



2010 Outlook at a Glance



As 2010 gets underway the markets are likely to continue to perform as well as they have through the latter part of 2009. However, following a solid start, we expect a challenging second half of 2010. We anticipate the extraordinary global policy efforts that created a tailwind for markets in 2009 will fade, or even transition, to headwinds that may contribute to a renewed slowdown in the economy and a potentially challenging latter half of 2010 for investors.

2010 is likely to have two distinct periods. Initially, the macroeconomic backdrop during the early part of 2010 is likely to remain favorable for investors' portfolios. But as the year goes on, a renewed slowdown in the economy may cause markets to reverse course. Here we offer our perspective on how 2010 will unfold so you may best position your investment opportunities to work with the tail, head or crosswinds impacting the markets.

From Tailwinds to Headwinds

During 2009, the economy began its recovery. Economists often talk about different letters to describe the shape of the recovery: is it a "V"-shaped or very rapid recovery, or a slower-paced "U"; or an "L", meaning no recovery. We see the potential for a lopsided "W"-shaped pattern. The economy has experienced the sharp decline and rapid recovery of the first half of the "W," but there is the risk of another smaller decline in growth in 2010 as the stimulus fades and the tailwinds turn to headwinds.

Based on the path we believe the economy and markets will follow in 2010, we forecast the following:

- We see economic growth in the 3–4% range for the full year 2010, with stronger 3–5% growth in the first half and slower 2–3% growth in the second half.
- Job losses end in the first half of 2010. The transition from recovery to sustainable growth allows the Federal Reserve (the Fed) to begin to raise rates in the second half of the year, slowing the pace of economic growth.
- The Fed is expected to begin to hike interest rates in the second half of 2010 and end their purchase program totaling \$1.25 trillion in Mortgage-Backed Securities (MBS) debt that has been lending support to the credit markets throughout 2009. The spending fueled by the \$787 billion economic stimulus package that was passed in February 2009 will begin to fade by the middle of the year.
- We see stocks posting gains early in the year that are later cut in half to end the year with only modest single-digit gains, based on forward P/E of 15.25 (price-to-earnings multiple) and S&P 500 earnings estimate of \$76. With stocks up 60% from the March 9, 2009 low (as measured by the S&P 500), the big market gains are likely behind us as the economy and markets face some new challenges in 2010.
- Earnings growth is projected to rise 25% in 2010 (about \$76 vs. \$60 in 2009). Profit growth will begin to slow in the second half of 2010, one year after it began to rebound, as the economy faces the prospects of tougher comparables and an unwinding of the stimulus-inspired growth.
- The bond market posts flat to mid-single-digit gains in 2010, based on interest rate and spread projections. Credit conditions may begin to worsen late in the year as the outlook for profit and economic growth begins to weaken and the Fed's MBS purchases (which contributed to narrower spreads across the bond market) fade.



Entering 2010, we recommend overweighting stocks particularly Cyclical sectors, U.S. multinational companies, and Emerging Markets. We also favor the economically sensitive Commodities asset class. In the bond market, we prefer High-Yield Corporate and Emerging Market Bonds.

As the year continues, becoming defensive will likely again become appropriate, resulting in a portfolio strategy that underweights stock and cyclical investments and a transition to investments, such as Covered Calls, Global Macro, and Balanced strategies. Again in 2010, a tactical approach to investing will be important to maintaining the path to long-term investment success.

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2010 Recommendations

	TAILWINDS (FIRST HALF OF 2010)	HEADWINDS (SECOND HALF OF 2010)
EQUITIES		
SCENARIO AND RATIONALE	<p>For the first half of 2010, the tailwinds of growth continue to drive positive market results. The combination of continued and unprecedented economic and market stimulus, a strong earnings rebound, and a solid economic foundation lead to solid market gains early in the year. In that environment, investors should favor higher-beta, economically sensitive investments.</p> <p>As global economic stimulus fades or even reverses in the latter part of 2010, similar to past rising rate environments, markets experience greater volatility and may shed some gains. As these signs emerge, investors should take profits in relatively riskier investments and, where possible, shift to more defensive, less risky opportunities to protect first half gains.</p>	
MARKET CAP	<p>Slightly Favor Small Caps</p> <ul style="list-style-type: none"> Typically outperform during post-recessionary periods Possess greater beta and, therefore, more potential upside More sensitive to credit market improvement Strong performance has pushed up valuations and requires close monitoring for opportunities to take profits 	<p>Slightly Favor Large Caps</p> <ul style="list-style-type: none"> Tend to be more defensive than Small Caps Underweight Cyclical sectors More predictable and stable earnings growth benefiting from exposure to emerging market demand
STYLE	<p>Slight Overweight to Growth Relative to Value</p> <ul style="list-style-type: none"> True Growth sectors tend to have more exposure to emerging market demand, stronger balance sheets, and better earnings growth prospects Rising merger and acquisition activity tends to benefit growth stocks 	<p>Significant Overweight to Growth Relative to Value</p> <ul style="list-style-type: none"> Defensive Growth stocks hold up better in volatile market and economic environments In low growth environments, investors focus on companies offering a solid history of earnings growth
SECTOR	<p>Favor Cyclical Sectors</p> <ul style="list-style-type: none"> Include Consumer Discretionary, Information Technology, Materials, and Industrials Benefit from improving economic growth Commodity exposure in sectors benefits from continued economic recovery 	<p>Favor Defensive Sectors</p> <ul style="list-style-type: none"> Include Consumer Staples and Health Care Investors favor their earnings stability regardless of economic environment and market volatility Less exposure to commodities, which may suffer from a rising US dollar as the Fed hikes interest rates and a global slowdown in demand
U.S. VERSUS INTERNATIONAL	<p>Favor Emerging Markets</p> <ul style="list-style-type: none"> Continued economic recovery benefits investing outside the U.S. Emerging market economies, especially in Asia, will continue to benefit from China's growth 	<p>Favor U.S. Relative to International Developed and Emerging Markets</p> <ul style="list-style-type: none"> Removal of global stimulus may crimp economic growth prospects and International Developed and Emerging Markets are less defensive than the U.S. Rising in US dollar may reduce return of foreign investments Foreign indices are overweight Financials, which may suffer in a rising interest rate environment

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

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

The fast price swings of commodities will result in significant volatility in an investor's holdings.

The fund's concentrated holding will subject it to greater volatility than a fund that invests more broadly.

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2010 Recommendations [continued]

	TAILWINDS (FIRST HALF OF 2010)	HEADWINDS (SECOND HALF OF 2010)
FIXED INCOME		
SCENARIO AND RATIONALE	As demonstrated by the powerful returns in relatively higher risk bond sectors, tailwinds benefited fixed income as much as stocks in 2009. Greater liquidity, balance sheet repair, and less risk of default resulting in spread contraction are the key drivers that should carry on through the first part of 2010. Fixed income investors should continue to favor more risky bond sectors as they offer higher yields relative to U.S. Treasuries and more spread contraction is possible. Unfortunately, later in 2010, as global economic stimulus fades and the Fed begins to hike interest rates, fixed income markets may suffer. A continued overweight to spread products should offer some cushion to rising interest rates, however, the reduced economic stimulus suggests reducing exposure to more risky bond sectors.	
DURATION	Focus on Intermediate-Term <ul style="list-style-type: none"> The yield curve remains at very steep levels and an incremental move up curve is beneficial 	Favor Intermediate-Term <ul style="list-style-type: none"> Yield curve will likely remain steep Incrementally add to Short-Term Bonds if Fed acts more aggressively than expected or inflation accelerates
SECTOR	Overweight Spread Product, Especially in More Risky Sectors <ul style="list-style-type: none"> Aggressive fixed income strategies offer capital appreciation opportunities Significant overweight to Emerging Markets Bonds which should benefit from continued worldwide economic growth Overweight Corporate Bonds with particular emphasis on High-Yield Bonds as balance sheet repair and less default risk create opportunity 	Remain Overweight to Spread Product, But Reduce Exposure to More Risky Sectors <ul style="list-style-type: none"> Higher yield and potential spread contraction should cushion the negative effects of higher interest rates Reduce overweight to more aggressive, economically sensitive sectors as higher interest rates may crimp economic growth
U.S. VS. INTERNATIONAL	Favor Emerging Market Bonds and U.S. Bonds relative to Developed Foreign Bonds <ul style="list-style-type: none"> Economic growth should lead to further spread contraction in Emerging Market Bonds Further decline in US dollar should benefit conversion of foreign returns 	Favor Hedged Foreign Bonds <ul style="list-style-type: none"> Hedged to insulate from rising US dollar
ALTERNATIVE INVESTMENTS		
SCENARIO AND RATIONALE	As the healing process of the economy continues into 2010, the tailwinds of growth should continue to drive investor optimism. Consequently, strategies that offer potential downside protection or risk management will likely take a backseat to those that offer more upside potential. This somewhat lower volatility environment will likely give way to more elevated volatility levels as market participants anticipate the removal or reduction of economic stimulus. In this more uncertain environment, some investors will increase cash or fixed income exposure. However, the more prudent course of action may be to increase diversification by adding low correlation investments and incorporating strategies that help provide downside protection, risk management, and benefit from an environment of increased volatility.	
POSITIONING	Overweight Opportunistic Strategies <ul style="list-style-type: none"> Favor economically sensitive strategies such as Commodity-driven investments Include eclectic, long-only strategies that focus on finding opportunities regardless of market capitalization or region limitations Possibly add Event Driven or Distressed Debt strategies 	Overweight Volatility and Risk Management Strategies <ul style="list-style-type: none"> Include volatility strategies that offer exposure to Covered Calls, Managed Futures, and Global Macro portfolios Incorporate risk management strategies such as Long/Short, Market Neutral, and Absolute Return

Alternative investments may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

Options are not suitable for all investors and certain options strategies may expose investors to significant potential losses such as losing the entire amount paid for the option.

Global Macro funds use fundamental inputs (focused on broad global economic themes) in their models as well as technical (or price related) inputs. Global Macro funds may also be less systematic than the typical Managed Futures fund. Historically, the benefit of Global Macro has been solid long-term returns with very low correlation to equities and fixed income securities.

Absolute Return funds have the goal of providing a positive return in all market conditions and tend to have low volatility and provide bond-like returns. They also tend to have a very low correlation to bonds and low correlation to stocks. Because of their goal of low to moderate volatility, these securities are more suited for accounts with more moderate risk/return goals.

Distressed Debt strategies focus on securities of companies that are either in default, distress, or bankruptcy, or are heading towards such a condition.

Event driven strategies involve investments in the securities of corporations undergoing a significant change.

Eclectic strategies include go anywhere, long-only strategies that focus on finding opportunities regardless of market capitalization or region limitations.

The fast price swings of commodities will result in significant volatility in an investor's holdings.

Long positions may decline as short positions rise, thereby accelerating potential losses to the investor.

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.

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.

Stock investing involves risk including loss of principal.

Municipal bonds are subject to availability and change in price and subject 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 tax. Federally tax-free but other state and local taxes may apply.

Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

Investing in alternative investments may not be suitable for all investors and involve special risks such as risk associated with leveraging the investment, potential adverse market forces, regulatory changes, and potentially illiquidity. There is no assurance that the investment objective will be attained.

Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

Investing in mutual funds involves risk, including possible loss of principal. Investments in specialized industry sectors have additional risks, which are outlined in the prospectus.

The market value of corporate bonds will fluctuate, and if the bond is sold prior to maturity, the investor's yield may differ from the advertised yield.

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

The Barclays Aggregate Bond Index is composed of securities from the Barclays Government/Credit Bond Index, Mortgage-Backed Securities Index and Asset-Backed Securities Index.

The Standard & Poor's 500 Stock Index (S&P 500) is an unmanaged index generally representative of the U.S. Stock Market, without regard to company size.

Covered Call mutual fund strategies typically hold a long portfolio of stocks and then sell calls. Some covered call strategies then buy puts to further protect against downside risk. The net result is a portfolio that is correlated to the broader markets, but with significantly less volatility and increased risk due to the use of derivatives.

Global Macro funds use fundamental inputs (focused on broad global economic themes) in their models as well as technical (or price related) inputs. Global Macro funds may also be less systematic than the typical Managed Futures fund. Historically, the benefit of global macro has been solid long-term returns with very low correlation to equities and fixed income securities.

Long/short funds focus on managers who go long and hedge against the market through options or shorting equity securities with the goal of outperforming the market while limiting volatility. These funds tend to have a higher correlation to equities than other alternative strategies and, therefore, are most appropriate for more aggressive portfolios.

Consumer Discretionary: Companies that tend to be the most sensitive to economic cycles. Its manufacturing segment includes automotive, household durable goods, textiles and apparel, and leisure equipment. The service segment includes hotels, restaurants and other leisure facilities, media production and services, consumer retailing and services and education services.

Consumer Staples: Companies whose businesses are less sensitive to economic cycles. It includes manufacturers and distributors of food, beverages and tobacco, and producers of non-durable household goods and personal products. It also includes food and drug retailing companies.

Energy: Companies whose businesses are dominated by either of the following activities: The construction or provision of oil rigs, drilling equipment and other energy-related service and equipment, including seismic data collection or the exploration, production, marketing, refining and/or transportation of oil and gas products, coal and consumable fuels.

Financials: Companies involved in activities such as banking, consumer finance, investment banking and brokerage, asset management, insurance and investment, and real estate, including REITs.

Health Care: Companies in two main industry groups: Health Care equipment and supplies or companies that provide health care-related services, including distributors of health care products, providers of basic health care services, and owners and operators of health care facilities and organizations or companies primarily involved in the research, development, production and marketing of pharmaceuticals and biotechnology products.

Industrials: Companies whose businesses: (1) Manufacture and distribute capital goods, including aerospace and defense, construction, engineering and building products, electrical equipment and industrial machinery, (2) Provide commercial services and supplies, including printing, employment, environmental and office services, or (3) Provide transportation services, including airlines, couriers, marine, road and rail, and transportation infrastructure.

Information Technology: Technology Software & Services, including companies that primarily develop software in various fields such as the Internet, applications, systems and/or database management and companies that provide information technology consulting and services and technology and Hardware & Equipment, including manufacturers and distributors of communications equipment, computers and peripherals, electronic equipment and related instruments, and semiconductor equipment and products.

Materials: Companies that are engaged in a wide range of commodity-related manufacturing. Included in this sector are companies that manufacture chemicals, construction materials, glass, paper, forest products and related packaging products, metals, minerals and mining companies, including producers of steel.

Telecommunications Services: Companies that provide communications services primarily through a fixed line, cellular, wireless, high bandwidth and/or fiber-optic cable network.

Utilities: Companies considered electric, gas or water utilities, or companies that operate as independent producers and/or distributors of power.

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