

April 20, 2009

Dear Valued Investor:

Being an investor has never been harder. Information overload contributes to misinformed decisions and outright paralysis among investors. Recent calls for additional transparency have resulted in significantly more data being made available in the public domain, while not increasing the amount of useful, decision-relevant information. As a result, average investors must attempt to sift through the myriad, and at times conflicting, economic data, policy actions, and other market events, that inundate the airwaves. Ultimately, the “sound and fury” does little to assist investors in determining whether the economy and markets are flat, poised for recovery, or heading towards another Great Depression. The two central questions during a time of profound market uncertainty such as this are, how do we separate truly decision-relevant information from what is merely “nice to know,” and when we separate this wheat from the chaff, what can we learn?

At LPL Financial Research, we have created the weekly Crisis Conditions Index (CCI) to help you get the answers to both these questions. This Index incorporates 10 key indicators that provide real-time insight into where the economy is at any given moment, as opposed to indicators that either lead (like building permits) or lag (like monthly unemployment figures). These up-to-the-week snapshots illustrate where the markets and economy are headed in terms of unemployment, banking system strength, liquidity availability, retail sales, global trade activity, housing demand, manufacturing demand, corporate credit confidence, consumer confidence and stock market confidence. These are the relevant metrics of health in the economy and markets, and they are showing a surprising level of ongoing improvement and resilience. Truly information that is decision-relevant and not just nice to know.

Compare the real-time, fact-based approach of the CCI against those who would look at key lagging or leading indicators, such as the unemployment rate and building permits, respectively. For those who would look at lagging indicators, they will always be “late to the game” when it comes to their investment decisions. For those too enamored of leading indicators, the risk is that many of them are too infrequent and volatile to provide actionable insight. And ardent stock market watchers should be wary of using anything as a gauge when it is so heavily fueled by the often over-reactive emotions of its participants.

So, where are we today? The CCI has risen in each of the past five weeks and has rebounded to where it started the year—aligned with our base case for the economy and forecast for modest gains in stocks and bonds this year. During the past several weeks, several of the components that improved in the CCI were driven by narrowing bond spreads reflecting improving conditions in the credit market, surging mortgage applications as conforming mortgage rates dipped under 5% for the first time in over five years, economically sensitive

commodity prices have moved higher, and rebounding retail sales. And the improvement in conditions has not been missed by market participants as risk taking has been rewarded in the stock and bond markets.

As you know it is all too easy to get lost in the Byzantine maze of statistics and fact sets that either tell us about the past with little to say about the future, or peek into the future on an all-too-inaccurate basis. The objective of the CCI is help you set aside the heavy emotions that can often drive investment decisions, and deafen the noise so the underlying rhythms of the marketplace are more apparent. For the upward trend in the markets to continue, or even for the gains to hold, the recent improvement in the indicators tracked by the CCI must be sustained. We caution against making major changes and stress the importance of a commitment to your long-term investment strategy. As always, we encourage you to contact your financial advisor if you have any questions

Best Regards,



Jeffrey Kleintop, CFA
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Not Guaranteed by any Government Agency | Not a Bank/Credit Union Deposit