LPL FINANCIAL RESEARCH

Market Insight

Quarterly Chart Book

Second Quarter 2011

LPL Financial

Member FINRA/SIPC

The Quarterly Market Insight Chart Book is intended to provide unbiased context to the markets and economy. The Chart Book provides a factual framework to discuss the issues most relevant to investing using simple to understand charts of key data. The Chart Book can be helpful in addressing key topics such as economic growth in the United States and abroad, job growth, stock market valuations, corporate profits, inflation, monetary policy, commodity prices, and bond yields. This data is intended to help investors understand performance, recognize risks, and identify opportunities.

There are two sections to the chart book. The main section features charts that will regularly appear in each quarterly edition. The second section features topical charts most relevant to the current environment that will vary from quarter-to-quarter.

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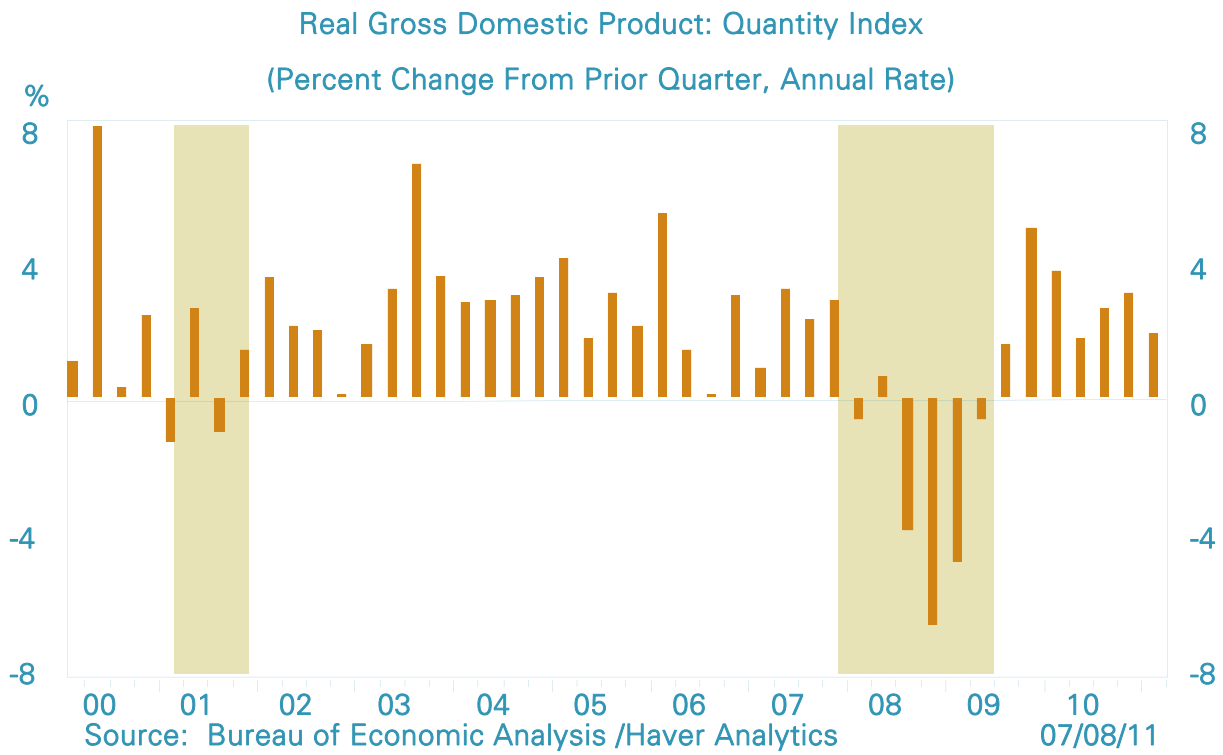
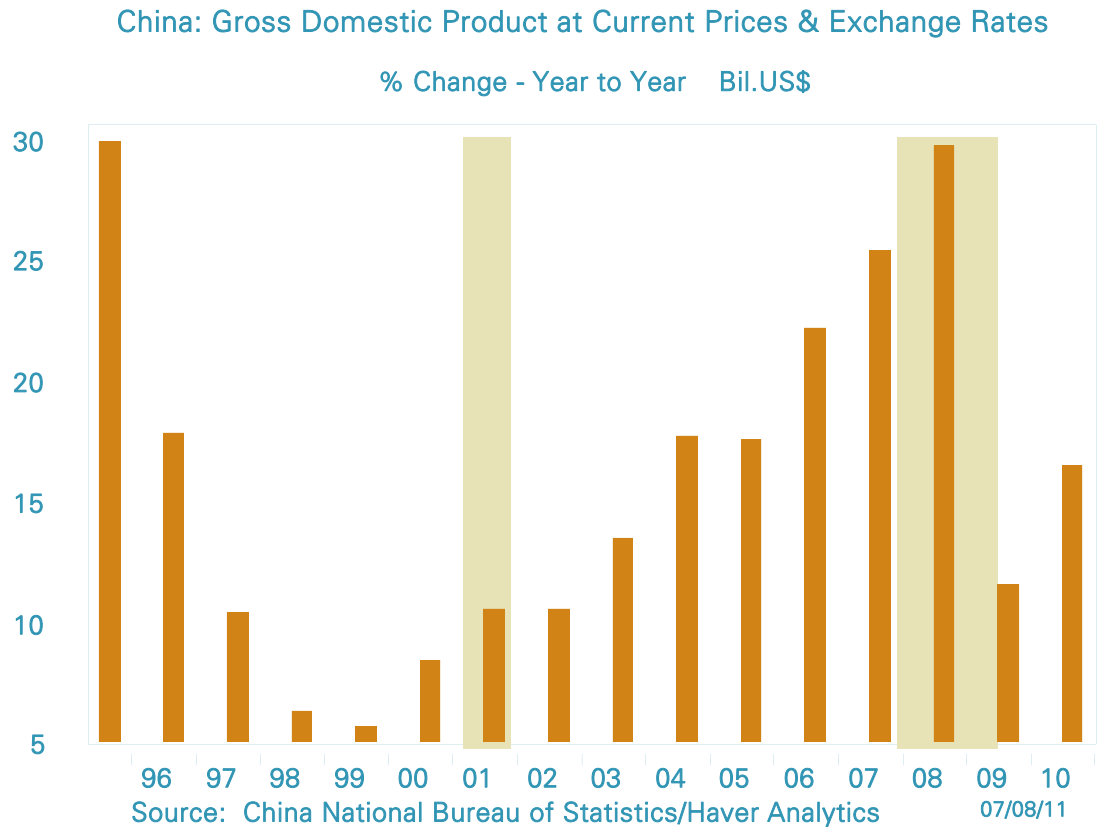
Gross Domestic Product (GDP) Growth Rate



(Shaded area indicates recession)
Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

Tracking# 734362 Exp. (7/13)

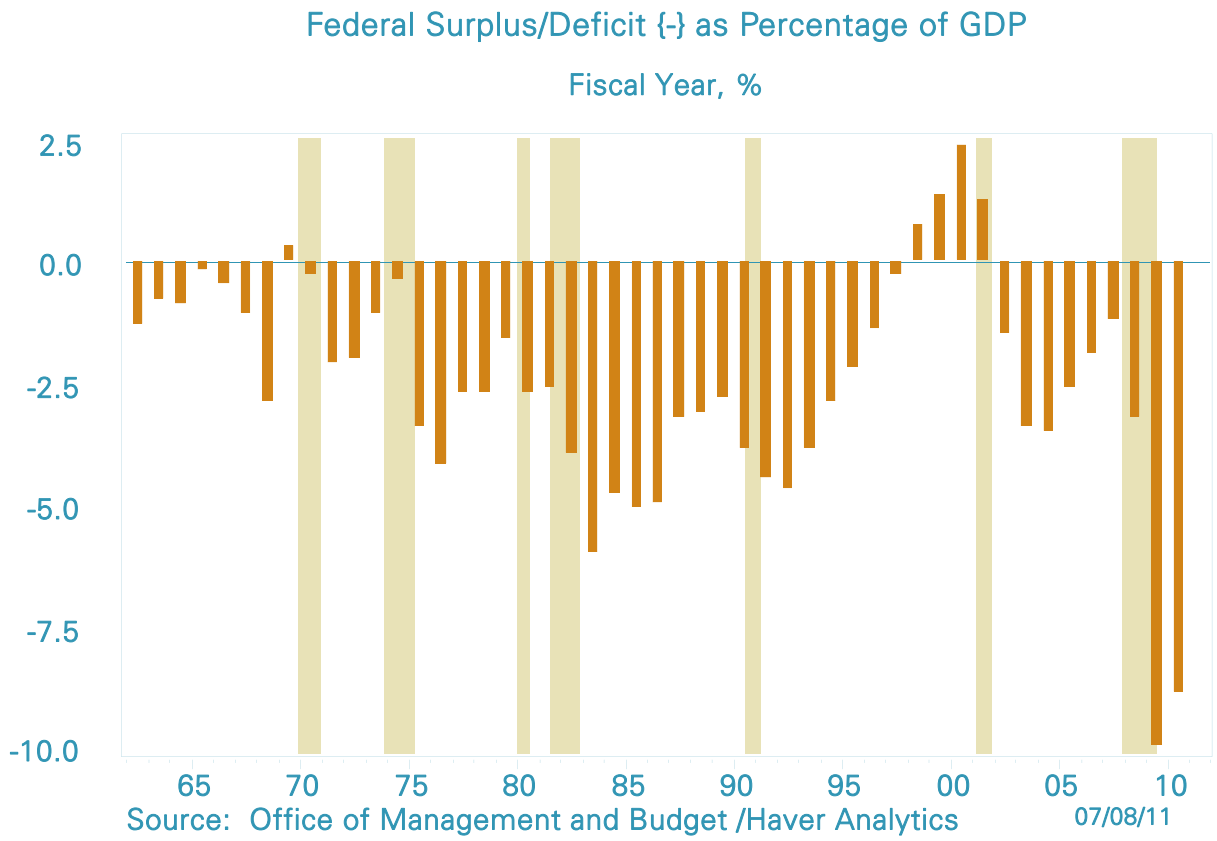
China: Gross Domestic Product (GDP) Growth



(Shaded area indicates recession)
International investing involves special risks, such as currency fluctuation and political instability, and may not be suitable for all investors. An emerging market is a nation that is progressing toward becoming advanced, as shown by some liquidity in local debt and equity markets and the existence of some form of market exchange and regulatory body.
Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

Tracking# 734366 Exp. (7/13)

Budget Deficit Percent of Gross Domestic Product (GDP)



(Shaded area indicates recession)
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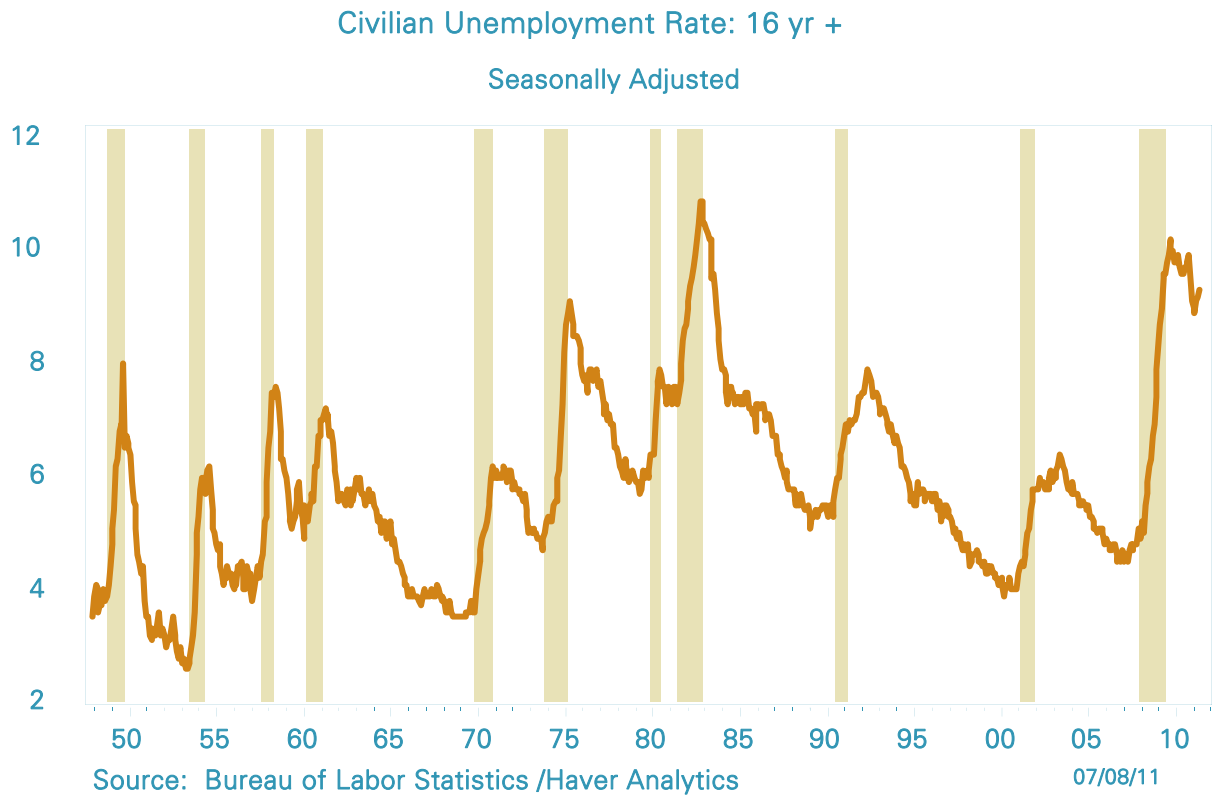
Tracking# 734363 Exp. (7/13)

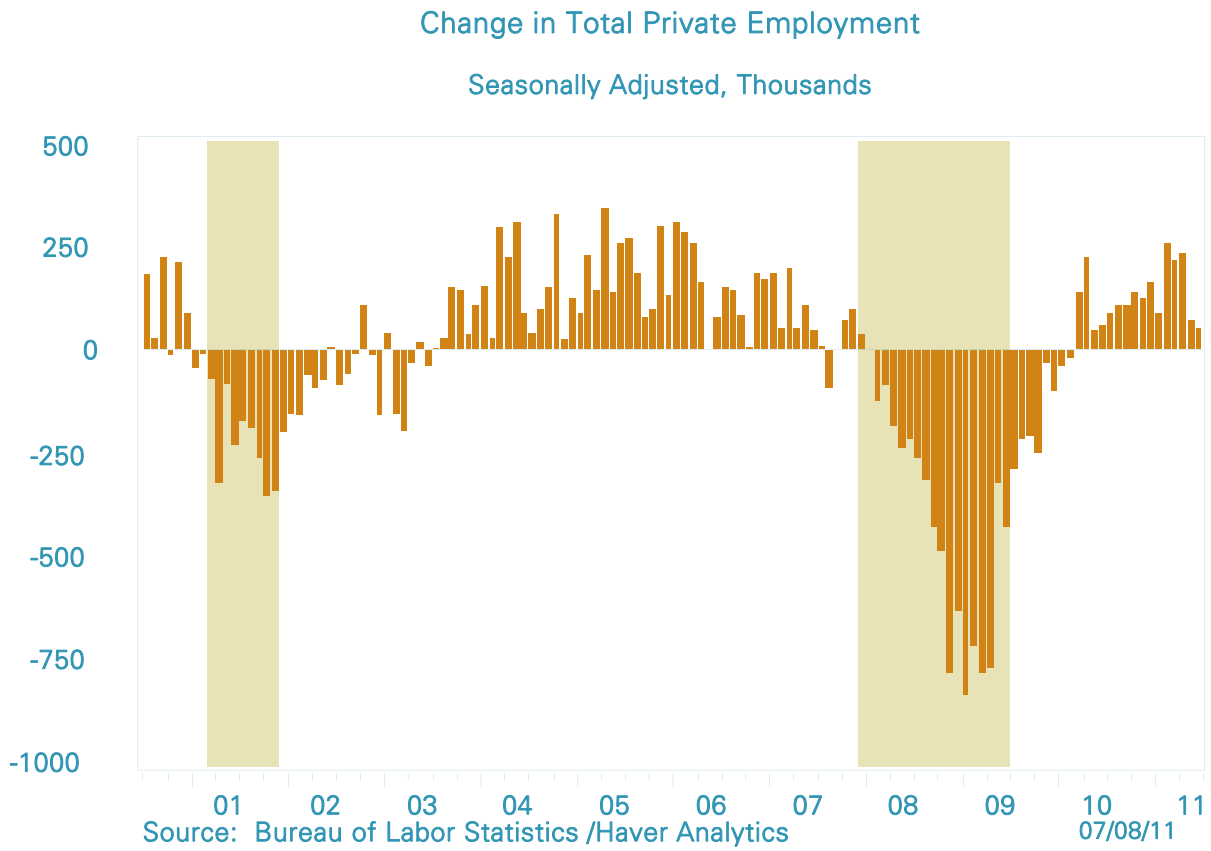
Unemployment Rate



(Shaded area indicates recession)
The unemployment rate is the percentage of the total labor force that is unemployed but actively seeking employment and willing to work.

Tracking# 734364 Exp. (7/13)

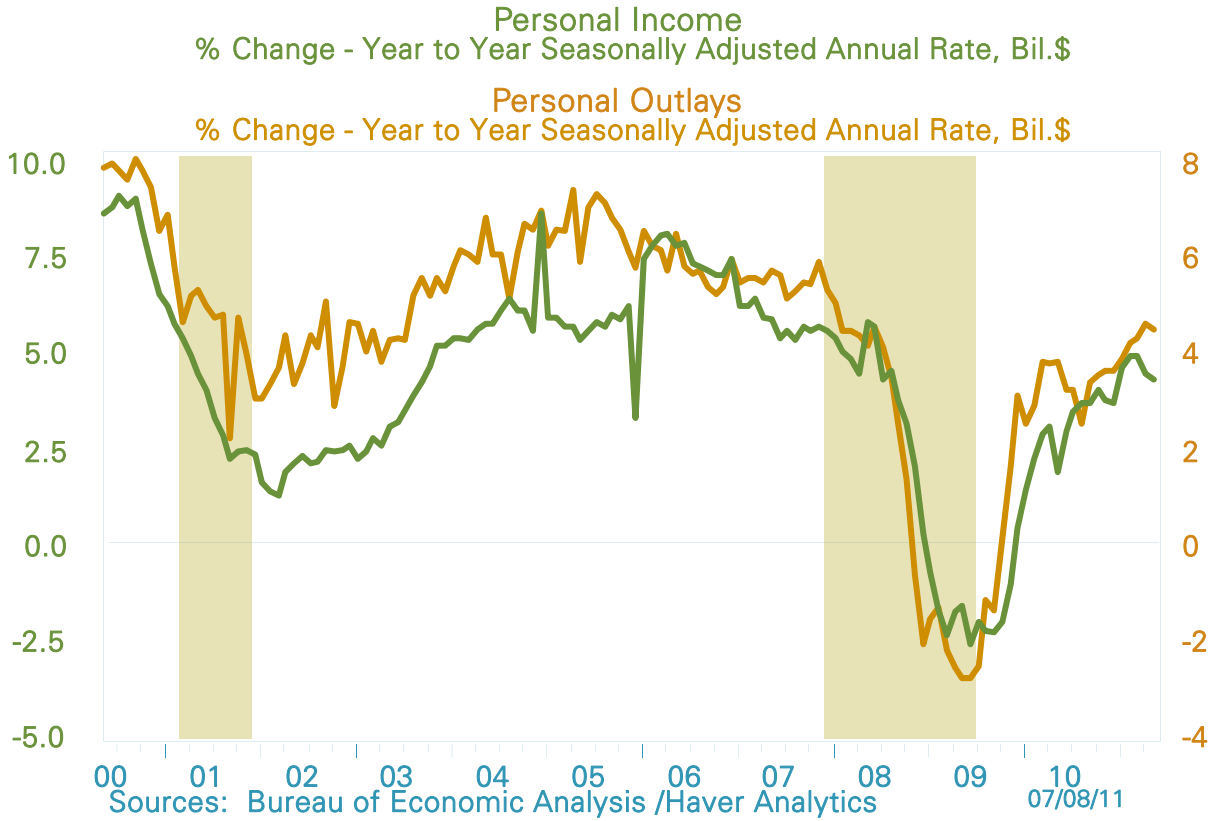
Non-farm Job Growth



(Shaded area indicates recession)
Non-farm payroll employment is and economic indicator released by the U.S. Department of Labor. It is comprised of goods producing, construction and manufacturing companies.

Tracking# 734365 Exp. (7/13)

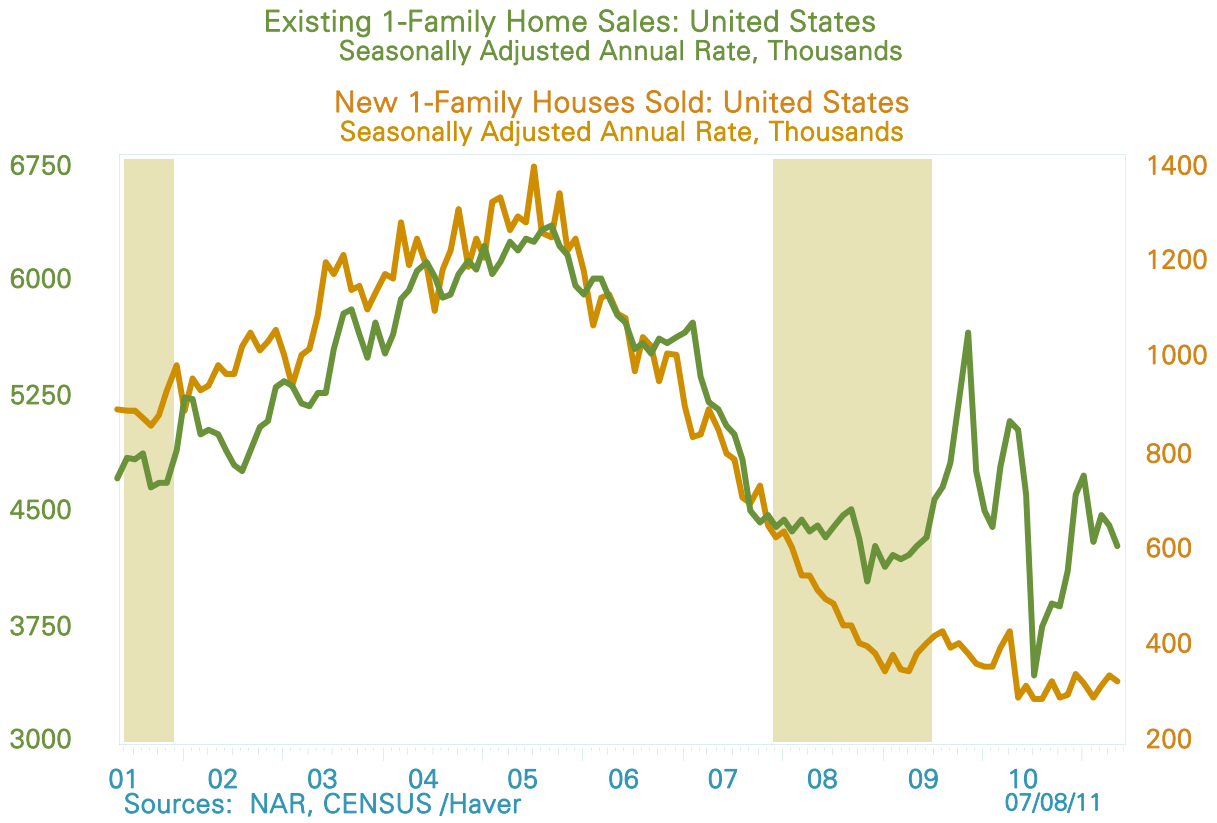
Wages and/or Personal Income/Personal Spending



(Shaded area indicates recession)
Personal spending is the amount of expenses an individual has accounted for during the year. It includes mortgage payments, car payments, medical bills and shopping costs.

Tracking# 734368 Exp. (7/13)

Home Sales

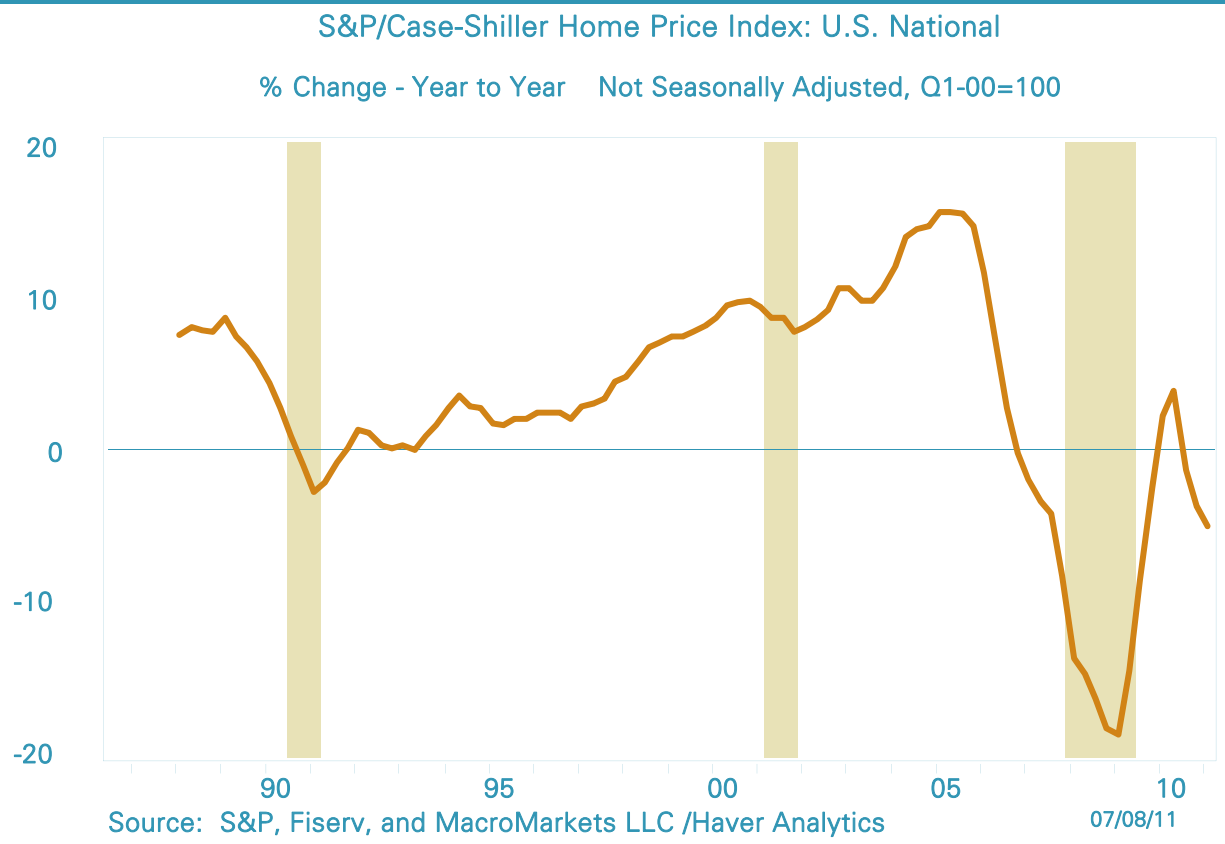


(Shaded area indicates recession)

Existing home sales is a measure of the number and price of sales of single-family homes other than new constructions. It is considered an economic indicator of the availability and affordability of mortgages and real estate in the United States. It is also considered a lagging indicator as it tends to react after changes in mortgage interest rates. Existing home sales tend to rise after a decline in mortgage rates and fall when the opposite happens. The U.S. National Association of Realtors publishes existing home sales monthly.

Tracking# 734376 Exp. (7/13)

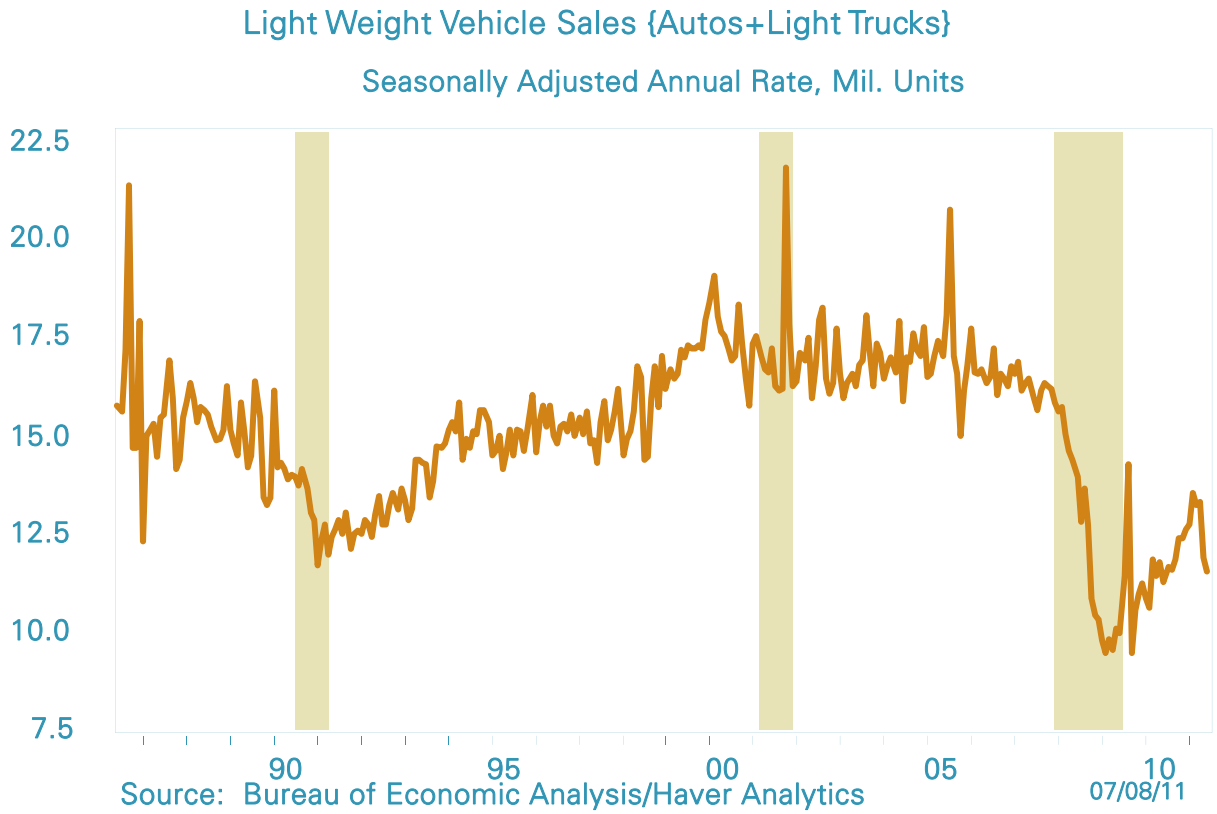
Home Prices



(Shaded area indicates recession)
The S&P/Chase-Shiller U.S. National Home Price Index tracks the growth in value of real estate by following the purchase price and resale value of homes that have undergone a minimum of two arm's-length transactions. The index is named for its creators, Karl Chase and Robert Shiller.

Tracking# 734373 Exp. (7/13)

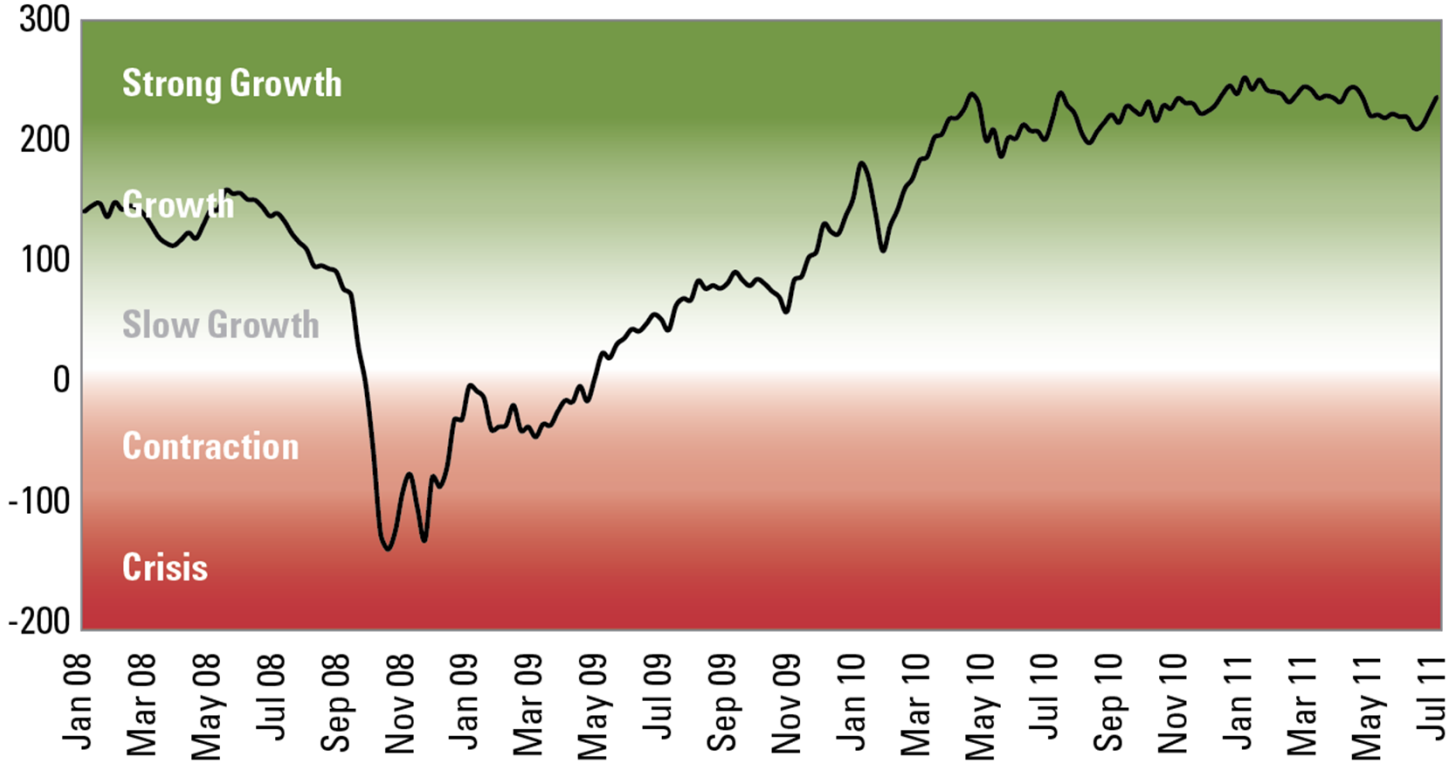
Vehicle Sales



(Shaded area indicates recession)
Vehicle sales is the number of domestically produced units of cars, SUVs, minivans, and light trucks that are sold. These sales are reported on the first business day of the month.

Tracking# 734374 Exp. (7/13)

Current Conditions Index (CCI)



The Current Conditions Index is a weekly measure of the conditions that underpin our outlook for the markets and economy. The CCI provides real-time context and insight into the trends that shape our recommended actions to manage portfolios. This weekly index is not intended to be a leading index or predictive of where conditions are headed, but a coincident measure of where they are right now. We want to track the conditions in real-time to aid in investment decision making. Please see the weekly Current Conditions Index publication for specifics surrounding the make-up of the CCI.

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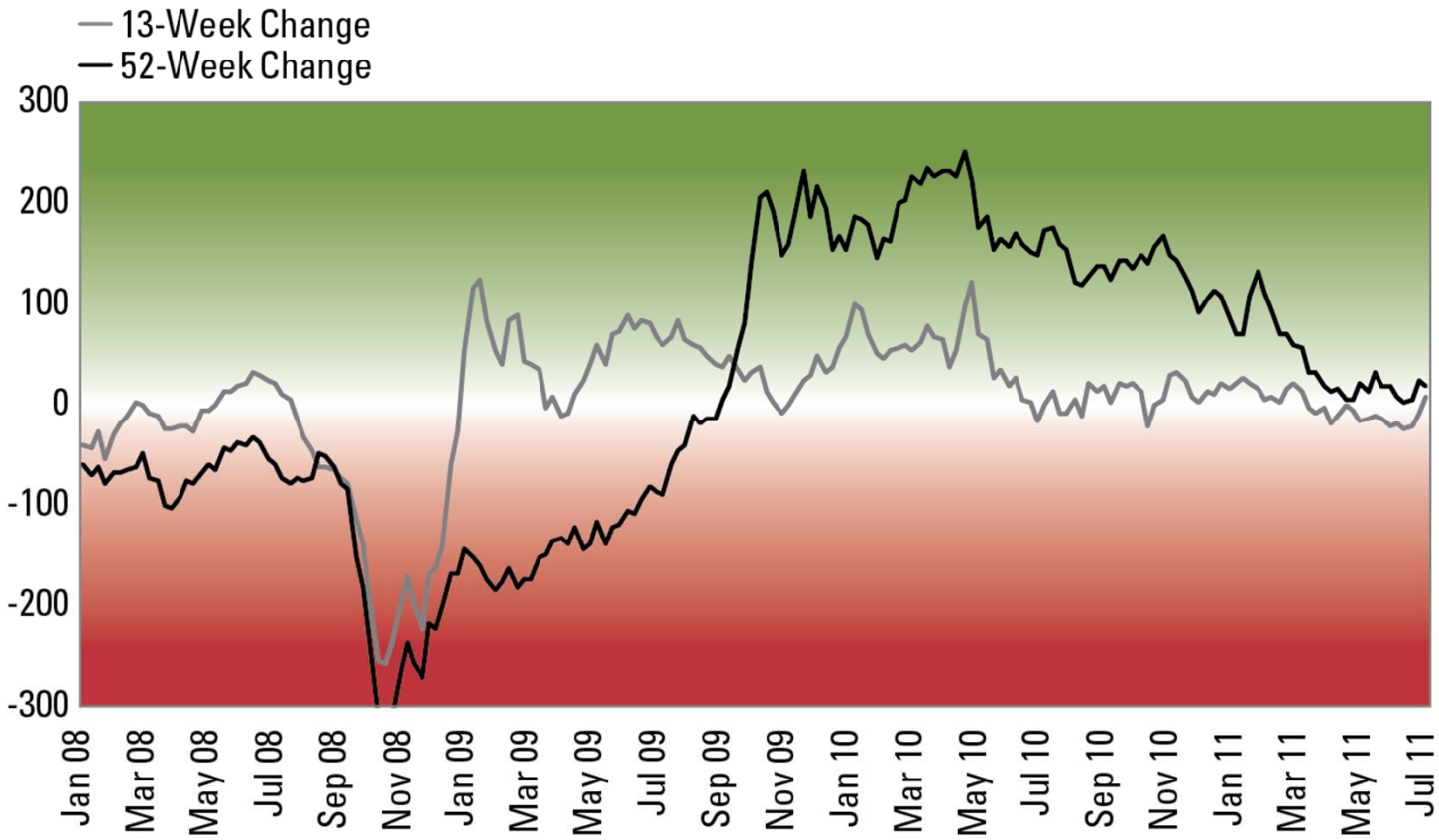
Tracking# 734375 Exp. (7/13)

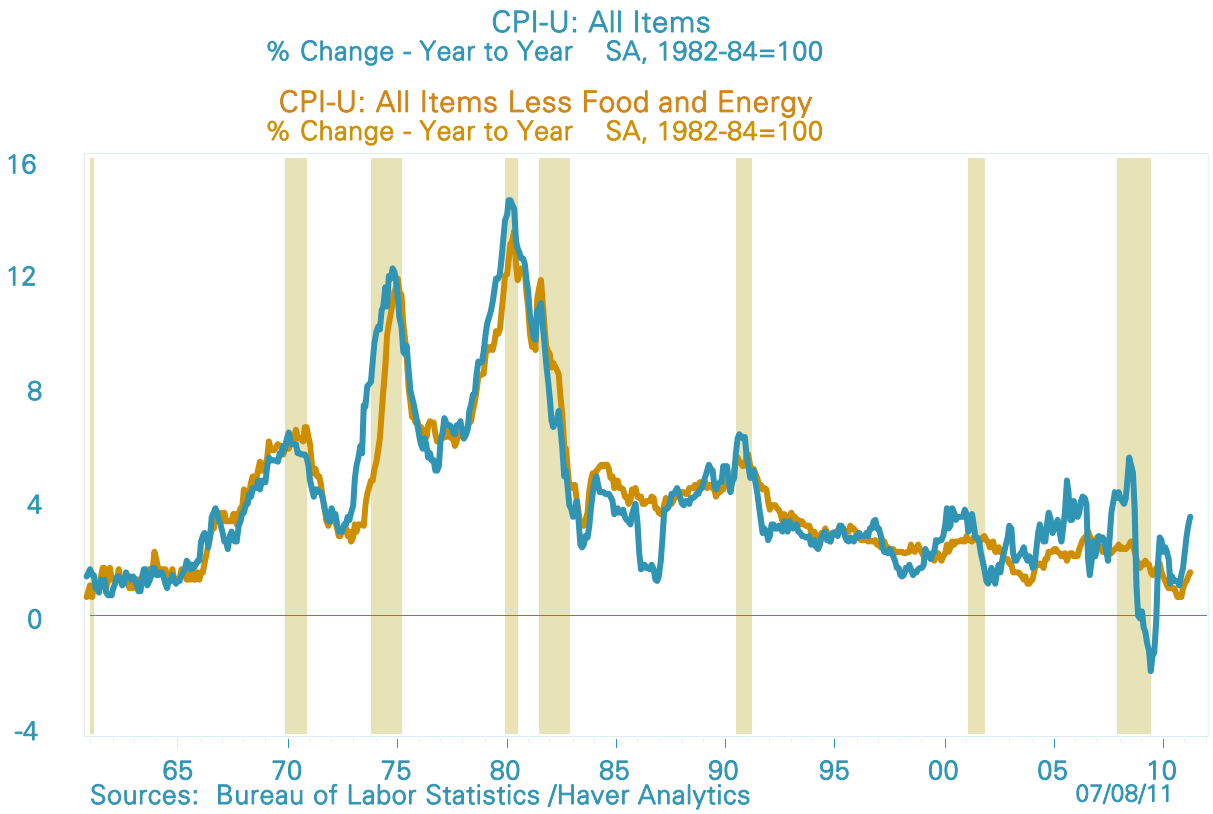
Current Conditions Index (CCI) Components



The Current Conditions Index (CCI) components are made up of 10 indicators that provided a weekly, real-time measure of the conditions in the economic and market environment. We standardized these components compared to their pre-crisis 10-year average, equally weighted their standardized scores, and aligned the resulting index with zero at the start of 2009. These components capture how the conditions are evolving from a wide range of angles. Each component is important and measures a different driver of the environment. Please see the weekly Current Conditions Index publication for specifics surrounding the make-up of the CCI.

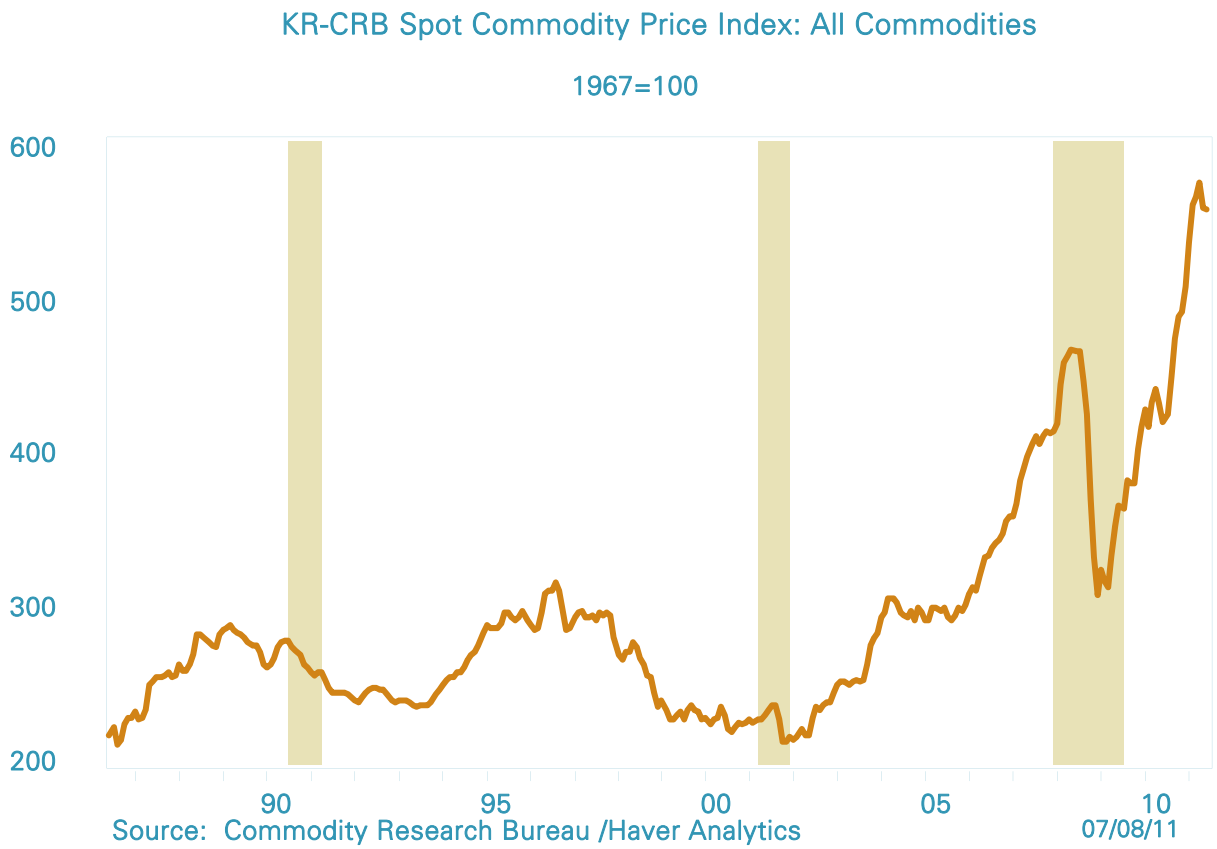
Tracking# 734379 Exp. (7/13)

Consumer Price Index (CPI)



(Shaded area indicates recession)
The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

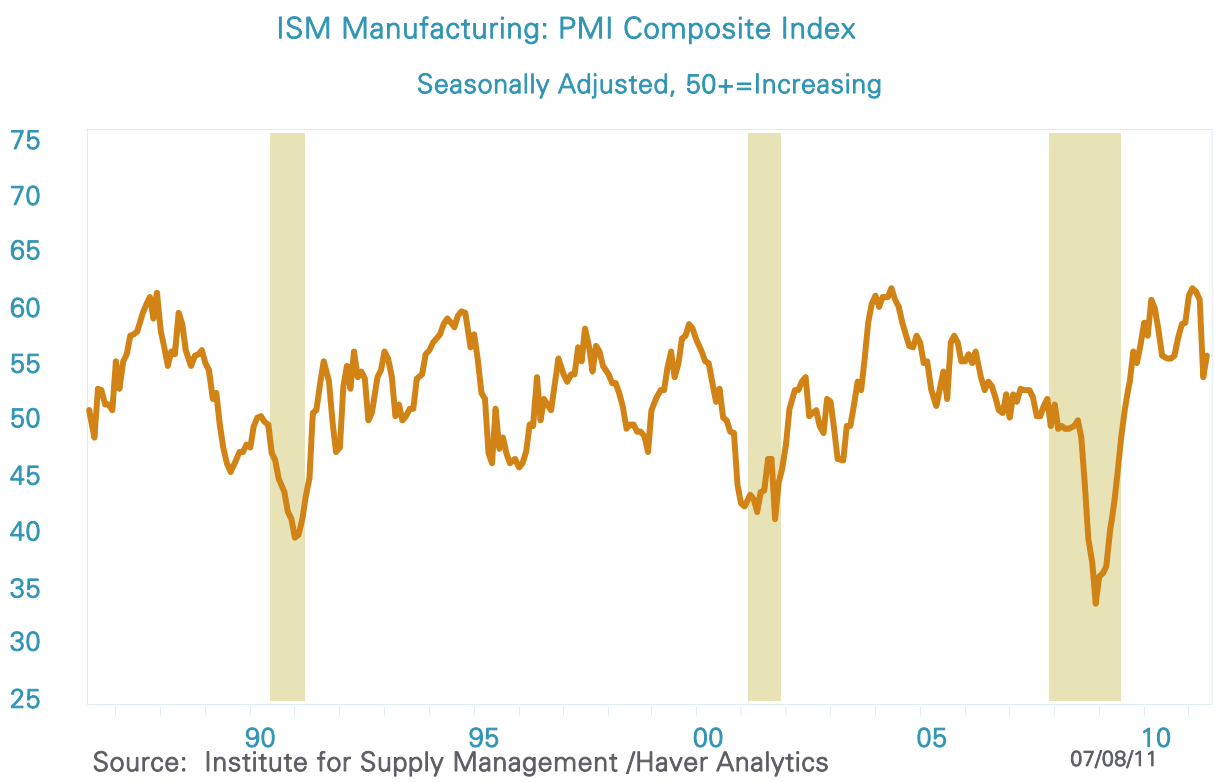
Commodity Prices



(Shaded area indicates recession)
The CRB Index is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.
The Commodity Research Bureau (CRB) Index is an index that measures the overall direction of commodity sectors. The CRB was designed to isolate and reveal the directional movement of prices in overall commodity trades.
The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

Tracking# 734380 Exp. (07/13)

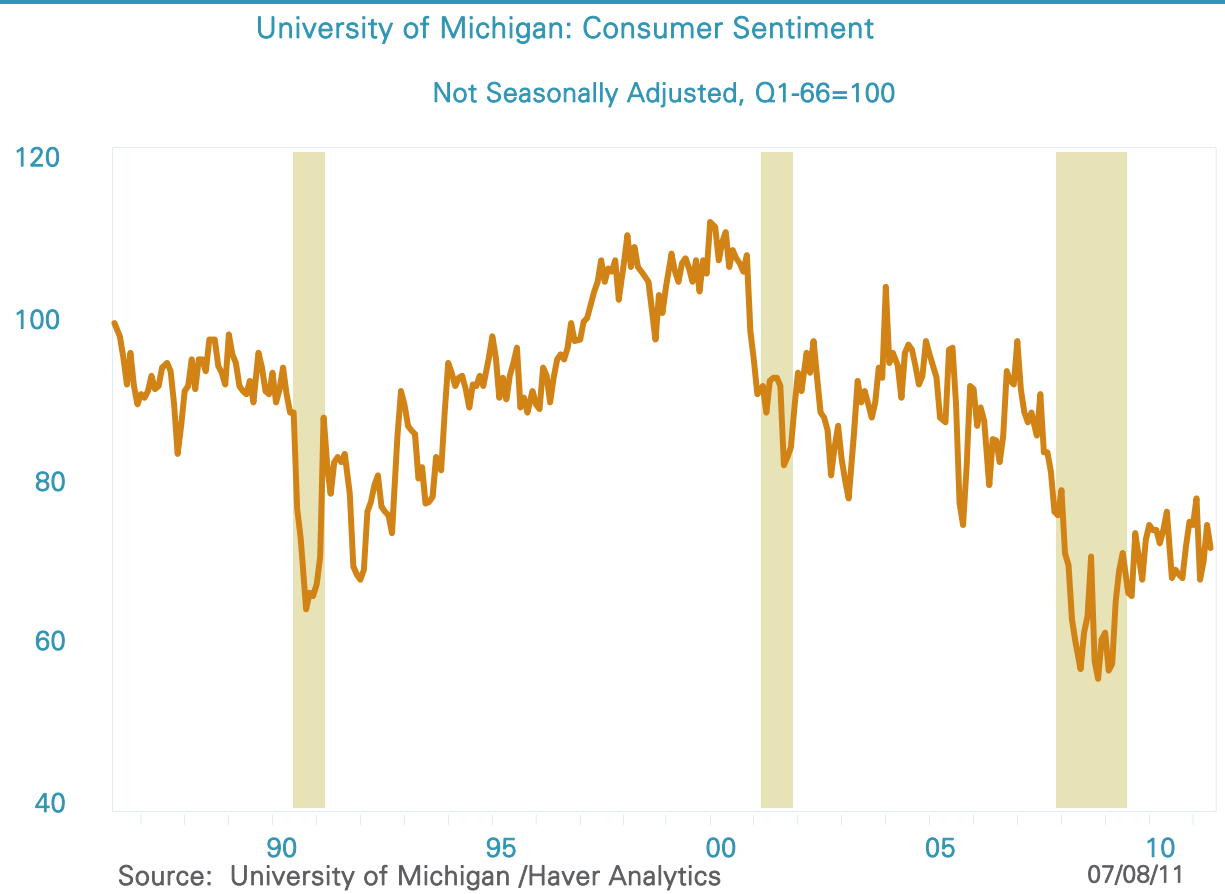
Institute for Supply Management (ISM) Index



(Shaded area indicates recession)
The ISM index is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders, and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys. Purchasing Managers Index (PMI) is an indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

Tracking# 734381 Exp. (07/13

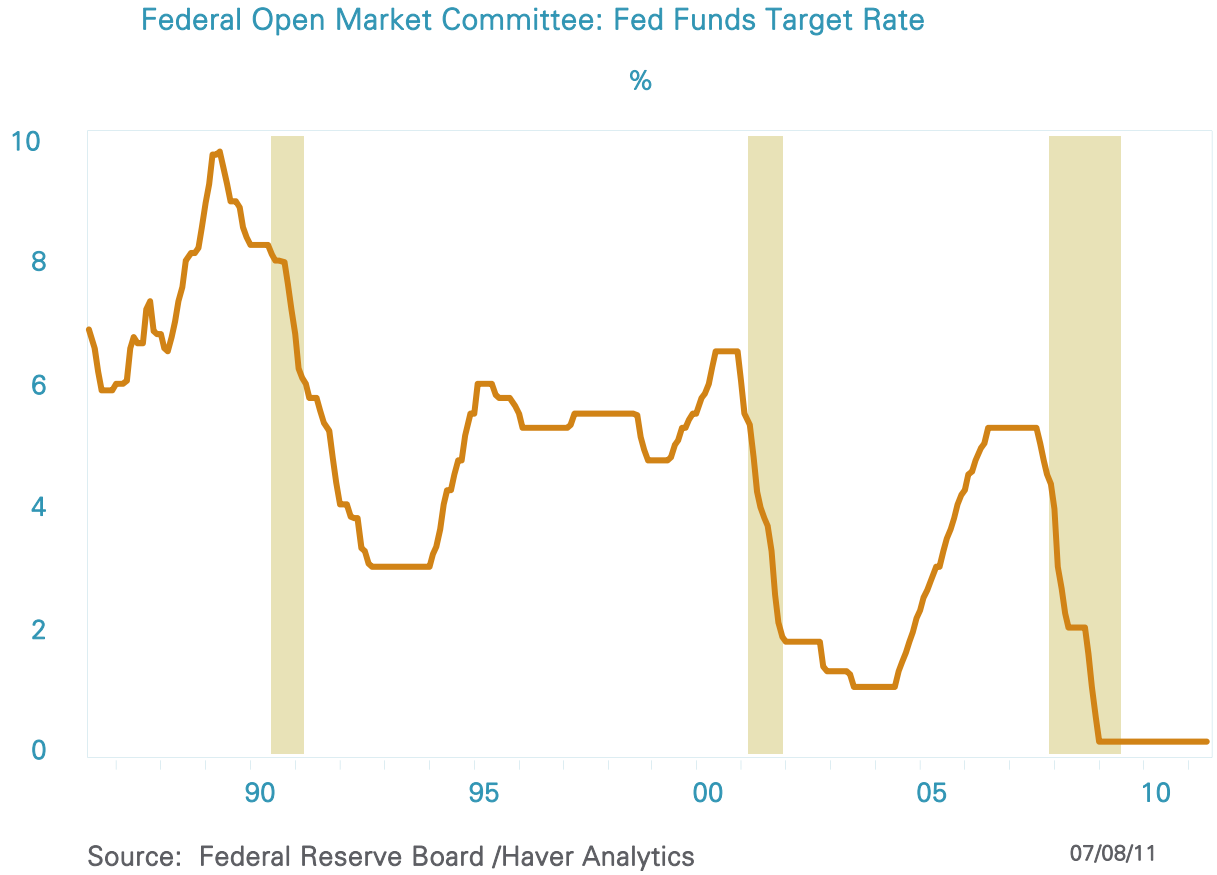
Consumer Sentiment



(Shaded area indicates recession)
The University of Michigan Consumer Sentiment Index (MCSI) is a survey of consumer confidence conducted by the University of Michigan. The Michigan Consumer Sentiment Index (MCSI) uses telephone surveys to gather information on consumer expectations regarding the overall economy.

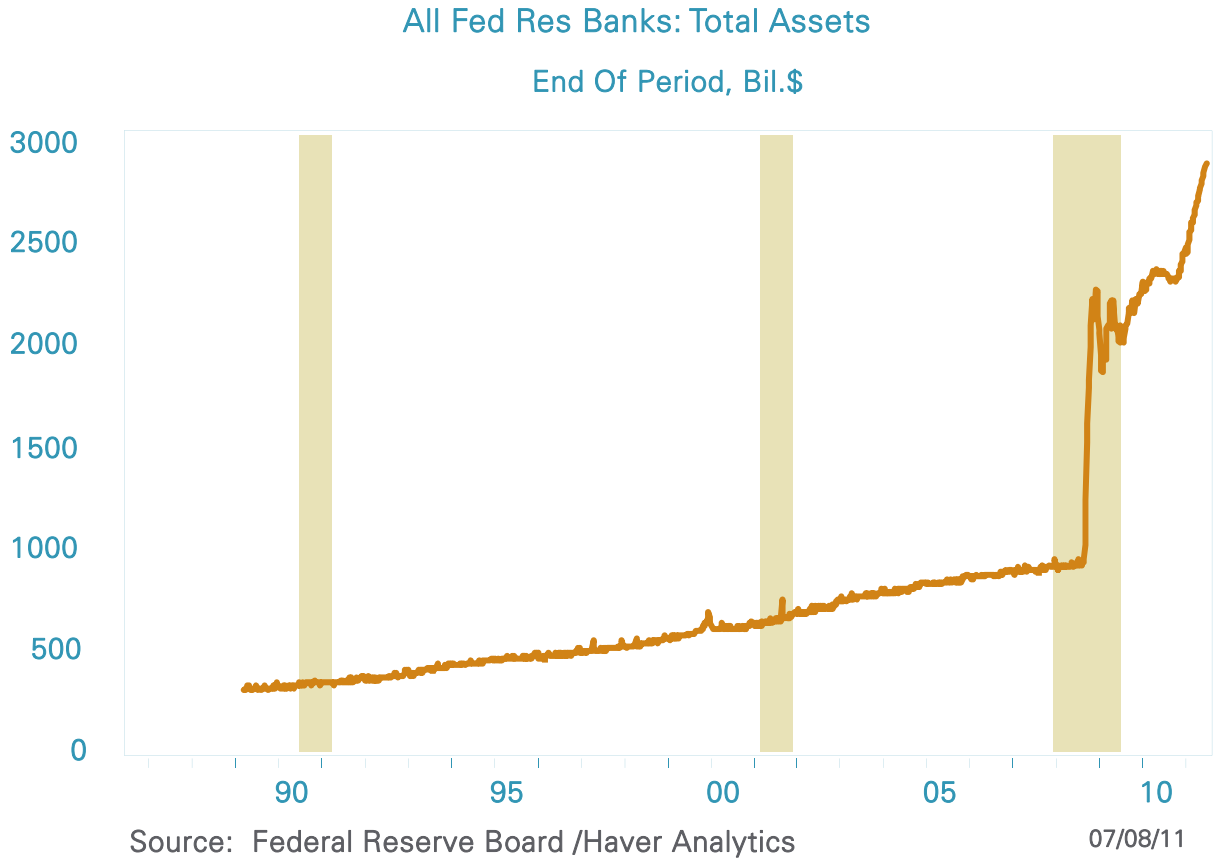
Tracking# 734383 Exp. (07/13)

Federal Funds Rate with Futures Implied Rates Going Out One Year



(Shaded area indicates recession)
The Federal Funds Rate is the interest rate at which a depository institution lends immediately available funds (balances at the Federal Reserve) to another depository institution overnight.

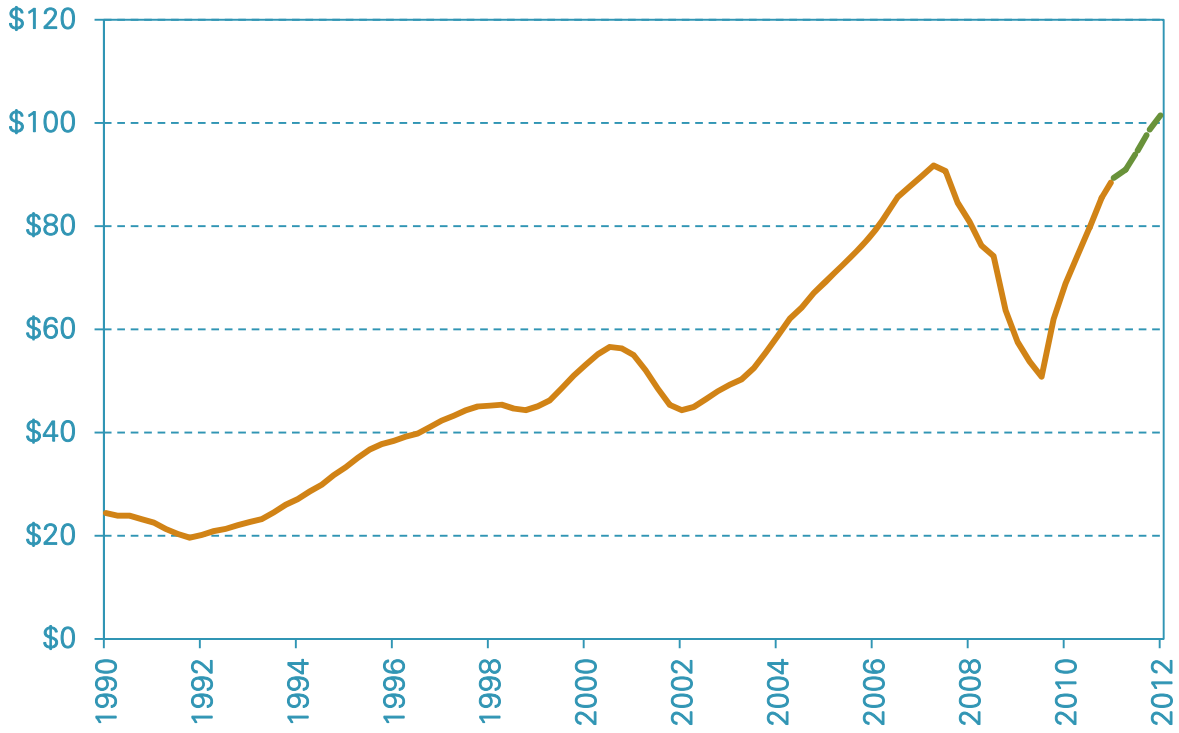
Federal Reserve (Fed) Balance Sheet



(Shaded area indicates recession)
The Federal Reserve Balance Sheet is the breakdown of the assets and liabilities held by the Federal Reserve.

Tracking# 734388 Exp. (07/13)

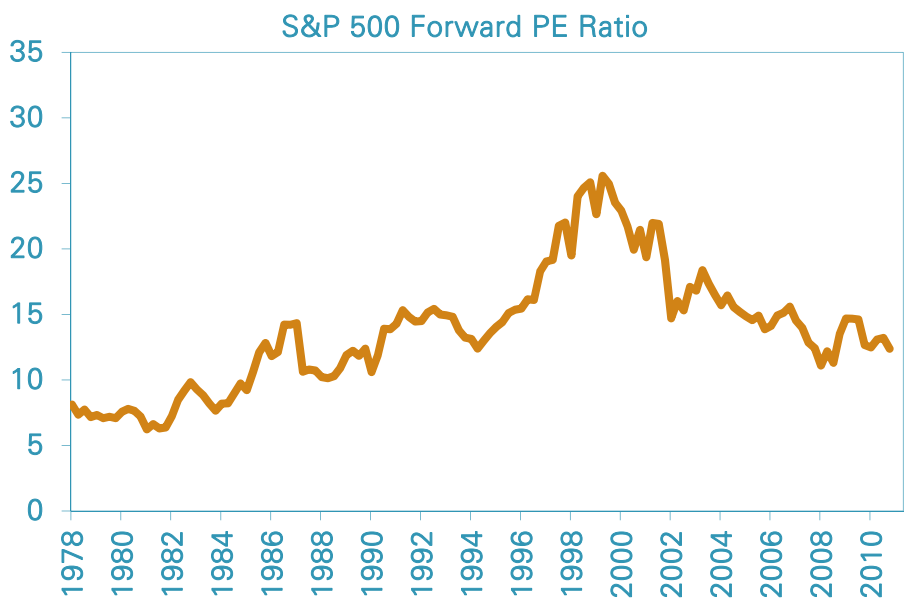
S&P 500 EPS Historical & Estimates for the Next Four Quarters

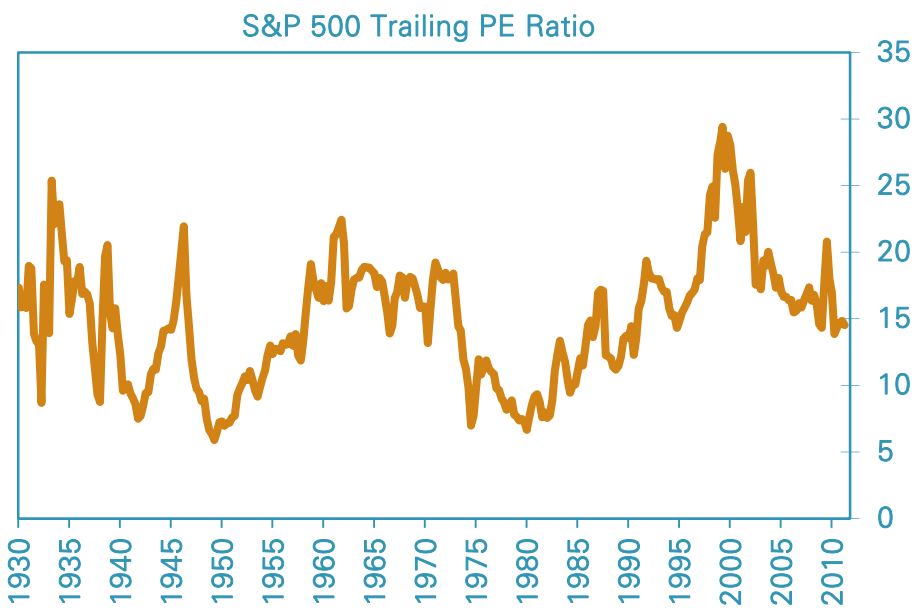


Source: LPL Financial, Thomson Financial, Bloomberg data 7/11/11
The S&P 500 is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.
The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. Earnings per share is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

Tracking# 734389 Exp. (07/13)

Historical S&P 500 PE Ratio Trailing & Forward





Source: LPL Financial, Thomson Financial, Bloomberg data 7/11/11
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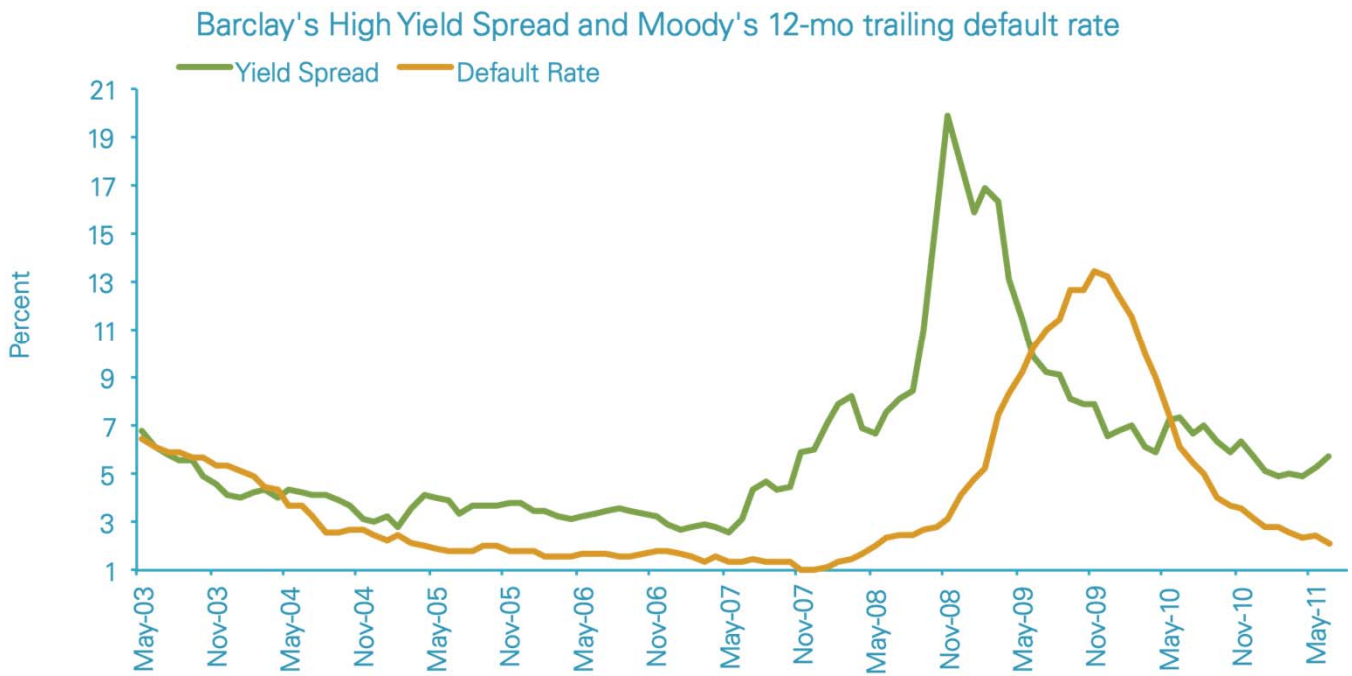
The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
The P/E ratio (price-to-earnings ratio) is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher P/E ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower P/E ratio.

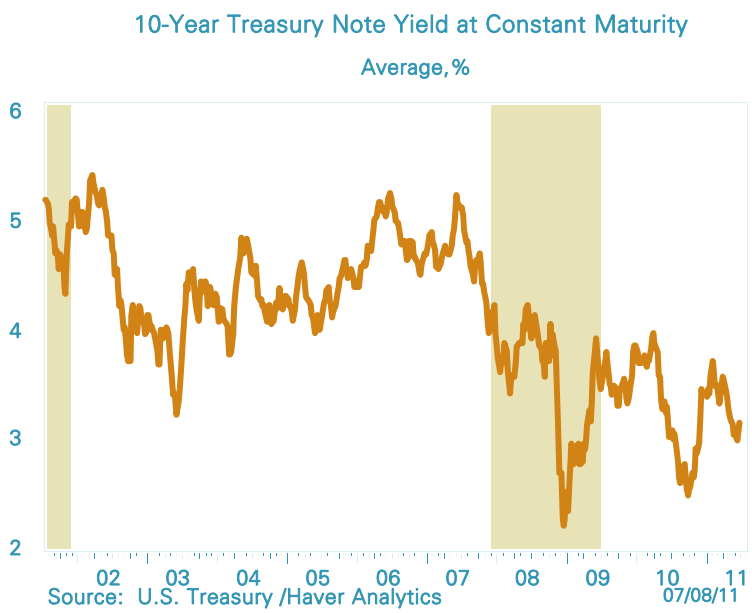
High Yield Bond Spreads & Default Rate

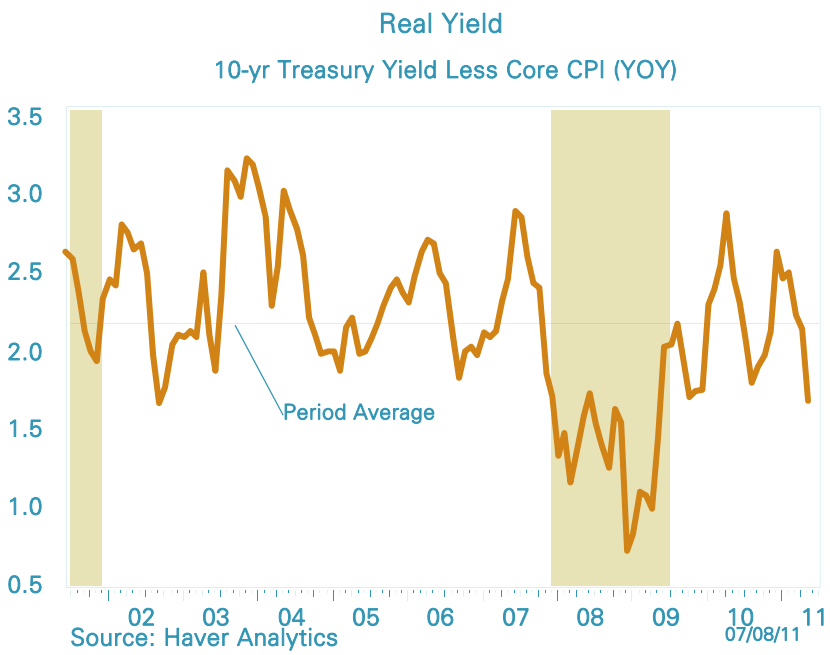


Source: Barclays, Moody's, LPL Financial 6/30/11
All Indices are unmanaged and cannot be invested into directly.
High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.
Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price.
High-Yield spread is the yield differential between the average yield of high-yield bonds and the average yield of comparable maturity Treasury bonds.
The Default Rate This rate can be used in reference to two main things: The rate of borrowers who fail to remain current on their loans. It is a critical piece of information used by lenders to determine their risk exposure and economists to evaluate the health of the overall economy. And, The interest rate charged to a borrower when payments on a revolving line of credit are overdue. This higher rate is applied to outstanding balances in arrears in addition to the regular interest charges for the debt.

Tracking# 734390 Exp. (7/13)

10-year Treasury yield & 10-year Treasury Yield Minus Core Consumer Price Index (CPI)

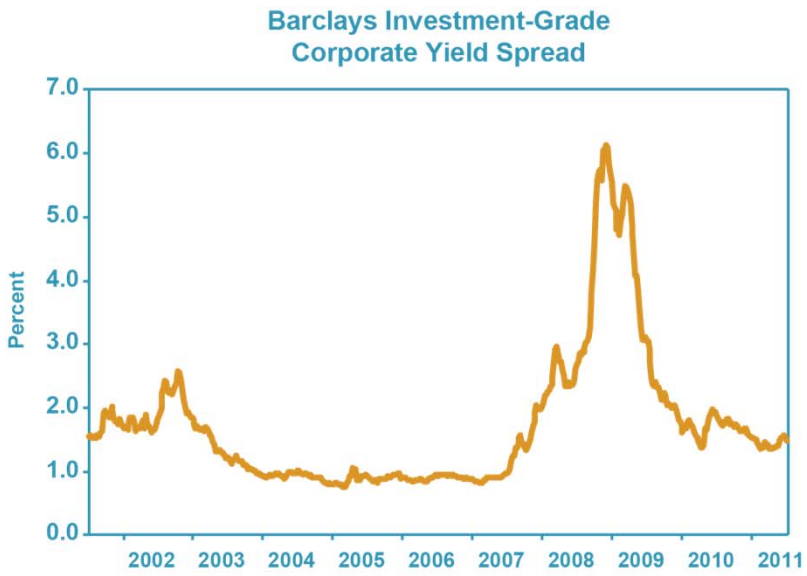


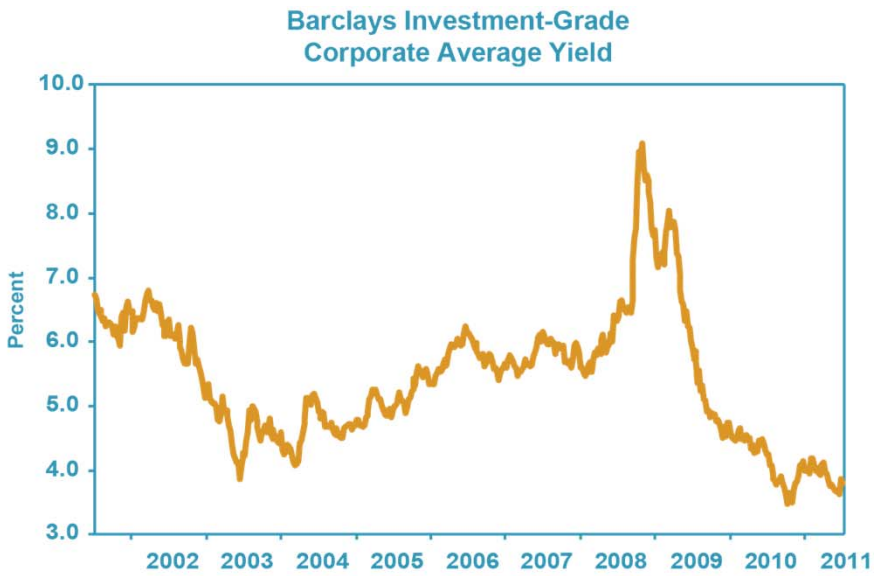


(Shaded area indicates recession)
The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.
Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of a fund shares is not guaranteed and will fluctuate.

Tracking# 734391 Exp. (7/13)

Investment-Grade Corporate Spread & Yield

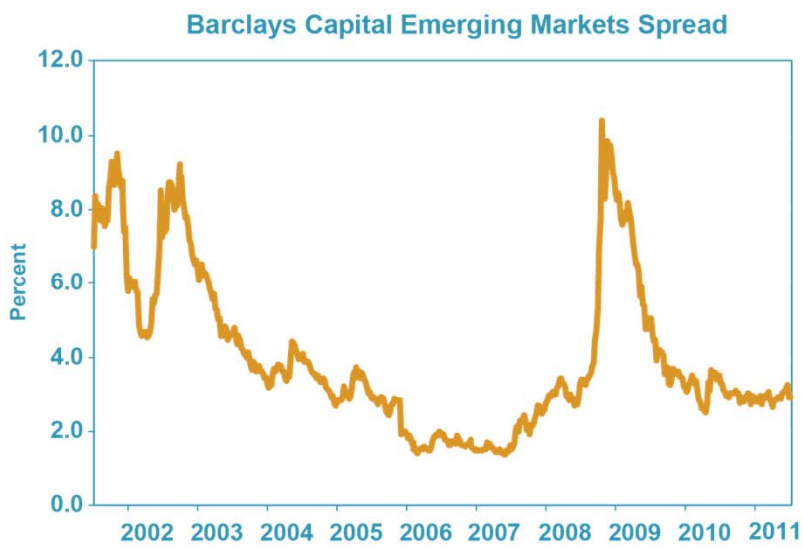


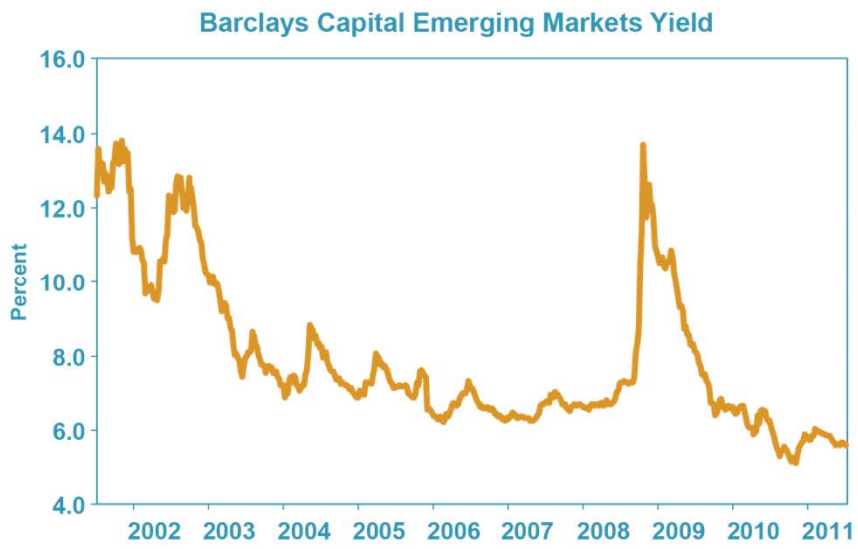


Source: Barclays, LPL Financial 7/8/11
Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. Corporate bonds are considered higher risk than government bonds but normally offer 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 spread is the yield differential between the average yield of high-yield bonds and the average yield of comparable maturity Treasury bonds.

Tracking# 734392 Exp. (7/13)

Emerging Market Debt (EMD) Spread & Yield



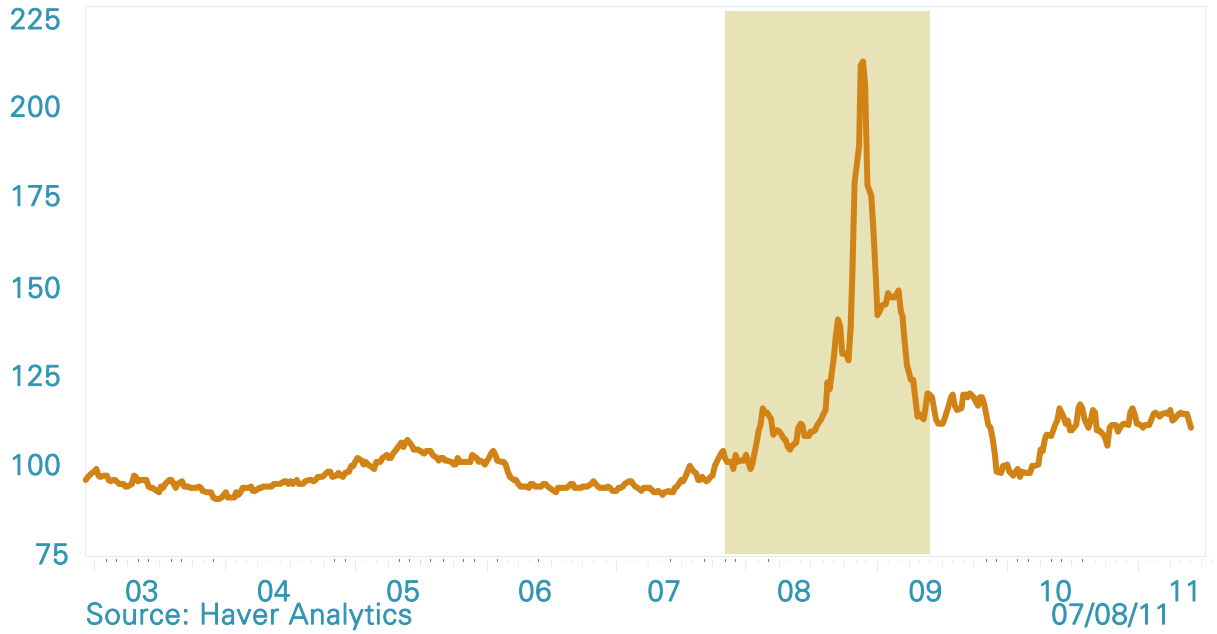


Source: Barclays, LPL Financial 7/8/11
The Barclays Global EM Bond Index is unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.
International and emerging markets investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.
High-Yield spread is the yield differential between the average yield of high-yield bonds and the average yield of comparable maturity Treasury bonds.
Yield is the income return on an investment. This refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

Tracking# 734393 Exp. (7/13)

30-year Municipal Yields as a Percentage of Treasuries

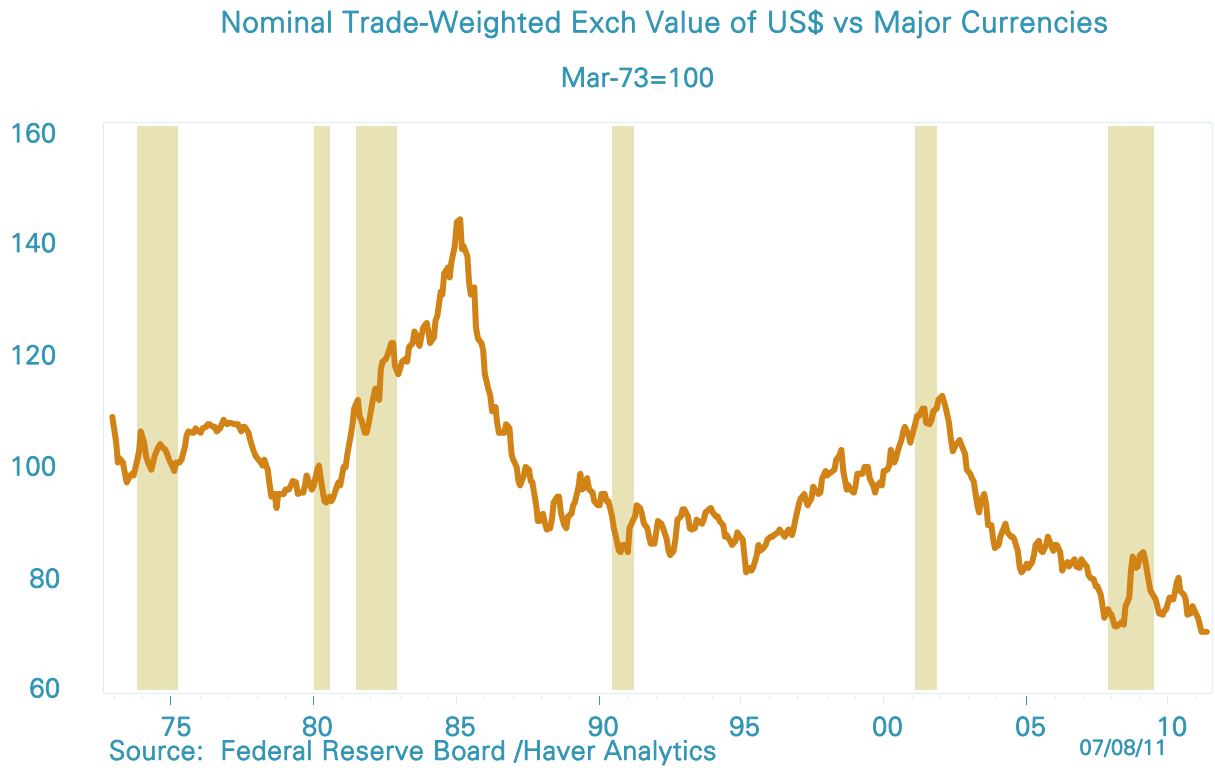
30-year AAA Municipal Yield as a Percentage of Treasuries



(Shaded area indicates recession)
Municipal bonds are subject to availability, price, and to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate rise. Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.
Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price.
Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of a fund shares is not guaranteed and will fluctuate.
An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

Tracking# 734394 Exp. (7/13)

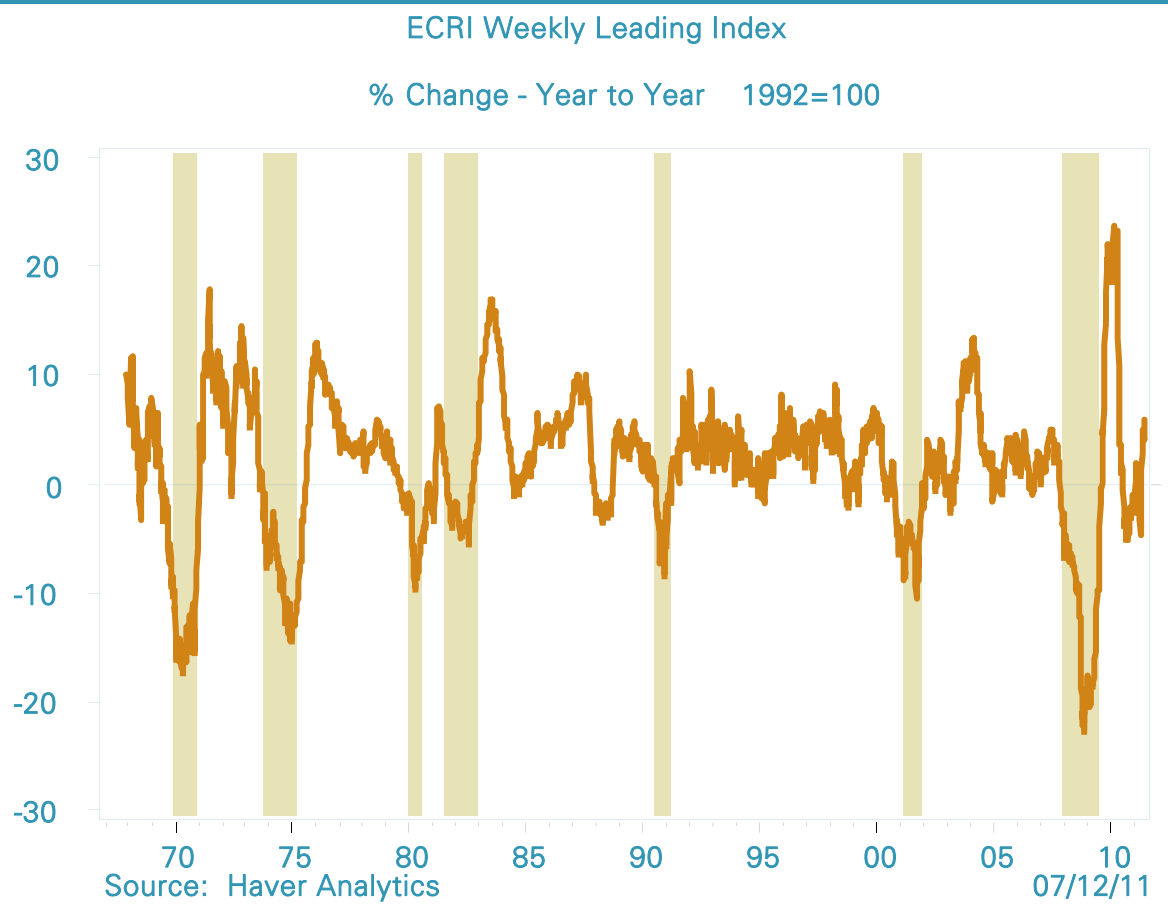
Trade Weighted Dollar



(Shaded area indicates recession)
Trade weighted dollar is a representation of the foreign currency price of the US dollar or the export value of the US dollar.

Tracking# 734395 Exp. (7/13)

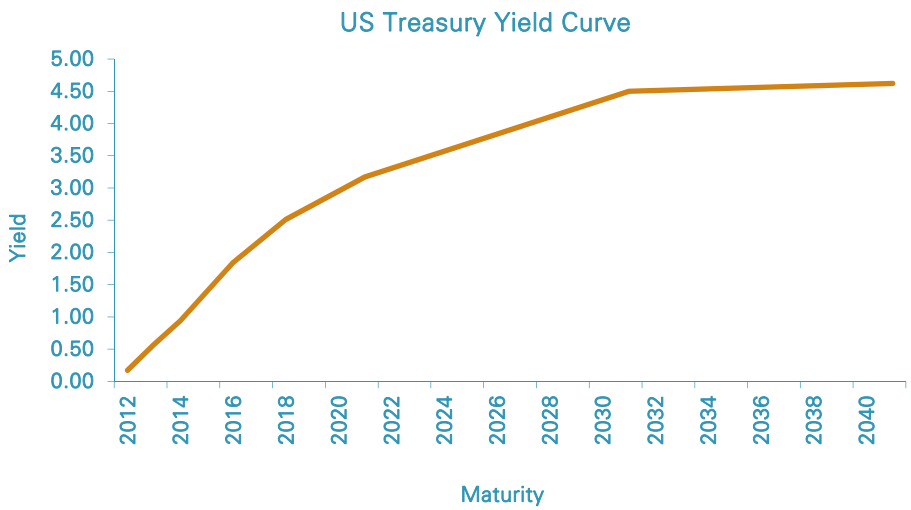
Leading Economic Indicators

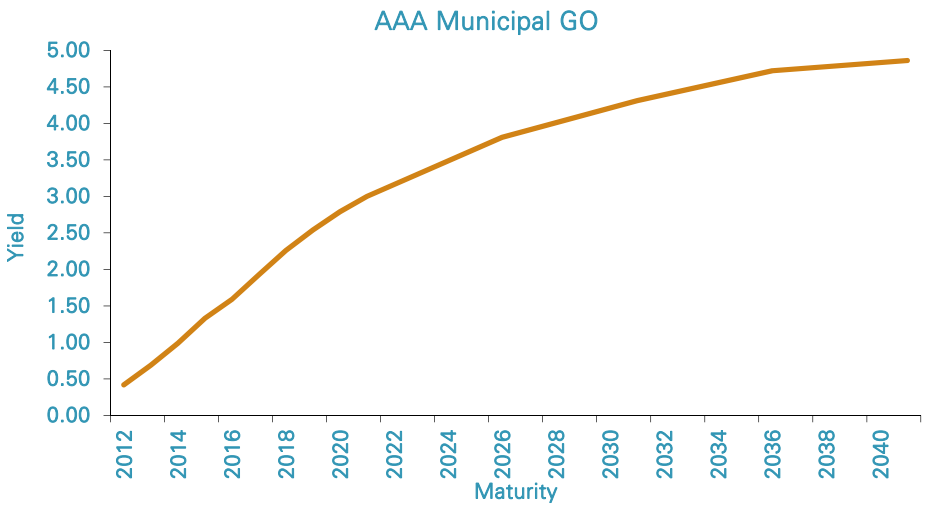


(Shaded area indicates recession)
ECRI's Weekly Leading Index (WLI) is a composite index constructed of seven USA weekly economic series (M2, JOC-ECRI industrial materials price index, initial unemployment insurance claims, mortgage applications, S&P 500, 10-yr Treasury bond yield, and bond quality spread). The limited availability of weekly data constrains the number of variables in the composite index, but this has not hurt the WLI's predictive power.

Tracking# 734396 Exp. (7/13)

Treasury & Muni Yield Curves



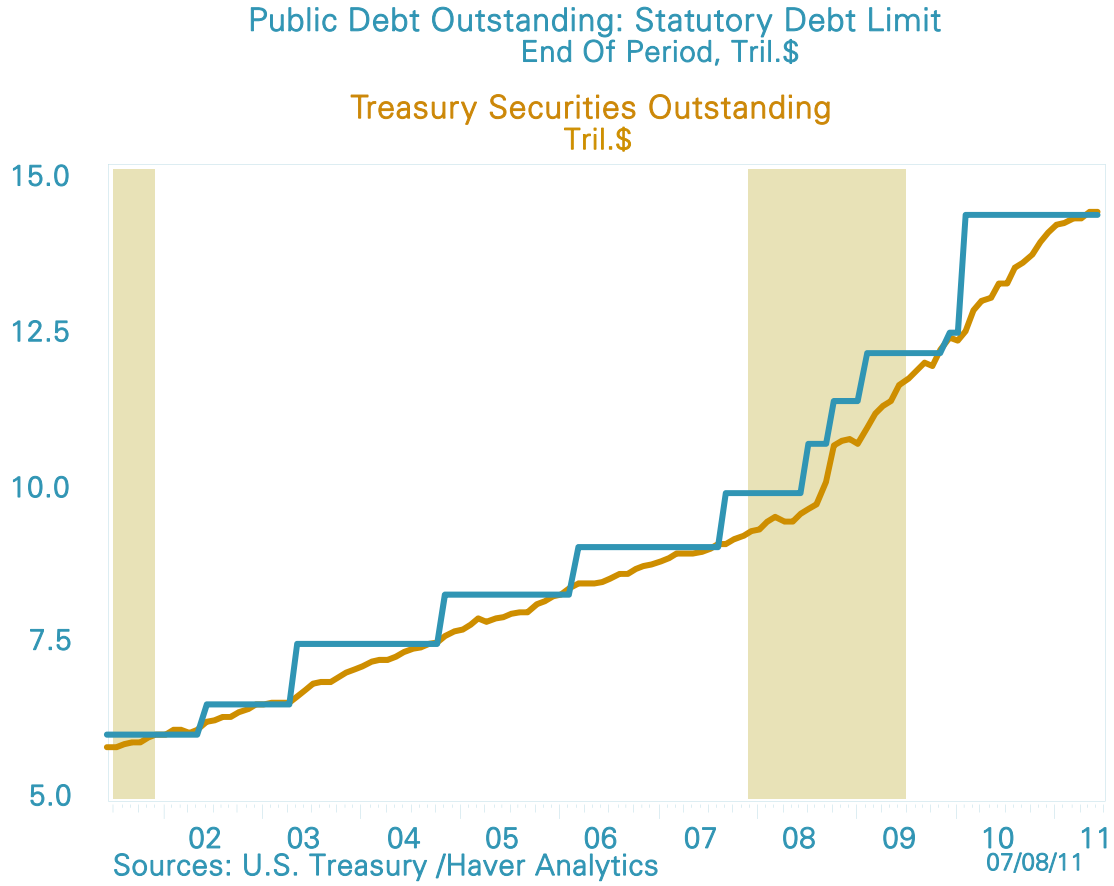


Source: Factset 07/08/11
An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
Municipal bonds are subject to availability, price, and to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate rise. Interest income may be subject to the alternative minimum 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 a fund shares is not guaranteed and will fluctuate.
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.
Yield Curve is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt. This yield curve is used as a benchmark for other debt in the market, such as mortgage rates or bank lending rates. The curve is also used to predict changes in economic output and growth.

Tracking# 734397 Exp. (7/13)

Second Quarter Key Themes

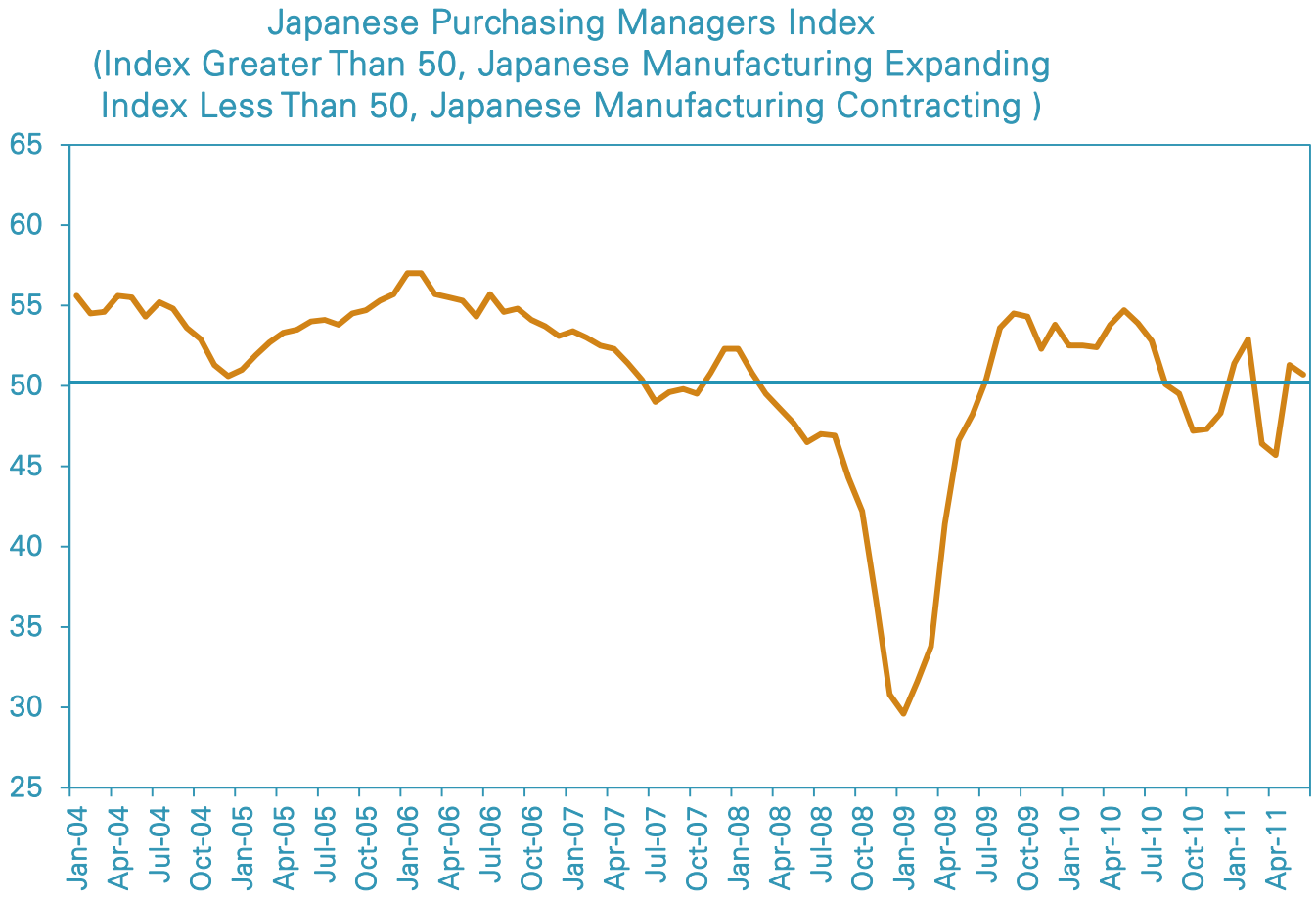
The Debt Ceiling Has Been Raised Numerous Times Over the Past 25 Years



(Shaded area indicates recession)
The Statutory Debt Limit was established under the Second Liberty Bond Act of 1917 that limits the amount of public debt that can be outstanding. The Statutory Debt Limit, or debt ceiling, prevents the U.S. Treasury from issuing new debt once the limit has been reached. However, the debt limit can be raised, and has often been raised, with approval from the U.S. Congress.

Tracking #74238 Exp. (07/13)

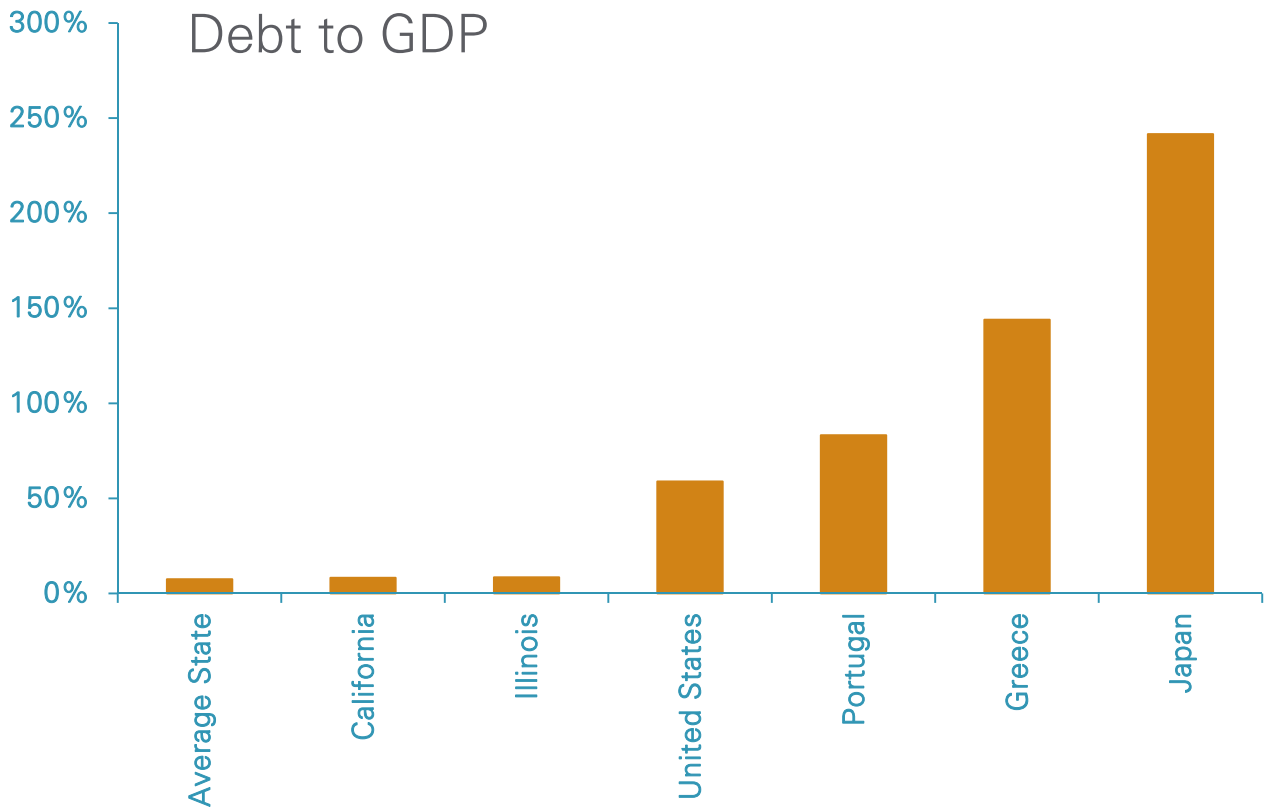
Markets Probably Underestimated the Impact of the Earthquake in Japan on the Global Economy, but Now Conditions in Japan Have Begun to Improve Noticeably (Japan GDP)



Source: Bloomberg 07/11/11
Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

Tracking #742384 Exp. (07/13)

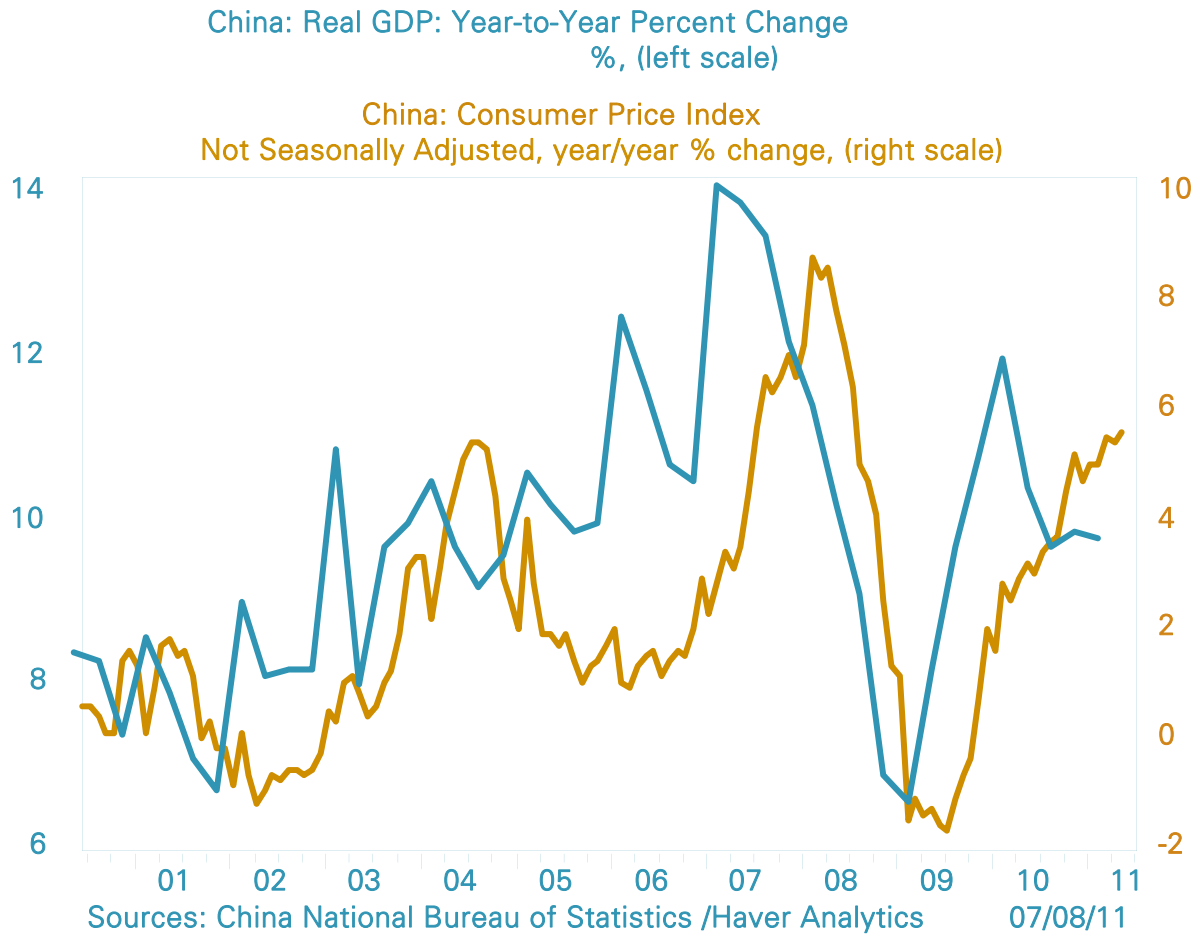
Selling Municipal Bonds



Source: LPL Financial, Center for Budget and Policy Research, Bureau of Economic Analysis 2/07/11
Debt-to-GDP is a measure of a country's federal debt in relation to its gross domestic product (GDP). By comparing what a country owes and what it produces, the debt-to-GDP ratio indicates the country's ability to pay back its debt. The ratio is a coverage ratio on a national level.
Municipal bonds are subject to availability, price, and to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate rise. Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.

Tracking #742385 Exp. (07/13)

As China's Economy has Cooled, Inflation has Heated UP, Prompting Higher Rates From China's Central Bank



The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

Tracking # 742389 Exp. (07/13)

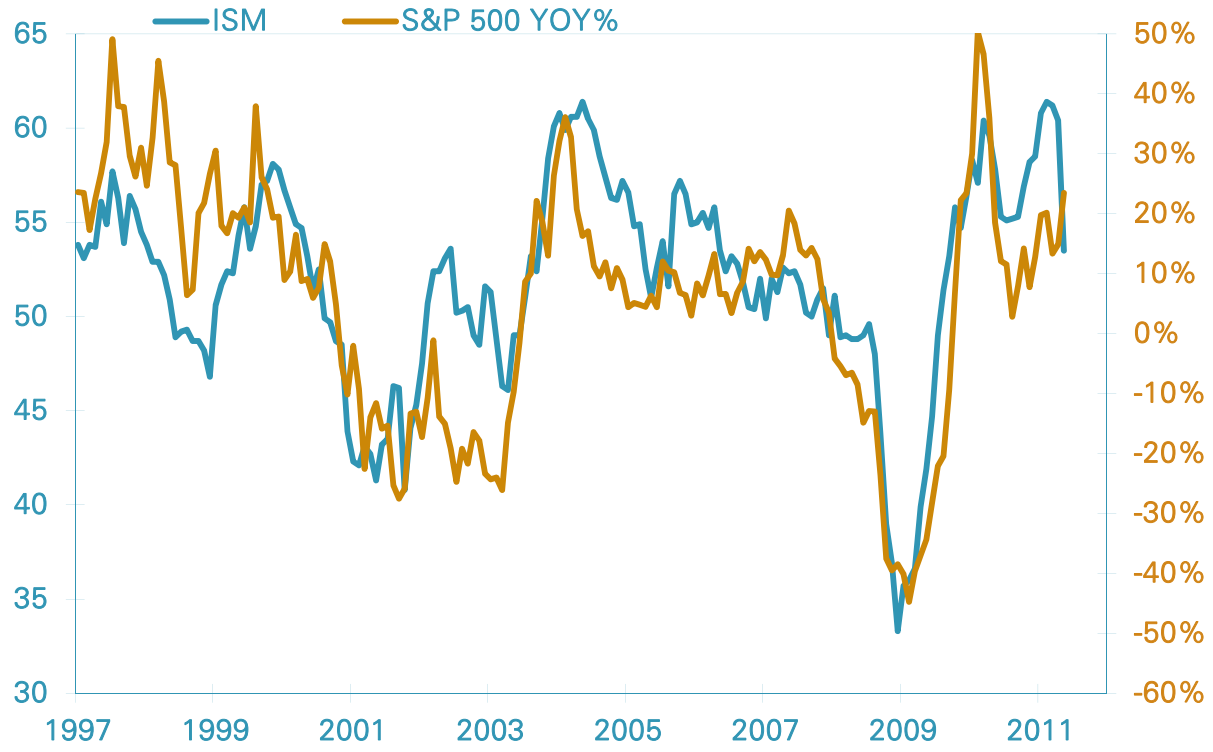
The Federal Reserve's Next Steps: LPL Financial Research's take on the Potential Process for Unwinding QE

Step 1	June 2011	▪ End of QE2: Fed stops buying Treasuries to expand its balance sheet
Step 2	Second half 2011	▪ Fed maintains size of balance sheet by reinvesting interest payments and maturing debt
Step 3	2012 and beyond	▪ Fed begins to not reinvest allowing the balance sheet to start to contract ▪ Fed begins to hike interest rates ▪ Fed begins selling bonds

Quantitative Easing is a government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.

Tracking #742390 Exp. (07/13)

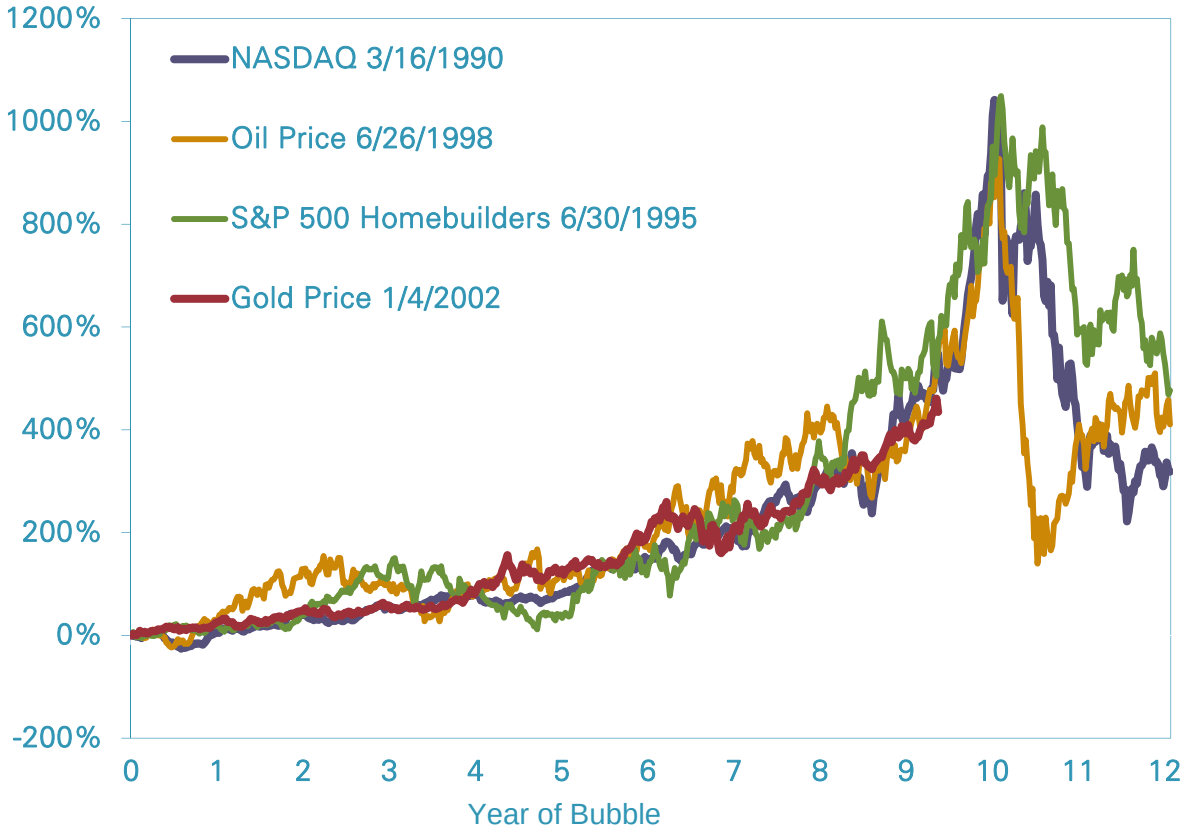
ISM & S&P 500 Performance Moves in Step



Source: LPL Financial, Bloomberg data 6/1/11
The ISM index is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders, and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys.
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 and cannot be invested into directly.. Past performance is no guarantee of future results.

Tracking # 742394 Exp. (07/13)

Classic Bubble Comparison



Source: LPL Financial, Bloomberg Data 5/9/11
Bubble describes an economic cycle characterized by rapid expansion followed by a contraction.
The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.
Precious metal investing is subject to substantial fluctuation and potential for loss.

Tracking #742393 Exp. (07/13)

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