. The U.K. economy is on the upswing, spare capacity is being used, and inflation is moving higher. The Bank of England may become the next major global central bank to begin raising rates.

Generally speaking, international stock markets are composed of more economically sensitive stocks than the U.S. markets and can outperform during this stage of the cycle if growth supports it and valuations are attractive. After years of avoiding international and emerging market stocks, we believe, on balance, these factors are beginning to favor the return of some portfolio exposure, but added slowly as evidence of a lasting turn in economic performance mounts.

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

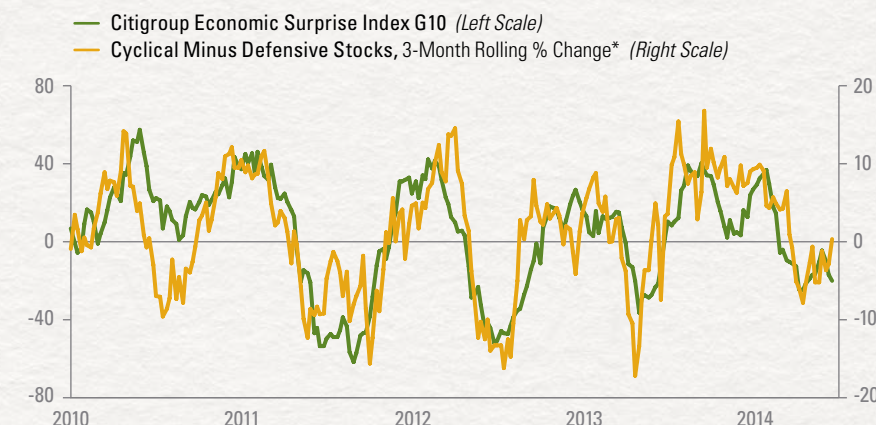
Stock Market

In the middle stage of the economic cycle, stock market returns tend to be solid as individual investors pour money into the market. Inflows to funds that invest in U.S. stocks reveal that investors have only recently recovered the courage to return to the stock market, perhaps because the trailing one-, three-, and five-year returns for stocks have all been in the double digits in the first half of the year, according to broad stock market averages.** In fact, double-digit returns are common for this stage of the economic cycle. But this also tends to be the stage where corrections are most common. The stock market tends to begin to experience a rise in volatility as the mid-point of the economic cycle passes. This can lead to uncomfortable short-term declines, despite longer-term gains. In a typical mid-cycle year, stocks experience four declines of 5% or more and one decline of more than 10%.

Due to the volatility in this stage of the cycle, sector leadership has rotated frequently. This has two main implications for investors:

- First, this results in the least sector performance differentiation of any stage of the business cycle. Holding strategic, long-term over- and underweights to different sectors of the stock market has less portfolio impact than when the economy is rebounding or sliding into recession.
- Second, the volatility creates tactical, shorter-term opportunities to potentially profit from over- and underweighting certain sectors. It is important to watch the Citigroup Economic Surprise Index to determine if it is time to overweight cyclical sectors (like consumer discretionary and information technology) or defensive sectors (like health care and utilities) [Figure 4].

4 Mid-Cycle Sector Leadership Driven by Economic Surprises



Source: LPL Financial Research, Bloomberg data 06/18/14

*Rolling 3-month performance of S&P 500 cyclical sectors (technology, industrials, materials, consumer discretionary) less defensive sectors (utilities, telecommunications, health care, consumer staples).

Past performance is no guarantee of future results.

At this stage of the economic cycle, profit margins peak as costs for key inputs like labor and raw materials begin to rise. This tends to favor larger cap companies that have historically been better able to maintain their margins in the face of rising input costs. However, the more domestic concentration of sales for smaller companies may support the performance of small capitalization stocks relative to large when U.S. growth is accelerating, as we expect it to in the second half of 2014.

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.

**Indices include: S&P 500, Russell 2000, DJIA, NASDAQ.

Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

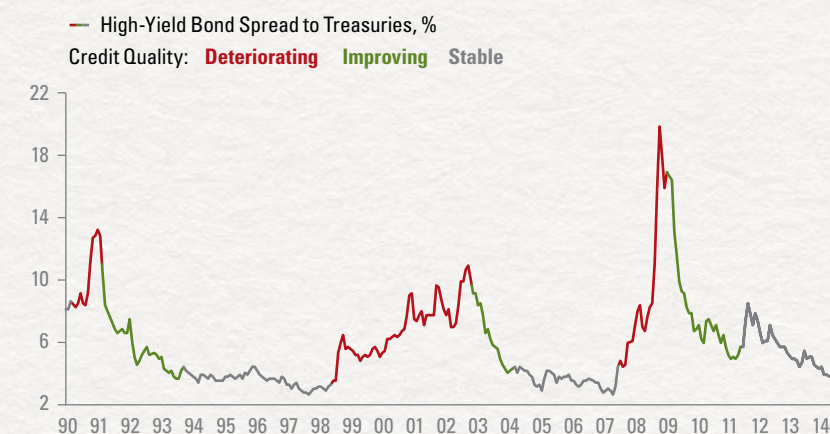
Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

Bond Market

Moderate economic growth, a turnaround in inflation, and the start of interest rate hikes by the Fed—typical of the middle stage of the economic cycle—suggest higher interest rates are likely in the second half of the year and over the years ahead that make up the remainder of the second half of the economic cycle. The bond market is mispriced for a normalization of interest rates by the Fed and a gradual rise in inflation. In general, bond prices reflect an expectation that the Fed may raise interest rates very slowly and not as high as the Fed’s own forecast. This has left bond prices very expensive relative to history. Bond prices may weaken steadily over the remainder of 2014, leading to roughly flat returns as investors demand higher yields to protect against an increase in inflation.

The middle stage of the economic cycle is usually characterized by a healthy credit environment in corporate America. Credit quality, the ability to repay debt obligations, remains strong and supported by mid- to high single-digit earnings growth. Low interest rates have allowed corporate bond issuers to refinance debt, lower interest costs, and extend maturities—all of which have led to few defaults. In the United States, the dollar volume of defaults among speculative grade issuers remains near 1%, a level that bond rating agency Moody’s forecasts is unlikely to change much over the coming year. Strong credit quality is a key fundamental support for corporate bonds and other economically sensitive fixed income sectors. However, credit spreads have narrowed, leaving price gains largely in the past. Now, typical to the middle stage of the cycle, the stable credit environment puts the focus of the bond market on yield [Figure 5].

5 Yield Spreads Have Narrowed to Pre-Crisis Levels but May Remain Stable for a Long Time



Source: LPL Financial Research, Barclays High-Yield Index 05/09/14

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.

Past performance is no guarantee of future results. Indexes are unmanaged and cannot be investing into directly.

High-yield corporate bonds have historically weathered rising interest rates better than most fixed income sectors during this stage of the economic cycle [Figure 6]. Specifically, high-yield corporate bonds have often managed positive total returns during periods of rising interest rates due to their higher yields and moderate economic growth underpinning the creditworthiness of borrowers and keeping default losses low.

6 High-Yield Bonds Performed Best During Periods of Rising Rates Over the Past 20 Years

Average Period of Rising Rates	Change in 10-Year Treasury Yield	Average Sector Performance*					
		Broad Bond Market	Treasury	Municipal Bonds	Mortgage Backed Securities	Corporates	High-Yield
5 Months	+1.2%	-2.2%	-3.6%	-1.6%	-0.9%	-2.4%	+4.7%

Source: LPL Financial Research, Barclays Index data 06/18/14

*Indexes: Broad Bond Market—Barclays US Aggregate Bond Index; High-Yield—Barclays US High Yield Corporate Index; Mortgage-Backed Securities (MBS)—Barclays US MBS Index; Treasury—Barclays US Treasury Index; Municipal—Barclays Municipal Bond Index—Barclays US Corporate Index.

The indexes are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges or other expenses. The results do not reflect any particular investment. Past performance is no guarantee of future results.

Higher valuations, with bond sector yields near the low end of their ranges, have increased the challenges facing investors in the bond market. Among taxable high-quality bonds, investment-grade corporate bonds may benefit from continued economic growth, but lower yields and a reduced yield premium, or spread, over comparable Treasury bonds suggest the sector will not be immune as interest rates rise. Similarly, lower yields and narrower yield differentials between high-quality municipal bonds and Treasuries indicate municipals may also be impacted by rising interest rates. Higher valuations suggest total returns may be significantly lower than the first half of 2014 for all bond sectors, especially those more susceptible to interest rate risk. Overall, the appeal of high-quality bonds as investment options has diminished.

As the business cycle matures, the yield curve, the differential between short- and long-term bond yields, remains wide, or “steep,” but begins to slowly narrow, or “flatten,” as the timing of the Fed’s first rate hike slowly grows near. As of mid-June 2014, the 2-year Treasury yielded only 0.15% more than the upper end of the Fed’s current 0–0.25% range for the fed funds target rate. At the start of Fed interest hikes in the middle stage of prior cycles, this gap has historically averaged 1.0%, suggesting that short-term rates have room to rise. Higher short-term rates are likely to ripple across the maturity spectrum and push intermediate- and longer-term yields higher, but likely not by the same magnitude.

Among high-quality bonds, shorter-term bonds with less sensitivity to rising interest rates may help buffer fixed income portfolios from price declines associated with rising interest rates. A combination of short- to intermediate-term bonds may provide portfolio diversification benefits while also providing less interest rate risk relative to the broad bond market as measured by the Barclays US Aggregate Bond Index.

While the curve is likely to flatten, it is also likely to remain relatively steep. This suggests modest exposure to intermediate-term bonds may be appropriate. The yield differential between short- and intermediate-term bonds remains relatively wide [Figure 7] and in the event of an adverse shock to financial markets or the economy, intermediate-term bonds may provide better diversification benefits for investor portfolios. The greatest risk lies in long-term bonds, especially after the strong start to 2014.

Mortgage-backed securities (MBS) are subject to credit, default risk, 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, and interest rate risk.

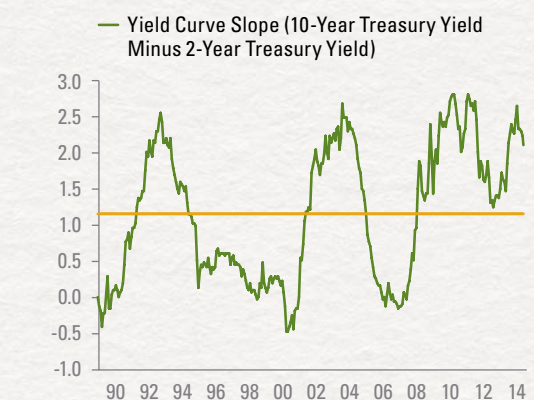
Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate, and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity and redemption features.

High-yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB or above. They generally should be part of a diversified portfolio for sophisticated investors.

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

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.

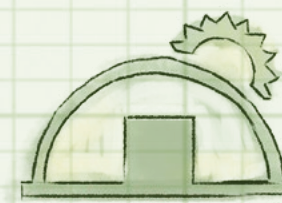
7 The Yield Curve May Flatten More but Should Remain Historically Steep



Source: LPL Financial Research, Bloomberg data 06/09/14

Alternatives to the Bond Market

Some alternatives may be helpful in seeking potential income that is less sensitive to rising interest rates than traditional bonds. These include: bank loans, business development companies (BDCs), real estate investment trusts (REITs), master limited partnerships (MLPs), liquid alternatives, and merger arbitrage strategies.



Bank Loans

Bank loans offer a unique feature that allows the interest rates on these loans made to businesses to rise along with short-term interest rates, protecting investors during bouts of rising interest rates. This is an attractive feature, especially when combined with a yield similar to high-yield corporate bonds. While bank loans can suffer losses when economic growth deteriorates, negatively impacting the ability of companies to repay their borrowings, we expect solid economic growth in the quarters ahead. Finally, bank loans performed well in last year's interest rate run-up from May to July 2013.

REITs

In 2013, interest rates went up in the late spring and early summer without better economic growth, leading to poor returns for REITs. Relatively few REITs can reset their rates on a calendar year (or more frequent) basis. Though still a risk for the quarters ahead, in the second half of 2014 we expect better growth to accompany the rise in rates—providing better support for REITs as occupancy and rents rise. REIT yields are in line with the 10-year historical average of the NAREIT Index of 1.5% over the 10-year Treasury and 2% over the S&P 500 Index, which, along with other measures, suggest an average relative valuation. Nevertheless, the yield on REITs provides less of a cushion for total return against price losses from rising interest rates than other alternatives or the high-yield corporate bond market.

Bank loans are loans issued by below investment-grade companies for short-term funding purposes with higher yield than short-term debt and involve interest rate, credit/default, and liquidity risks.

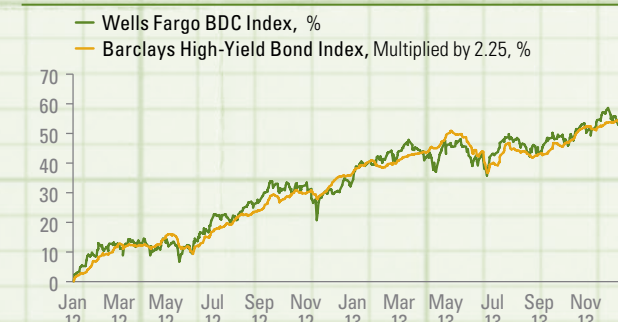
There is no guarantee that the business development company (BDC) will achieve its investment objectives. Investing in private equity and private debt is subject to significant risks and may not be suitable for all investors. These risks may include limited operating history, uncertain distributions, inconsistent valuation of the portfolio, changing interest rates, leveraging of assets, reliance on the investment advisor, potential conflicts of interest, payment of substantial fees to the investment advisor and the dealer manager, potential illiquidity, and liquidation at more or less than the original amount invested.

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.

BDCs

Business development companies function like banks by lending money to businesses. BDCs have flexibility to buy less senior structured loans, so they may carry more credit risk and can be vulnerable if the economy deteriorates and companies are unable to repay their debts. Illustrating this heightened leverage and credit exposure, during the past two calendar years the Wells Fargo BDC Index has returned, on average, 2.25 times the Barclays Capital High-Yield Bond Index [Figure 8]. It is a good idea to keep the 2.25 factor in mind when considering weighting and overall portfolio credit exposure.

8 Keep the 2.25 Factor in Mind When Allocating to BDCs



Source: LPL Financial Research, Bloomberg data 06/20/14

All indices are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges or expenses. The results don't reflect any particular investment.

Past performance is no guarantee of future results.

MLPs

Despite strong performance in recent years (the Alerian MLP Index has an annualized 15.2% return since inception in June 2006), MLPs currently yield 5.3%, thanks to the American energy renaissance unleashing massive, previously untapped, amounts of crude oil into the economy.*

U.S. crude output is growing nearly 10% per year, with projections that the United States will become the world's largest producer in 2014, overtaking Russia, according to the Energy Information Agency. Much of that oil has to go through MLP-owned pipelines before reaching refiners or export terminals. U.S. crude pipelines, about 40% of MLPs, adjust their "tolls" each year in July based on the Producer Price Index of Finished Goods plus 2.65%, helping their yield keep up with rising interest rates. Rising transportation demand may help to support another year of solid performance for MLPs in 2014, despite the risk posed by higher interest rates and some degree of commodity price sensitivity.

*As of 3/31/2014, the Alerian MLP Index yield was 5.8%. 1-year and 5-year annualized returns for the Index were 8.5% and 27.3% respectively. The Index is unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges and other expenses. The results do not reflect any particular investment. Past performance is no guarantee of future results.

**The Indexes are unmanaged and cannot be invested into directly.

Investing in MLPs involves a high degree of risk 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.

Additionally high management fees and other expenses are associated with investing in MLP funds.

Merger-arbitrage investing involves the risk that the Advisor's evaluation of the outcome of a proposed event, whether it be a merger, reorganization, regulatory issue or other event, will prove incorrect and that the fund could incur significant losses.

Nontraditional investments such as liquid alternatives 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 liquid alternatives investments may accelerate the velocity of potential losses.

There are other alternatives to traditional bonds that may not offer much income, but instead may provide a similar risk profile to what investors have come to expect from the bond market while maintaining lower interest rate sensitivity.

Merger Arbitrage

Merger arbitrage funds typically involve seeking to profit from the potential narrowing of the spread between the stock price and the acquisition price of a merger deal. Typically as the deal nears finalization, the spread shrinks. Deal activity is near its highest levels since before the financial crisis, which should provide an opportunity for gains. From a performance standpoint, historically, merger arbitrage has offered tame downside risk and relatively modest returns.

Liquid Alternatives

A conservatively constructed liquid alternatives portfolio can provide a risk and return profile similar to a traditional bond portfolio, yet offer the ability to protect investor capital during periods of rising interest rates. For example, a proxy for liquid alternatives exposure, the HFRI Fund Weighted Composite Index, gained 0.6% for the month of May 2013, at the same time rising interest rates drove the Barclays Aggregate Bond Index down 1.8%.**

Getting More Active

α
Alpha

A measure of performance independent of the overall market

β
Beta

A measure of performance relative to the overall market

Finally, active management may be making a comeback. After years of investors favoring passive, index-tracking investment vehicles as markets rebounded from the Great Recession, the market environment may be becoming more rewarding for active managers—a trend we call alpha over beta. Across markets, there is a general trend toward lower correlations, or greater dispersion of performance among securities and sectors, as is typical of the middle stage of the economic cycle. When markets are slipping into recession, in a recession, or rebounding from one, correlations tend to be higher as investments tend to move together driven by common macroeconomic factors. This widening dispersion can be seen this year in the rotation away from high-flying stocks in the biotech and internet retail industries earlier this year while other industries soared. Similarly, across other asset classes, the opportunity set in currency and commodity markets is benefitting active strategies, particularly in the case of commodities. We believe the market environment is becoming more favorable for some active managers that seek to add value through security, sector, and/or asset class selection.

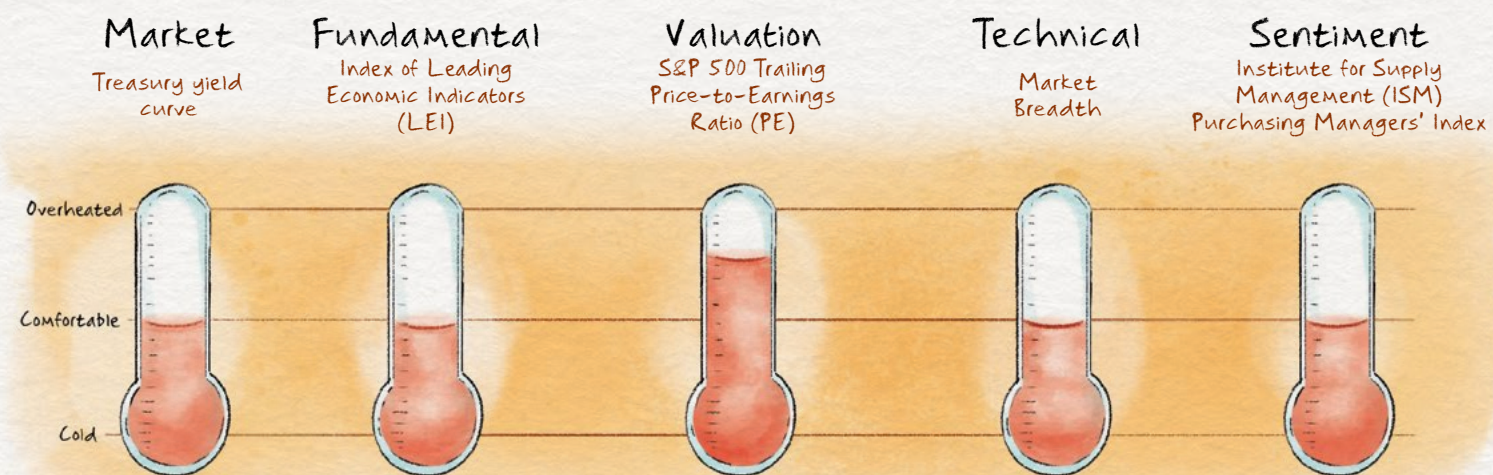
The volatility we call “market storms” is likely to continue to be a characteristic of markets this year, caused by well-known factors such as geopolitical conflicts, slower economic growth in China, or a weak start to the year for the U.S. economy, among others, but also lesser-known factors like the Ebola outbreak. So, while ongoing volatility with pullbacks of 5% or more is likely, a bear market—defined by a decline of 20% or more—is very unlikely in 2014.



The U.S. economy is in the mature, middle stage of the business cycle, but what lies ahead—though most likely at least a year or two away—is the late cycle stage. Described in the prior section, that stage is considered an “overheated” or aging stage of the economic cycle where the economy is poised to slip into recession. Almost without exception, recessions end bull markets for stocks and result in cyclical bull markets for bonds. Therefore, they warrant a shift to a defensive posture by investors when the time comes. Here we present the key signs of the late-cycle stage for investors to watch out for to harvest their profits.

The Five Forecasters

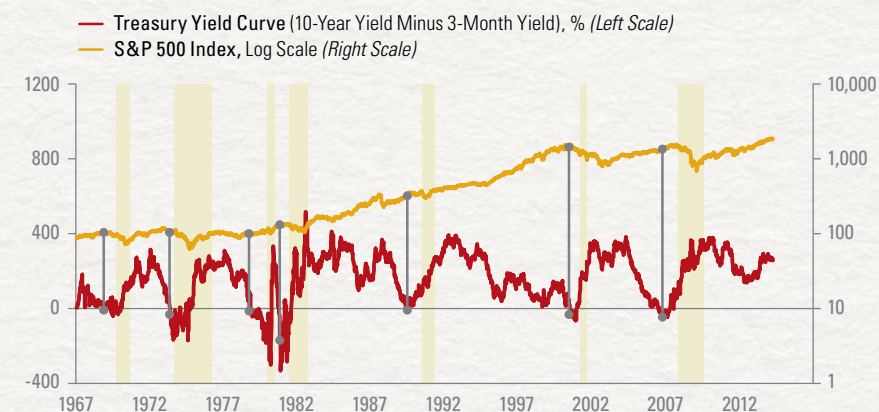
Five key indicators have consistently stood the test of time and reliably signaled the increasing fragility of the economy and a transition to the late stage of the cycle and an oncoming recession. The market, fundamental, valuation, technical, and sentiment indicators are:



Market Indicator: Treasury Yield Curve

Market participants have become worried about when the Fed may start hiking short-term interest rates. Many market participants currently expect the Fed to begin rate hikes sometime in 2015. But history shows that the start of rate hikes does not really matter that much to stocks after an initial dip and quick recovery. Instead, bull markets end and bear markets begin when the Fed pushes short-term rates above long-term rates. This is referred to as “inverting the yield curve.” For example, the S&P 500 Index peaked in 2000 and 2007 when the 3-month to 10-year yield curve was inverted by about 0.5% (3-month Treasury yields were about 0.5% above the yield on the 10-year Treasury note) [Figure 9].

9 Yield Curve Inversions Mark Stock Market Peaks



Source: LPL Financial Research, Bloomberg data 05/12/14

Gray bars indicate when yield curve began to invert. Shaded areas indicate recession. Past performance is no guarantee of future results.

Why does an inverted yield curve signal a major peak for the stock market? Because every recession over the past 50 years was preceded by the Fed hiking rates enough to invert the yield curve. That is seven out of seven times—a perfect forecasting track record. The yield curve inversion usually takes place about 12 months before the start of the recession, but the lead time ranges from about 5 to 16 months. The peak in the stock market comes around the time of the yield curve inversion, ahead of the recession and accompanying downturn in corporate profits.

How far the Fed must push up short-term rates before the yield curve inverts by 0.5% depends on where long-term rates are. Even if long-term rates stay at the very low yield of 2.6% seen in mid-June 2014, to invert the yield curve by 0.5% the Fed would need to hike short-term rates from around zero to more than 3%. Based on the latest survey of current Fed members that vote on rate hikes, they do not expect to raise rates above 3% until sometime in 2017, at the earliest. The facts suggest the best indicator for the start of a bear market may still be a long way from signaling a cause for concern.

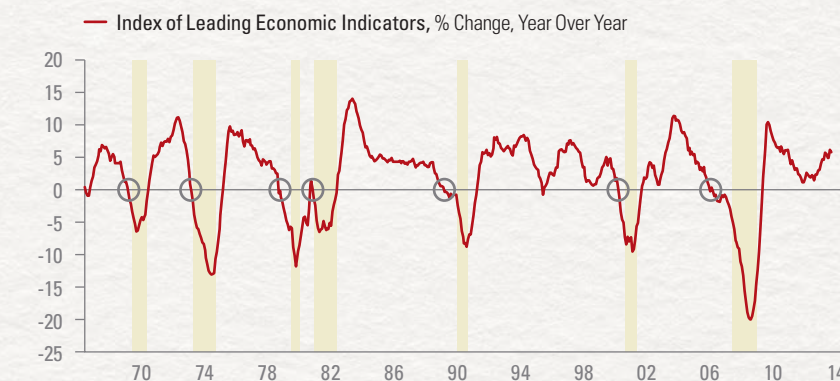
Fundamental Indicator: Index of Leading Economic Indicators

The Index of Leading Economic Indicators (LEI)—compiled by the Conference Board, a private sector think tank—is comprised of 10 primarily fundamental economic indicators and is designed to predict the future path of the economy, with a lead time of between 6 and 12 months. When the year-over-year rate of change in the LEI turns negative and begins to fall, a recession has historically followed by anywhere from 0 to 14 months [Figure 10].

The year-over-year increase in the LEI in April 2014 was 5.9%. Since 1960, the year-over-year increase in the LEI has been at least 5.9% in 211 of 652 months. Not surprisingly, the U.S. economy was not in recession in any of those 211 months. Thus, it is highly unlikely that the economy is in a recession today, despite the below zero reading on real GDP in the first quarter of 2014. Looking out 12 months after the LEI was up 5.9% or more, the economy was in recession in just 9 of the 211 months, or 4% of the time.

On balance then, we would agree with the statistical evidence of the LEI that the risk of recession in the next 12 months is small at about 4%, but not zero. The LEI suggests the U.S. economy is in the middle of the cycle that began in mid-2009.

10 LEI Provides Early Warning of Recession



Source: LPL Financial Research, FactSet 06/18/14

Valuation Indicator: S&P 500 Trailing Price-to-Earnings Ratio

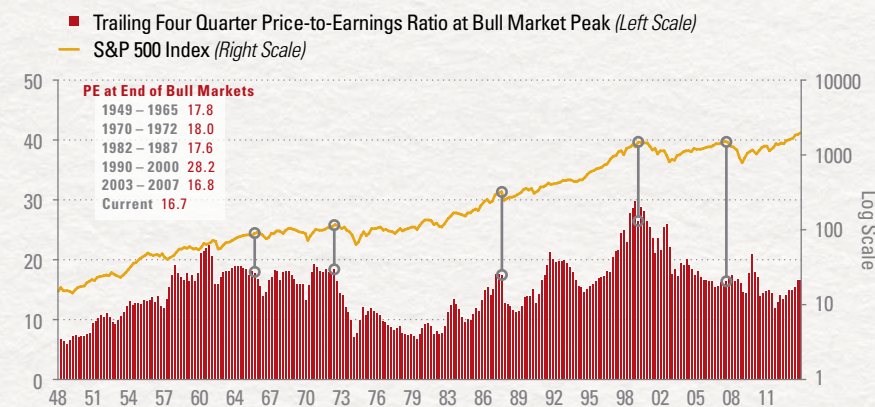
Stock market valuation is a poor market-timing indicator. While of paramount importance to investment returns over the long term, there is no relationship between price-to-earnings ratio (PE), or what investors are willing to pay today per dollar of earnings over the past four quarters, and stock market performance over the following year. However, the PE can tell you when the market has become fully valued and is more vulnerable to any deterioration in the economic cycle. The higher the PE, the brighter the implied outlook for future earnings growth and the greater the disappointment if that growth does not develop.

The current PE of just under 17 is above the long-term average (since 1927) of about 15. While this is above average, it is far from the peak of 2000. Nevertheless, it is approaching an important range. Since WWII, every bull market has ended with a PE of 17–18, with the exception of the bull market that ended in 2000, which peaked much higher.

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.

This is not to suggest the PE could not go higher than it is today—in past cycles the PE did reach a higher level before ending up around 17-18 as the stock market peaked and the bull market came to an end. But it is worth noting that this indicator suggests the bar for growth has been raised and stocks have become more vulnerable to any economic deterioration [Figure 11].

11 PE Provides Guidance on When Market May Be Vulnerable



Source: LPL Financial Research, Bloomberg data 06/18/14

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

Technical Indicator: Market Breadth

Analyzing market breadth has been a useful tool for predicting recessions and bear markets. Market breadth can be tracked by looking at the number of stocks that are advancing less those that are declining. By tracking how many stocks are taking part in a rally or sell-off, analysts can determine how broad the rally is and how durable it may be. A market that is rising on the strength of fewer and fewer stocks is more vulnerable to a decline.

Technical analysts typically use the NYSE Composite when analyzing market breadth because of its large number of constituents. If market breadth begins to decline and diverge from the rise in the NYSE Composite Index and is followed by a decline in the index as it begins to succumb to the dwindling number of stocks in the index that are still rising, a recession has often taken place in the following 1–16 months. Since the 1970s, a peak in market breadth followed by a peak in the price of the NYSE Composite Index has almost always preceded a recession and has always preceded a significant stock market decline [Figure 12].

12 Market Breadth Divergences Signal Bear Markets

Date of Market Breadth Peak	Divergence Confirmed	Bear Market	Magnitude of Index Correction
04/07/71	03/03/72	01/05/73–10/04/74	-49.6%
09/19/80	11/28/80	11/28/80–07/30/82	-26.3%
03/20/87	08/14/87	08/14/87–12/04/87	-32.5%
09/01/89	06/01/90	07/13/90–10/12/90	-17.9%
04/03/98	05/07/99	09/01/00–10/04/02	-35.6%
07/13/07	10/12/07	10/12/07–03/06/09	-58.4%

Source: LPL Research Financial, Bloomberg data 06/18/14

Currently, both market breadth and the NYSE Composite Index have been heading higher, indicating the potential for a rising stock market that is well supported.

Sentiment Indicator: ISM Survey

Earnings are the most fundamental driver of the stock market and most important product of economic growth for investors. Recessions are accompanied by declines in earnings. Fortunately, there is an excellent indicator of the future direction of earnings.

The Institute for Supply Management is an association of purchasing and supply management professionals. The ISM surveys its members each month and publishes the results in the form of an index. Purchasing managers are at the front of the line when it comes to activity in manufacturing, because orders for the supplies to produce products at manufacturing companies are a leading indicator of increased manufacturing, just as trimmed orders are indicative of a slowdown when demand pulls back. Although manufacturing makes up only about 40% of S&P 500 company earnings, demand for manufactured goods has proven to be a timely barometer of economic activity of all types. This index is published at the beginning of each month, offering one of the earliest signals of how the economy is faring each month and the outlook for businesses. The long history of the ISM shows us how effective it has been in signaling each recession and recovery.

The ISM has also been an excellent indicator for profits and has a solid track record forecasting earnings growth in coming quarters [Figure 1]. A peak in the ISM index suggests profits may peak six months later. This offers an early warning of the profit deterioration that may lead to a bear market and recession. The recent rise in the ISM index suggests improvement in earnings growth in the second half of 2014.

Harvest Signs

Looking at these five reliable indicators together points to an economy that may produce solid growth in the second half of this year and implies that we have at least a year or two before a recession and accompanying bear market for stocks and cyclical bull market for bonds becomes likely.

There are reasons the U.S. economy could experience a recession before these indicators start waving a red flag. However, the track record earned over 50 years of varying economic, legislative, regulatory, geopolitical, and social conditions is a testament to the robust nature of these indicators. Regardless, a dramatic deterioration of the fiscal and financial situation in Europe, a fiscal or monetary policy mistake in the United States or abroad, or an exogenous event (such as a major terror attack or natural disaster), among other events, may cause us to change our view that the odds of a recession in the United States in the next year remain low.



The economic cycle is relevant for managing risk and return over the short and intermediate term. However, it also makes sense to look beyond the economic cycle to investing themes that may reward investors over a longer time horizon.

Super Themes

A long-term outlook, unencumbered by concerns over the stage of the economic cycle, prompts three important questions:

- What new inventions are likely to impact companies?
- What are consumers likely to increasingly spend their money on?
- What impact will changes in global policies have on the markets and economies?

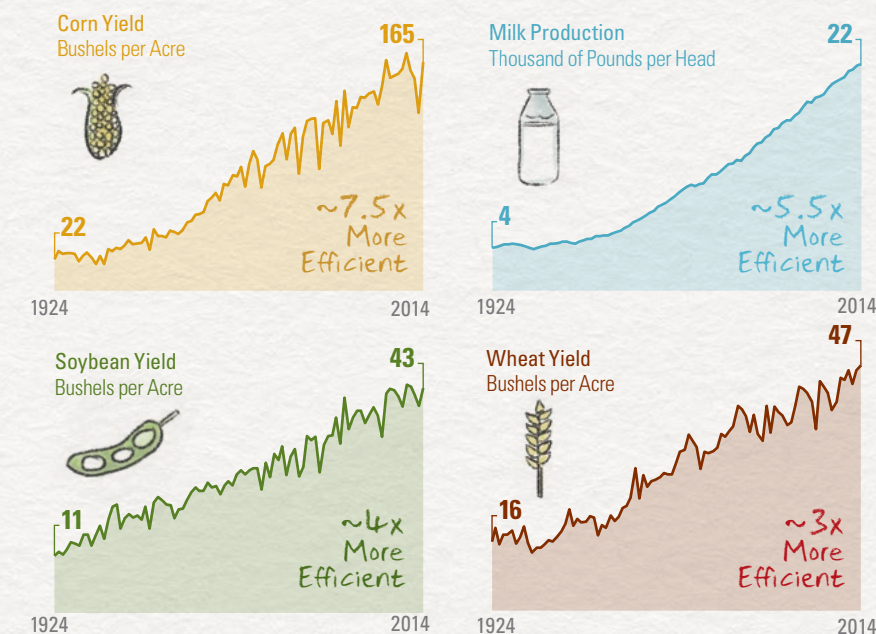
We believe the answers to these questions fall into three broad categories of long-term investment opportunities, which we call “super themes”: waves of innovation, consumer currents, and global policy & income climate.

In the spirit of the Investor’s Almanac, an illustration of this thematic approach can be seen in the U.S. farming sector. Consumers will always have to spend money on food regardless of their income—a consumer current that will never disappear. Additionally, as the world population grows and the rising middle class in the emerging markets demand more and better food, demand is likely to steadily increase. Government policy both here and abroad may open up more opportunity for U.S. farms to supply food to the world. Food is more affordable than ever before in the United States because the farm sector keeps getting more and more productive through the long-term benefits of innovation. The massive increase in efficiency and productivity of food production in the United States can be seen in the rising yields of corn, wheat, and soybeans and the historical productivity of milk production per cow, based on U.S. Department of Agriculture [USDA] data [Figure 13].

With such massive increases in productivity through logistical efficiencies and new technologies, it is not surprising that food affordability in the United States is at an all-time high when measured as a share of all consumer spending. The productivity of U.S. farms provides ample opportunity to increasingly meet the challenge of feeding the world. From a multi-asset class thematic standpoint, this could present investment opportunities in buying farmland, agribusiness or transportation companies.

Within the three super themes, there are other longer-term thematic investment opportunities that may also benefit from the current mid-cycle environment including U.S. energy innovation and the housing recovery. Implementing investments in these long-term themes still require the rigorous process of analyzing fundamentals, valuations, and technicals to determine if it is currently a suitable investment.

13 U.S. Farmers Have Become Massively More Efficient

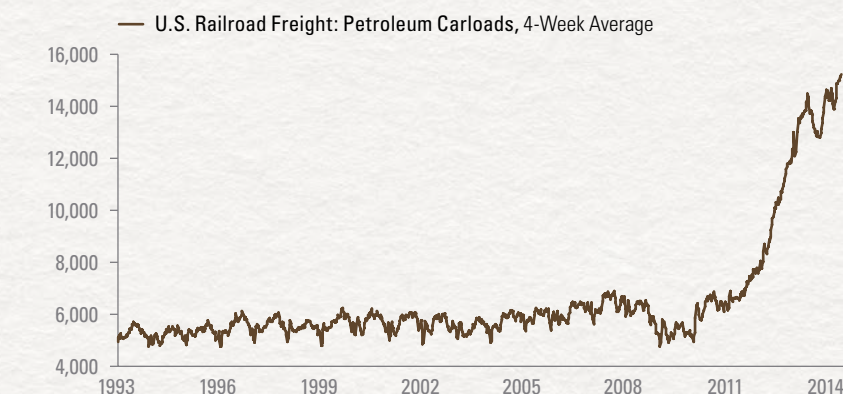


Source: LPL Financial Research, USDA 06/18/14

Energy Innovation

The United States is the largest producer of petroleum products in the world. According to the United States Energy Information Association (EIA), crude oil production continues to advance due to innovative technologies. Natural gas production is currently expected to rise by 56% between 2012 and 2040. The increase in the U.S. energy supply benefits the United States by both allowing us to become increasingly energy independent and balancing our international trade through increasing energy exports and curtailing imports. This may be done by rail or transport companies as well as by pipelines [Figure 14]. Oil and gas exploration companies, drillers, and companies involved in processing or transporting the fuel once it is out of the ground (rail companies, pipeline companies) should all benefit from this long-term theme.

14 Skyrocketing Petroleum Rail Traffic



Source: LPL Financial Research, American Association of Railroads 06/18/14

Housing Demand

U.S. demographics suggest housing demand has a long tailwind as the children of the baby boomers enter their prime home buying years. Pent-up demand has seen the inventory of unsold new and existing homes as a percent of the working age population fall to near a 20-year low.

Interest rates are still very low by historical standards, and the improvements in the labor market suggest the current environment is ripe for housing as an investable theme. Demand for new homes is likely to benefit homebuilders, while filling those houses may benefit home furnishers and home improvement companies, and more home loans benefit regional banks.

Looking Over the Horizon

Much of the investing industry remains focused on allocating to investments based on their characteristics, diversifying among large and small companies or growth and value types of companies, for example. While there are differences in the performance of these individual asset classes during the economic cycle, there is relatively little differentiation over the long term.

In contrast, long-term diversification is more likely to come from incorporating different long-term themes that may include multiple asset classes. Including some exposure to long-term thematic investments may help to provide a more complete strategy that looks beyond the economic cycle.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. Asset allocation does not ensure a profit or protect against a loss. No strategy assures success or protects against loss.



Behind The Scenes

ABOUT THE CREATION OF MID-YEAR OUTLOOK 2014

The folksy images and colorful palates of farmers' almanacs make them immediately identifiable as Americana. They have become part of the American cultural heritage and a nostalgic symbol denoting independence and a simpler life. The illustrations we created for our almanac are mindful of these principles, as we envision a return to the basics of growing and preserving portfolios in the year ahead, making the iconic visual metaphor of a farmers' almanac beautifully suited to our Mid-Year Outlook 2014.

We pride ourselves on having a unique Outlook that stands out — reflecting our independent thinking and commitment to core investment values. We hope you enjoy reading our Mid-Year Outlook 2014: The Investor's Almanac as much as we enjoyed creating it.

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 security. 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.

Economic forecasts set forth may not develop as predicted, and there can be no guarantee that strategies promoted will be successful.

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.

NYSE Composite Index measures the performance of all stocks listed on the New York Stock Exchange. The NYSE Composite Index includes more than 1,900 stocks, of which over 1,500 are U.S. companies.

Barclays US MBS Index covers agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) issued by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

Barclays US Treasury Index includes public obligations of the U.S. Treasury.

Barclays 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.

The Barclays US Bond Index measures the performance of the U.S. investment grade bond market.

The Wells Fargo BDC Index is a float adjusted, capitalization-weighted Index that is intended to measure the performance of all Business Development Companies that are listed on the New York Stock Exchange or NASDAQ and satisfy specified market capitalization and other eligibility requirements.

The Barclays High Yield Index covers the universe of publicly issued debt obligations rated below investment grade. Bonds must be rated below investment-grade or high-yield (Ba1/BB+ or lower), by at least two of the following ratings agencies: Moody's, S&P, and Fitch. Bonds must also have at least one year to maturity, have at least \$150 million in par value outstanding, and must be US dollar denominated and non-convertible. Bonds issued by countries designated as emerging markets are excluded.

The Alerian MLP Index is a composite of the 50 most prominent energy Master Limited Partnerships (MLPs).

The HFRI Fund Weighted Composite Index is designed to reflect hedge fund industry performance through an equally weighted composite of over 2000 constituent funds.



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