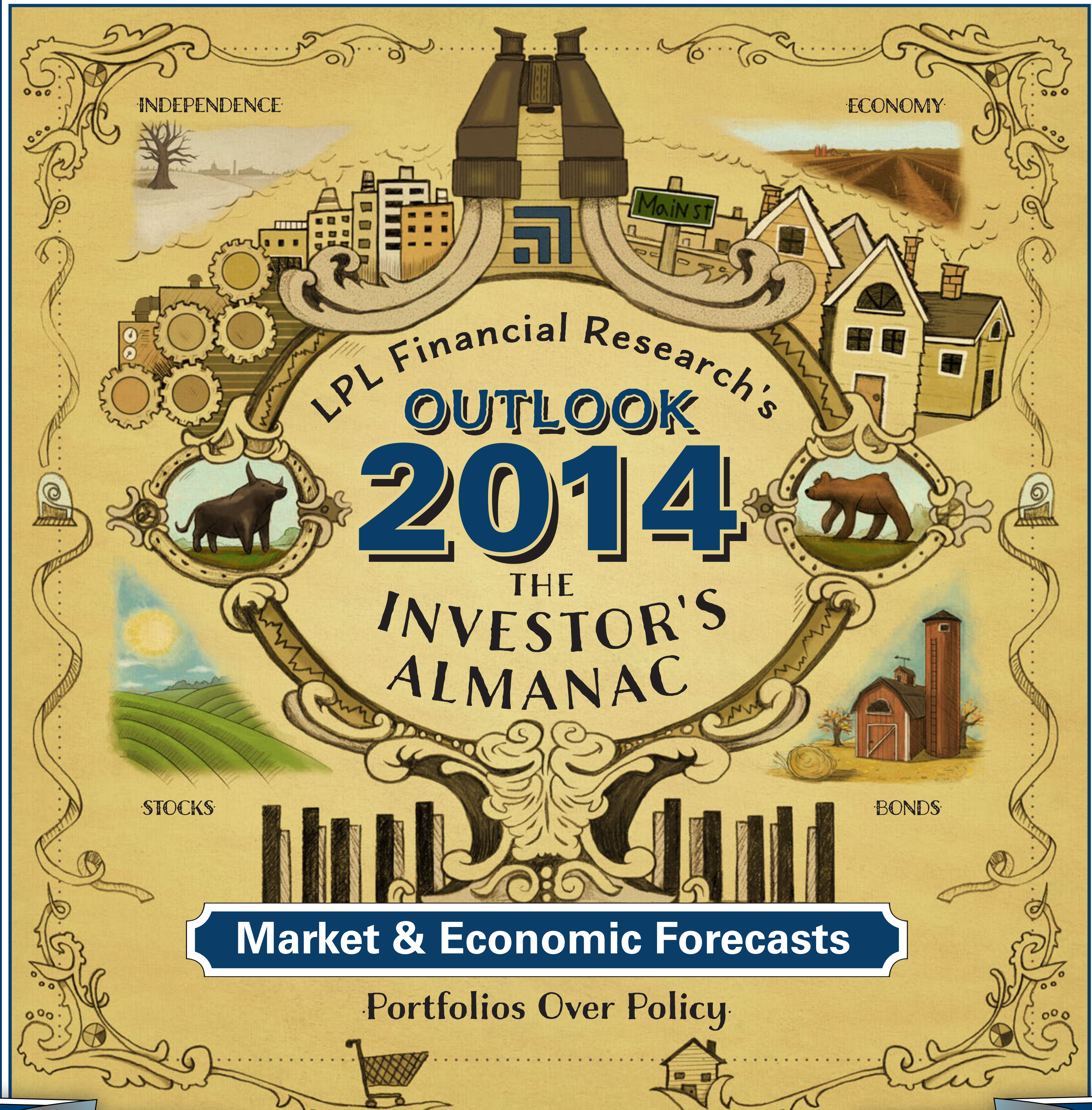


LPL Financial

Abridged

THE INVESTOR'S

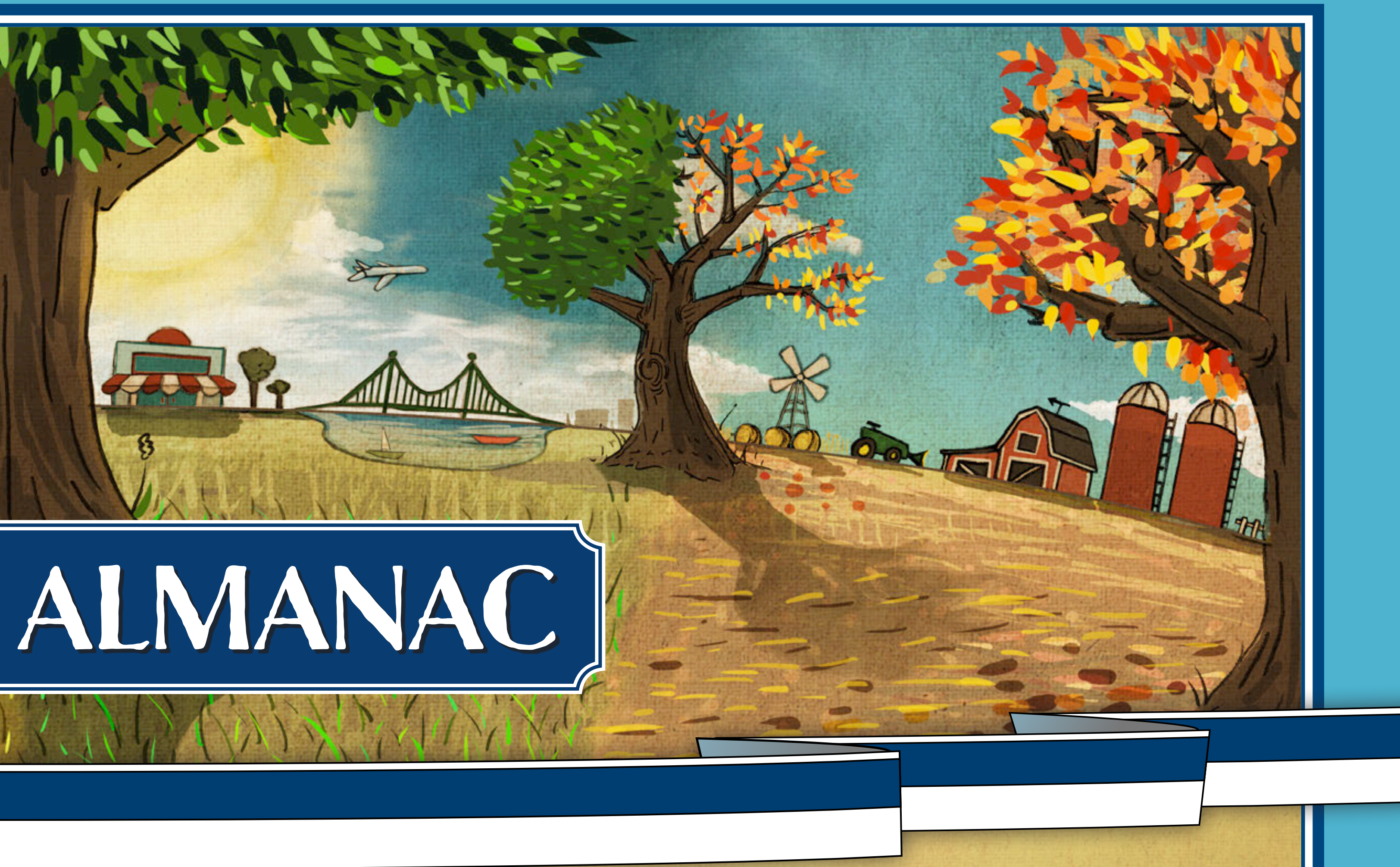
Portfolios Over Policy

A farming almanac is an annual publication containing a guide for the coming year and a forecast of the times and statistics of events and phenomena important to growing. 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 LPL Financial Research's *Outlook 2014: The Investor's Almanac*, we seek to provide a trusted guide to the coming year filled with a wealth of wisdom for investors.

In 2014, portfolios are likely to enjoy more independence from policymakers than in 2013, when the markets and media seemed to obsess over policymakers' actions both here and abroad. This could be seen throughout 2013, during the government shutdown and debt ceiling debacle, the Federal Reserve's (Fed) mixed messages on tapering its aggressive bond-buying program, the bank bailout and elections in Europe, and the unprecedented government stimulus referred to as "Abenomics" in Japan, among many other examples.

In the year ahead, there are many reasons investors can return to the basics of growing and preserving their portfolios and spend less time gauging the actions of policymakers, including:

- After two "clean" lifts to the debt ceiling since 2011, which ensured any risk of default on Treasury obligations was avoided, we are unlikely to see concessions in exchange for a third increase in 2014—making a high-stakes fiscal battle unlikely.
- The Fed is likely to begin to taper its bond-purchase program, known as quantitative easing (QE), in the first half of 2014, signaling a commitment to reducing its presence in the markets and transitioning to a post-QE environment.
- Europe is emerging from recession, which means less need for direct life support from the European Central Bank (ECB) or painfully austere fiscal policy as deficit targets are eased.



The economy and markets becoming more independent of policymakers while growth accelerates is likely to bolster investor confidence in the reliability and sustainability of the investing environment.

Key components of our 2014 outlook:

- Stronger U.S. economic growth emerges from fertile soil, accelerating to about 3% in 2014 after three years of steady, but sluggish, 2% growth. Our above-consensus annual forecast is based upon many of the drags of 2013 fading, including U.S. tax increases and spending cuts, the European recession, and accelerating growth from additional hiring and capital spending by businesses.
- 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).
- Bond market total returns are likely to be flat as yields rise with the 10-year Treasury yield ending the year at 3.25–3.75%. Our view of yields rising beyond what the futures market has priced in warns of the risk in longer-maturity bonds now that conditions have turned for the bond market.

In 2014, there may be more all-time highs seen in the stock market and higher yields in the bond market than we have seen in years as economic growth accelerates. The primary risk to our outlook is that better growth in the economy and profits does not develop. That risk is likely to be much more significant than the distractions posed by Fed tapering and mid-term elections. In our almanac, we forecast a healthy investment environment in which to cultivate a growing portfolio in 2014.

Just adding 0.5% back to GDP in 2014 would, in addition to better global growth, result in +1% and help the U.S. economy achieve 3% growth in 2014. Our expectation for a 1% acceleration in U.S. GDP over the pace of 2013 suggests a similar move for the bond market.

LPL Financial Research's

OUTLOOK 2014

At A Glance

3% Growth

As economic drags fade and global growth improves, the U.S. economy may accelerate to its fastest pace in nearly a decade.

10-15% Returns

This slightly above-average annual return forecast is rooted in our expectations for high single-digit earnings growth and a modest rise in the PE.

Flat Returns

Interest rates will move higher and bond prices lower in response to improving economic growth eroding return from yield.

Guide to Growing and Preserving Your Portfolio

Sowing Seeds

Consider adding some of these to your growing portfolio

- International (Developed Market) Stocks
- Emerging Market Stocks
- U.S. Small Cap Stocks
- Bank Loans
- Emerging Market Bonds

Full Bloom

Ensure plenty of portfolio space for these

- U.S. Large Cap Stocks
- Cyclical Stocks
- Intermediate-Term Bonds
- High-Yield Bonds
- Investment-Grade Corporate Bonds
- Municipal Bonds

Harvest Time

Consider reaping these that are not in season

- Defensive Stocks
- High-Quality Bonds
- Long-Term Bonds
- International (Developed Market) Bonds
- Cash

Source: LPL Financial Research 11/26/13

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

The prices of small and mid-cap stocks are generally more volatile than large cap stocks.

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.

Stock investing involves risk including loss of principal.

Municipal bonds are subject to availability and change in price. They are 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 minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply. International and emerging market investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

How to Invest

Look for these How to Invest planter tags for strategies to cultivate your portfolio in the 2014 environment.

Is Washington Washed Up?

When we take a look at weather forecasts, such as those in farmers' almanacs, we do not often consider any bias by the source of those forecasts. But maybe we should. It turns out that when it comes to weather forecasting, it is common to find low-probability outcomes consistently overestimated by forecasters. For example, according to a study at Texas A&M "when TWC (The Weather Channel) forecasted a 0.2 (20%) chance of precipitation for the same day, precipitation occurred only 5.5% of the time."

The well-known bias of weather forecasters to exaggerate fears of negative, low-probability outcomes, such as the likelihood and amount of snowfall, also often appears in the forecasts of non-weather-related issues. We saw this bias in the media over the antics in Washington, D.C., fixating on the threat of a default on U.S. Treasury debt during the debt ceiling discussions, or a return to recession due to the impact of the sequester spending cuts. This bias could also be seen in events beyond the United States' borders in the exaggerated attention devoted to the threat of another financial crisis stemming from the Cyprus bank bailout, the risk of the outcome of the Italian elections plunging the Eurozone debt markets into chaos, and the risks of a strike on Syria turning into a major geopolitical military engagement.

Of course, the probabilities of those outcomes were very low, and the markets did not dwell on those potential outcomes. Market participants tuned them out, and the S&P 500 moved steadily higher throughout the year without experiencing more than a 6% pullback at any point [Figure 11]. We believe it will be safe in 2014 to again tune out much of the antics in Washington, D.C. as the mid-term elections turn up the volume but not the impact.

The LPL Financial Research forecast: In the near-term, Washington may be washed up when it comes to driving the markets.

11 The Stock Market Overcame Many Challenges in 2013

Source: LPL Financial Research, Bloomberg data 11/26/13

The S&P 500 is an unmanaged index, which 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.

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.

The Leading Economic Index (LEI) is an economic variable, such as private-sector wages, that tends to show the direction of future economic activity.

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

The Barclays Capital Aggregate Bond Index is an unmanaged market capitalization-weighted index of most intermediate term U.S. traded investment-grade, fixed rate, non-convertible and taxable bond market securities including government agency, corporate, mortgage-backed and some foreign bonds.

BEHIND THE SCENES

ABOUT THE CREATION OF *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 *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 *Outlook 2014: The Investor's Almanac* as much as we enjoyed creating it.

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