

Thematic Insights

An In-depth Look at Investment Opportunities



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Opportunity: Reviewing Our Key Current Investment Themes

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Highlights

As the economy transitions from recovery to sustainable growth, we anticipate uneven economic data, evolving market leadership, and elevated levels of market volatility. This investing environment presents both risks to be side-stepped and potential opportunities. Our portfolios currently reflect broad investment themes that focus on a more tactical bias, offer a greater yield, are economically sensitive and potentially insulate from unexpected market events. We feel the following opportunities move our models towards these themes:

- High-Yield Bonds
- Real Estate Investment Trusts (REITs)
- Emerging Market Bonds
- Commodities asset classes
- Small Cap Equity

Broad Asset Class Views

	Negative	Neutral	Positive	Bias
Stocks			●	
Bonds			●	
Cash			●	
Alternatives			●	

Source: LPL Financial Research

★ Denotes change in tracking from last issue.

The sharp market moves over the past two years have shown that tactical investing and proactive portfolio positioning may enhance performance. In our models, during these extremes we side-stepped some risks and profited from the opportunities. For the balance of 2010, we expect to continue this blueprint through a tactical investment approach to find attractive opportunities when offered and successfully take profits when appropriate.

As the economy transitions from recovery to sustainable growth, we expect an economic expansion that will feature uneven economic data, evolving market leadership and elevated levels of market volatility. The difficulty with investing in markets that are in flux is that they are moved by both positive and negative factors—often at the same time. As a result, transitioning markets often display fairly range-bound returns that are also characterized by heightened volatility.

To thrive in transitioning markets there are several considerations to help investment success. In an environment where volatility is the primary characteristic, we prefer strategies that focus on the income stream of an investment rather than solely on potential price appreciation to generate total returns. We believe a higher yield may benefit portfolios by providing a consistent income component that is received regardless of price movements, cushioning downward and unexpected market moves. Our favorite yield-oriented strategies include High-Yield Bonds, Real Estate Investment Trusts (REITs) and Emerging Market Bonds.

In addition to yield targeting strategies, we also prefer investments that stand to both benefit from the global economic recovery and could possibly help cushion against unanticipated events, such as rising inflation or a worsening economic picture in Europe. For example, while both Commodities and Small Caps are economically sensitive, in the event that inflation surfaces sooner than we anticipate, a direct allocation toward Commodities is prudent. Not only do Commodities asset classes normally benefit from the global economic recovery, but also this asset class tends to perform well in rising inflation environments. Similarly, if the situation in Europe worsens, U.S. Small Cap companies could be relative winners given that they are more domestically focused.

Key Current Investment Themes

With our goal of keeping our models focused on opportunities within a volatile investment picture, these are currently our favorite investment opportunities:

- **High-Yield Bonds** – In a volatile market environment, we prefer strategies that focus on the yield of an investment rather than solely on potential

price appreciation to generate total returns. We believe a higher yield may benefit portfolios by providing a consistent income component that is received regardless of price movements, cushioning downward market moves. Today, our favorite way to increase yield remains the High-Yield Bond asset class. In addition to offering a solid yield, this asset class benefits from potentially further yield spread contraction, declining default rates, and improving financial conditions of underlying issuers. Lastly, since High-Yield Bonds also benefit more from an improving economy, we expect prices to show resilience to higher interest rates.

- **Real Estate Investment Trusts (REITs)** – In addition to offering a considerable yield that should help cushion portfolios from unexpected market volatility, REITs possess stable fundamentals that may benefit from economic growth and further pick up in employment. REIT fundamentals tend to recover later in the economic recovery/expansion cycle than most other industries, suggesting more improvement to come. Also, given their low correlation to equities and fixed income, REITs have historically been able to help improve portfolio diversification—also a benefit in periods of volatility.
- **Emerging Market Bonds** – Investing in Emerging Market Bonds offers exposure to fast growing emerging market economies with less risk than investing directly in Emerging Markets Equity. For example, relative to the difficulty experienced in the 1990s, credit conditions in emerging market nations have improved dramatically. Most notably, this is reflected in improved credit ratings and lower borrowing costs. In addition, Emerging Market Bonds tend to offer solid income opportunities, especially compared to other high-quality government debt.
- **Commodities Asset Class** – Commodities stand to benefit from the global economic recovery, especially in China and the surrounding region, and offer potential hedges to a weakening US dollar. Furthermore, oversold conditions have emerged within industrial base metals despite the likelihood for continued global economic expansion. The global growth story remains the over-arching theme that may continue to favor increased consumption, improving industrial demand, and conditions for rising commodity asset class prices. While the growth of such industrial manufacturers as China and Germany will likely slow over the next few quarters, commodity asset classes have more than priced in this reduction in demand into their valuations. In addition to the fact that these investments offer attractive opportunities given the recent fears of a global-growth slowdown and eurozone contagion, commodity asset classes would benefit from an unexpected rise in inflation.
- **Small Cap Equity** – Given the likely continued economic malaise in Europe, smaller cap companies stand to be relative return winners given that they are more domestically-focused, and they could be better insulated if a contagion develops. We continue to believe the U.S. economy will remain more robust and consistent than the rest of the developed world, especially compared to Europe. Since small cap companies have more domestic sales exposure than their large cap peers, they have greater leverage to increasing demand in the U.S. economy.

High yield/junk bonds are not investment grade securities, involve substantial risks and generally should be part of the diversified portfolio of sophisticated advisors.

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 the program will be attained.

International and emerging market 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.

Precious metals investing involves risk, including the risk of loss.

Asset allocation does not ensure a profit or protect against loss.

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.

Implementing the Opportunities

To implement these opportunities, we suggest our top mutual fund recommendations in each respective asset class. Keep in mind that every investor situation is different and there are many considerations you should discuss with your advisor before investing in a specific mutual fund.

High-Yield Bonds

To implement High-Yield Bonds in portfolio allocation, our top recommendation in this asset class is the Pioneer Global High-Yield Fund Y (GHYYX).

- Management applies a consistent, value-oriented approach to fixed-income investing to build a well-diversified portfolio of over 400 names. As of May 31, 2010, the portfolio was allocated as follows: High-Yield Bonds (60%), Emerging Markets Bonds (30%), International High-Yield Bonds (5%) and Investment-Grade Corporate Bonds (5%).
- Risk control is very important to management. They adjust allocations at three levels—country, sector and the individual security level—in order to help manage risk and enhance yield and total return potential.

Pioneer Global High-Yield Fund Y Performance (as of 3/31/10)

Fund Name	Ticker	QTD	YTD	1-Yr	5-Yrs	Since Incep (12/27/05)	Gross Expense Ratio
Pioneer Global High-Yield Fund	GHYYX	6.69	6.69	73.59	N/A	6.20	0.74
Barclays Capital High-Yield		4.62	4.62	55.91	N/A	N/A	N/A

Source: Factset

Barclays High Yield Bond Index is an unmanaged index which cannot be invested into directly.

The performance data quoted represents past performance.

Past performance does not guarantee future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance information quoted. To obtain current month-end performance information, please visit www.pioneerinvestments.com.

The performance quoted reflects the reinvestment of dividends and capital gains, is net of expenses and but does not reflect the maximum advisory fee of 3%. Such fee, if taken into consideration, will reduce the performance above.

Gross expense ratio is the total annual fund operating expense ratio and can be found in the most recent prospectus.

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.

Real Estate Investment Trusts (REITs)

To implement REIT exposure in portfolio allocations, our top recommendation in this asset class is the Morgan Stanley Inst. U.S. Real Estate I fund (MSUSX).

- Lead portfolio manager Ted Bigman has extensive knowledge in both private and public real estate, which gives him time-tested experience in determining proper valuations for publicly traded real estate stocks. Furthermore, his 27 years in the industry has allowed him to witness both undervalued and frothy real estate cycles. Given the volatility seen in real estate over the past few years, we feel his experience is necessary to navigate in this asset class going forward.
- The team’s investment process includes a strict adherence to a price versus net asset value (NAV) valuation analysis. They apply this proprietary NAV analysis when weighting real estate sectors and individual stocks in this portfolio.

Morgan Stanley Inst U.S. Real Estate I Performance (as of 3/31/10)

Fund Name	Ticker	QTD	YTD	1-Yr	5-Yrs	10-Yrs	Since Incep (2/24/95)	Gross Expense Ratio
Morgan Stanley Inst. U.S. Real Estate I	MSUSX	10.11	10.11	101.41	4.96	12.20	12.57	0.96
NAREIT Equity Index		10.02	10.02	106.11	3.79	11.42	N/A	N/A

Source: Factset

NAREIT Equity Index is an unmanaged index which cannot be invested into directly.

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The performance quoted reflects the reinvestment of dividends and capital gains, is net of expenses and but does not reflect the maximum advisory fee of 3%. Such fee, if taken into consideration, will reduce the performance above.

Gross expense ratio is the total annual fund operating expense ratio and can be found in the most recent prospectus.

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Emerging Market Bonds

To implement exposure to Emerging Markets Bonds, our top recommendation in this asset class is MFS Emerging Markets Debt (MEDIX).

- An experienced investment team manages this fund. Both portfolio managers, Ryan and Brown, are former economists at the International Monetary Fund (IMF) and have 22 and 14 years of investment experience, respectively. Given market volatility, we prefer to invest with experience in our models.
- Also, given the presence of market volatility, especially in Emerging Markets, we prefer diversified funds. This fund is well-diversified with about 150 securities, nearly 30 countries and multiple issuer types.

MFS Emerging Markets Debt Fund (as of 3/31/10)

Fund Name	Ticker	QTD	YTD	1-Yr	5-Yrs	Since Incep (4/28/06)	Gross Expense Ratio
MFS Emerging Markets Debt W Fund	MEDIX	4.39	4.39	33.27	10.35	12.57	1.15
JP Morgan Emerging Markets Bond		4.16	4.16	29.03	9.24	N/A	N/A

Source: Factset

JP Morgan Emerging Markets Bond Index is an unmanaged index which cannot be invested into directly.

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The performance quoted reflects the reinvestment of dividends and capital gains, is net of expenses and but does not reflect the maximum advisory fee of 3%. Such fee, if taken into consideration, will reduce the performance above.

Gross expense ratio is the total annual fund operating expense ratio and can be found in the most recent prospectus.

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

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.

Commodities

To implement exposure to Commodities, our top recommendation in this asset class is the Ivy Global Natural Resources Fund (IGNIX).

- Because this fund operates in a sometimes volatile asset class, management seeks to minimize risk and unexpected performance through a process that diversifies the fund by sector, market capitalization and geographic location.
- The portfolio is anchored with recognized world-class companies. These are usually well-established larger companies that are believed to have superior producing “trophy” assets, the ability to maintain low-cost leadership, strong financial discipline and attractive long-term reinvestment opportunities.
- Similar to our views, management expects increased levels of volatility as the economy transitions from government and central bank policy push to consumer and business spending pull. As such, depending on their indicators, they frequently and proactively reposition the portfolio in order to help benefit from volatility in some cases or avoid it in other cases.

Ivy Global Natural Resources (as of 3/31/10)

Fund Name	Ticker	QTD	YTD	1-Yr	5-Yrs	10-Yrs	Since Incep (4/2/07)	Gross Expense Ratio
Ivy Global Natural Resources	IGNIX	0.69	0.69	68.11	N/A	N/A	-2.66	1.05
S&P N.A. Natural Resources Index		0.49	0.49	48.39	N/A	N/A	N/A	N/A

Source: Factset

S&P North American Natural Resources Sector Index is an unmanaged index which cannot be invested into directly.

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The performance quoted reflects the reinvestment of dividends and capital gains, is net of expenses and but does not reflect the maximum advisory fee of 3%. Such fee, if taken into consideration, will reduce the performance above.

Gross expense ratio is the total annual fund operating expense ratio and can be found in the most recent prospectus.

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

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

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

Overweight Small Cap

To implement a greater Small Cap exposure in our portfolios, our top recommendations in Small Cap Growth and Small Cap Value are Alger Small Cap Growth (ALSRX) and Harbor Small Cap Value (HASCX), respectively. Key reasons we believe Alger Small Cap Growth is well positioned for this theme.

- Management is focused on economically sensitive sectors in their portfolio. As of May 31, 2010, they have sizable positions in Technology (23.3% of the portfolio) and Consumer Discretionary (18.2%).
- Given management's risk controlled approach coupled with the firm's more aggressive research style, historically the fund has performed well in upside rallies while also protecting on the downside during market pullbacks. For example, in 2002 when its benchmark, the Russell 2000 Growth, fell 30.26%, the fund only dropped 26.84%. On the other hand, in 2009, then the benchmark rallied 34.47%, the fund returned 43.71%.

Similarly, Harbor Small Cap Value implements our Small Cap bias. By taking a unique approach to value investing that combines both valuations and growth drivers, the fund has produced a competitive track record in both bull and bear markets. More importantly, historically, its positioning has given management the ability to perform well in stock market rallies.

Alger Small Cap Growth Instl (as of 3/31/10)

Fund Name	Ticker	QTD	YTD	1-Yr	5-Yrs	10-Yrs	Since Incep (11/8/93)	Gross Expense Ratio
Alger Small Cap Growth Instl	ALSRX	9.30	9.30	59.69	6.82	-1.96	8.68	1.27
Russell 2000 Growth		7.61	7.61	60.03	3.81	-1.53	N/A	N/A

Source: Factset

Russell 2000 Growth Index is an unmanaged index which cannot be invested into directly.

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The performance quoted reflects the reinvestment of dividends and capital gains, is net of expenses and but does not reflect the maximum advisory fee of 3%. Such fee, if taken into consideration, will reduce the performance above.

Gross expense ratio is the total annual fund operating expense ratio and can be found in the most recent prospectus.

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Harbor Small Cap Value Performance Instl (as of 3/31/10)

Fund Name	Ticker	QTD	YTD	1-Yr	5-Yrs	Since Incep (12/14/01)	Gross Expense Ratio
Harbor Small Cap Value Instl	HASCX	8.14	8.14	60.48	1.13	8.59	0.88
Russell 2000 Value		10.02	10.02	64.76	2.74	N/A	N/A

Source: Factset

Russell 2000 Value is an unmanaged index which cannot be invested into directly.

The performance data quoted represents past performance.

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The performance quoted reflects the reinvestment of dividends and capital gains, is net of expenses and but does not reflect the maximum advisory fee of 3%. Such fee, if taken into consideration, will reduce the performance above.

Gross expense ratio is the total annual fund operating expense ratio and can be found in the most recent prospectus.

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.

Small-cap stocks may be subject to a higher degree of risk than those more established companies' securities. The illiquidity of the small-cap market may adversely affect the value of these investments.

Final Words

The market extremes over the past two years have shown that tactical investing and proactive portfolio positioning can enhance performance. In our models, we took this to heart and sought to help protect from the risks and profit from the opportunities. We maintained a defensive posture during the height of the financial crisis and transitioned to a more opportunistic stance as the economic recovery unfolded.

Looking forward, as the economy transitions from recovery to sustainable growth, we expect an economic expansion that will feature uneven economic data, evolving market leadership and elevated levels of market volatility. As a result, transitioning markets often are characterized by heightened volatility and unexpected market swings. With a focus on opportunistic investing, LPL Financial Research attempts to position portfolios to become aggressive when volatility presents opportunity, but profit defensively when market volatility suggests danger. Within this investment blueprint, we favor those investments that provide income to help mitigate volatility—High-Yield Bonds, Real Estate Investment Trusts (REITs) and Emerging Market Bonds. We also prefer those investments that stand to benefit from the continued global economic recovery and could

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.

Investors should consider the investment objectives, risks, charges and expenses of the investment company carefully before investing. The prospectus contains this and other information about the investment company. You can obtain a prospectus from your financial representative. Read carefully before investing.

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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.

Stock investing involves risk including loss of principal.

Low correlation: A correlation of 1.0 means they move in perfect tandem with each other. A correlation of zero means that the relationship between them is totally random. A negative correlation means that they move in opposite directions. Low correlation means that different asset types have not performed in the same way.

Barclays Capital High Yield Bond Index is an unmanaged index of corporate bonds rated below investment grade by Moody's, S&P or Fitch Investor Service. The index also includes bonds not rated by the ratings agencies.

J.P. Morgan Emerging Markets Bond Index Global (EMBI Global) tracks total returns for U.S. dollar denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds. Currently, the EMBI Global covers 188 instruments across 33 countries.

The NAREIT (National Association of Real Estate Investment Trusts) Equity REITs Index contains equity REITs which include those firms that own, manage and lease investment-grade commercial real estate. Specifically, a company is classified as an Equity REIT if 75 percent or more of its gross invested book assets is invested in real property.

Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

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.

S&P North American Natural Resources Sector Index is an equity benchmark for U.S. Traded natural resource related stocks. The Index includes companies in the following categories: extractive industries, energy companies, owners and operators of timber tracts, forestry services, producers of pulp and paper, and owners of plantations. It is a modified capitalization-weighted index and component companies must meet objective criteria for inclusion.

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