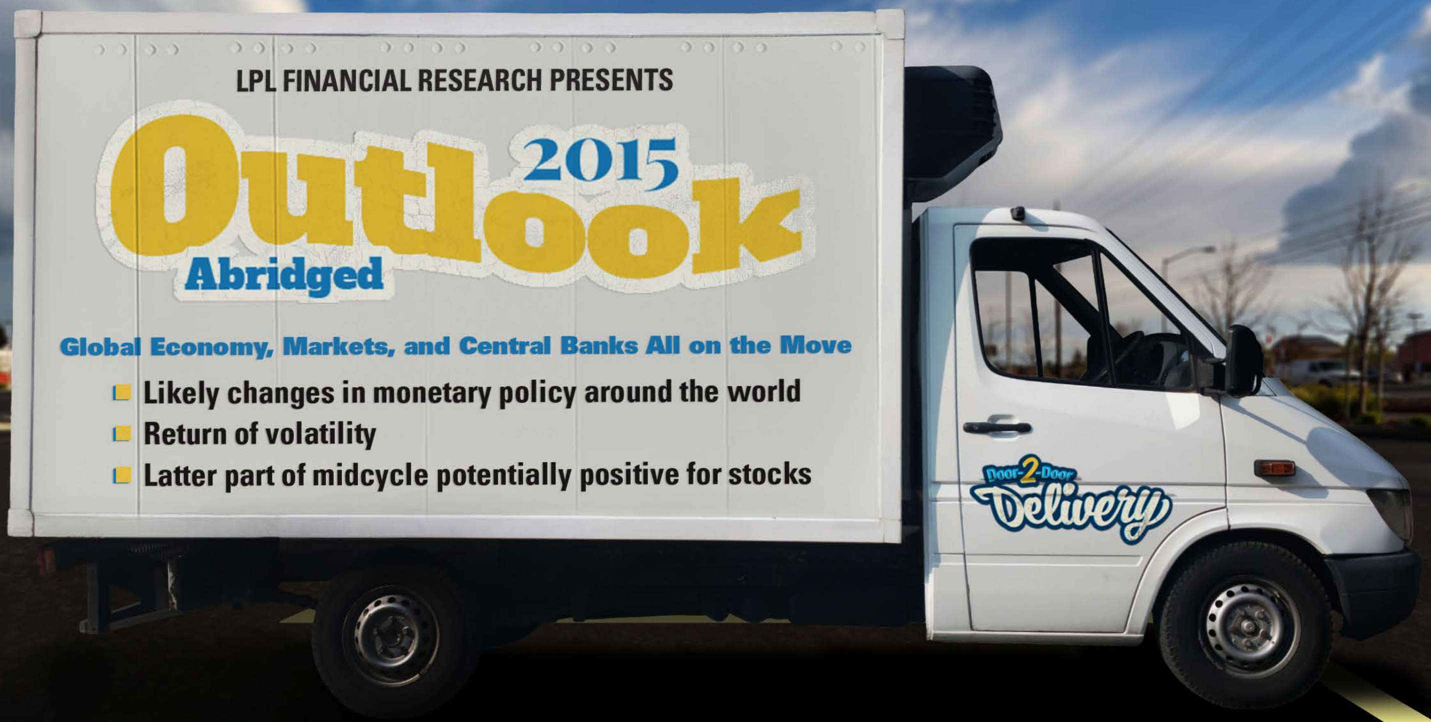

ECONOMY

3%+ Growth

We expect gross domestic product to expand at a rate of 3% or higher, which matches the average growth rate of the past 50 years. This is based on contributions from consumer spending, business capital spending, and housing, which are poised to advance at historically average, or better, growth rates in 2015. Net exports and the government sector should trail behind.

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

STOCKS

5–9% Returns

Historically since WWII, the average annual gain on stocks has been 7 – 9%. Thus, our forecast is in-line with average stock market growth. We forecast a 5 – 9% gain, including dividends, for U.S. stocks in 2015, as measured by the S&P 500. This gain is derived from earnings per share (EPS) for S&P 500 companies growing 5 – 10%. Earnings gains are supported by our expectation of improved global economic growth and stable profit margins in 2015.

Stock investing involves risk including loss of principal.

BONDS

Flat Returns

Battling the dual threat of the Federal Reserve's (Fed) impending rise in rates and expanding economic growth, bonds offer little, if any, growth potential in 2015. High-yield bonds and bank loans can help investors manage this challenging bond market.

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

SHIPPING OPTIONS HOW TO MANAGE, TRACK, AND DELIVER INVESTMENT IDEAS IN 2015

EXPRESS SHIPPING

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Investment ideas worthy of expedited delivery into portfolios in 2015

- U.S. Cyclical Growth Stocks
- Emerging Markets Stocks
- Credit & High-Yield Bonds
- Global Macro Alternative Strategies

BULK SHIPPING

Investment ideas that should make up the bulk of investor portfolios in 2015

- U.S. Large Cap Stocks
- U.S. Mid Cap Stocks
- Municipal Bonds
- Merger Arbitrage Alternative Strategies

FRAGILE SHIPPING

Investment ideas requiring careful handling in 2015

- International Developed Market Stocks
- U.S. Defensive Stocks
- High-Quality Long-Term Bonds
- International Developed Market Bonds

Because of its narrow focus, **sector investing** will be subject to greater volatility than investing more broadly across many sectors and companies. **High-yield/junk bonds** are not investment-grade securities, involve substantial risks, and generally should be part of the diversified portfolio of sophisticated investors. **Mid capitalization companies** are subject to higher volatility than those of larger capitalized companies. **International and emerging markets investing** involves special risks, such as currency fluctuation and political instability, and may not be suitable for all investors. **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 rates rise. Interest income may be subject to the alternative minimum tax. Federally tax free but other state and local taxes may apply. **Alternative strategies** 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. **Merger arbitrage strategies** consist of buying shares of the target company in a proposed merger and fully or partially hedging the exposure to the acquirer by shorting the stock of the acquiring company or other means.

The **PE ratio (price-to-earnings ratio)** is a valuation ratio of a company's current share price compared with its pershare earnings. A high PE suggests that investors are expecting high earnings growth in the future, compared with companies with a lower PE. **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. **NYSE Composite Index** is an index that 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.

VOLATILITY

As the economic and market cycles progress, increased volatility should be expected; however, none of our **Five Forecasters** show elevated reason for concern, indicating a recession is unlikely in 2015.

Forecaster	TREASURY YIELD CURVE	LEADING ECONOMIC INDICATORS	MARKET BREADTH	PURCHASING MANAGERS' SENTIMENT	MARKET VALUATION: PRICE-TO-EARNINGS RATIO
Signal	An inverted yield curve, defined as a 3-month Treasury yield more than 0.5% higher than the 10- year Treasury yield.	The year-over-year change in the Conference Board's Leading Economic Index (LEI) turns negative.	A decline in a measure of the number of stocks advancing compared to the number declining over time when the price level of the NYSE Composite Index is still making new highs.	There is no clear signal, but an unambiguous peak in the ISM Purchasing Managers' Index (PMI) can be considered a potential warning.	The PE for the S&P 500 (the S&P 500 Index price divided by 1-year trailing operating EPS) is above 17; however, it can stay elevated for a long period of time.
Warning Level	No ☒ On Watch ☐ Yes ☐	No ☒ On Watch ☐ Yes ☐	No ☒ On Watch ☐ Yes ☐	No ☒ On Watch ☐ Yes ☐	No ☐ On Watch ☒ Yes ☐

EVALUATING THE LIKELY SEVERITY OF A MARKET DECLINE USING THE **LPL FINANCIAL RESEARCH 3-QUESTION APPROACH:**

1. Is a recession likely around the corner? **2.** What caused the stock market decline? **3**. What are the catalysts for reversal?

POLICY CHANGES AHEAD

Midterm Elections Shift Balance

The recent transfer of power in Congress, from Democrats to Republicans, could have a meaningful impact on broad policy measures such as the Affordable Care Act (ACA), tax reform, and presidential appointees to the Fed, as well as on several key sectors of the economy. Accordingly, after a relatively quiet 2014, Washington, D.C. will likely be front and center again in 2015.

SECTOR IMPLICATIONS OF MIDTERM ELECTIONS

Energy

Transportation stocks such as rails should continue to chug along as they benefit from increasing U.S. energy production.

Housing Finance Reform

Some reform may be achieved, but the road to get there may be bumpy; and the potential impact to mortgage lenders is unlikely to be significant.

Healthcare

We would view healthcare weakness related to speculation about the unlikely possibility of the ACA's repeal as a buying opportunity, especially in hospital stocks.

Financial Services

Some regulatory burden may be alleviated. Community banks may benefit from a reduction in loans they must retain on their balance sheets.

Around the Corner

Unmistakably, 2015 is a year in transition, one that bridges a maturing economic recovery with the latter stages of the business cycle. But every transition, every journey, is a passage to a new destination. For 2015, this shift sets the stage for an extremely important delivery of sweeping changes in 2016 — a date that may seem far off now, but the importance of which will be felt throughout this coming year. Markets are always looking forward, and as important as 2015 will prove to be, it only will be the foundation for what is ahead in 2016.

Amid the heightened activity in Washington and shifts in monetary policy, the shipping lanes are wide open as 2015 may be poised to deliver strong economic growth, improving labor conditions, a continued environment for fast-growing corporate earnings, and a favorable backdrop for expanding equity prices. But 2015's most important delivery will be setting the stage for 2016.