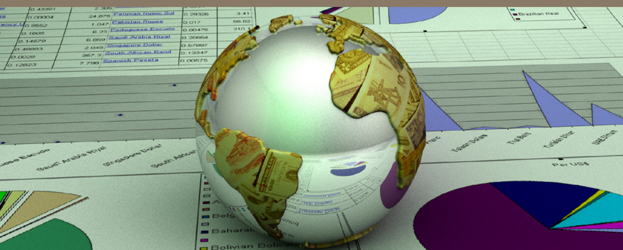
Tactical Asset Allocation Overview



Re-Engaging the Markets

Changes Effective July 21, 2011

Summary

The defensive positioning in our portfolios in recent weeks was predicated on several factors. In the past few days, however, we have seen a number of positive economic and market data points suggesting the investment environment may be improving. As a result, we believe the near-term outlook for markets has improved. In general, we recommend the following:

- Increase core equity exposure
- Increase foreign equity exposure, specifically Japan
- Increase high-yield bond exposure
- Reduce cash allocation

For the balance of 2011, we continue to expect modest returns in the financial markets accompanied by elevated levels of volatility. In this environment, we expect to engage in a tactical approach to investing to manage risk when the environment is unfavorable and seek opportunities when conditions improve.

Over the past few weeks, we have noted that our defensive posture would be temporary and likely be reversed upon clarity around several market-influencing factors including:

- A successful end of QE2 and stable bond yields in the ensuing weeks
- Signs of a firming economic soft spot in the United States
- Progress on the U.S. debt ceiling reducing the prospects for default
- Progress in Europe on the debt crisis
- Second quarter corporate earnings reports and guidance that do not disappoint

Recent news regarding a number of these factors has generally been positive — the Federal Reserve's QE2 program ended without any disturbance in bond yields, corporate earnings for the second quarter and guidance on the rest of 2011 have been better than expected thus far, the economic soft spot appears to be dissipating as Japan comes back online, and we have seen increased clarity regarding the debt ceiling. With this in mind, we believe the prudent course of action is to re-engage the markets and reduce defensive positions, such as cash.

We are not necessarily flashing the all-clear signal; however, we do believe it is prudent to begin taking advantage of market opportunities. We have decided to reduce the cash allocation and use the proceeds to increase equity and fixed income exposure in all investment objectives. Specifically, we are increasing core domestic equity exposure, increasing foreign equity exposure with a direct investment in Japan, increasing high-yield bond exposure, and reducing cash.

Read on to learn more information regarding the allocation shift, including timeframe, factors to monitor, and implementation details.

Increase Core Equity Exposure

- **Goal of this trade:** To increase exposure to core equities as economic data and corporate earnings show signs of improvement.
- **Timeframe:** Short/Intermediate-Term
- **Rationale:** Recent economic reports indicate the economic soft spot is dissipating and second quarter earnings reports and guidance have generally been better than expected thus far. We expect this trend to continue as July economic data is released and as the bulk of S&P 500 companies report their earnings and provide guidance in the next few weeks.
- **Reasons we will reverse this trade:** We would reverse this trade if the economic environment shows signs of deterioration and/or the headline risks re-emerge.
- **Reasons why individual portfolios should not follow this recommendation:** Portfolios already in line with LPL Financial Blended Benchmark equity exposure may not want to increase exposure further.
- **Other ways to attain the goal:** Increase market exposure by deploying cash to economically sensitive asset classes, such as commodities, REITs, or high-yield bonds.

Increase Foreign Equity Exposure, Specifically Japan

- **Goal of this trade:** To take advantage of the Japanese economy that is rapidly rebuilding and continues to recover from the earthquake and tsunami earlier this year.
- **Timeframe:** Short-Term
- **Rationale:** The ongoing Japanese rebuild should help to ease global double-dip fears and benefit the attractively valued Japanese stock market.
- **Reasons we will reverse this trade:** We would reverse this trade if the economic expansion in Japan proves to be temporary in nature or valuations are no longer favorable.
- **Reasons why individual portfolios should not follow this recommendation:** Portfolios with significant Large Foreign exposure or direct investments in Japan may not want to increase exposure further.
- **Other ways to attain the goal:** Increase exposure to the Large Foreign asset class, of which Japan comprises a large portion of the benchmark, or diversified Asia-Pacific investments.

Increase High-Yield Bond Exposure

Goal of this trade: To increase exposure high-yield bonds as economic data and corporate earnings show signs of improvement.

Timeframe: Intermediate-Term

Rationale: We continue to find good value in high-yield bonds. The high-yield bond market has begun to factor in a modest increase in defaults over the remainder of the year, a conclusion that we disagree with. We believe the current 5.9% yield advantage of high-yield bonds relative to Treasuries more than compensates for expected defaults, which we expect will remain near record lows in 2011.

Reasons we will reverse this trade: We would reverse this trade if the economic environment shows signs of deterioration and/or the headline risks re-emerge.

Reasons why individual portfolios should not follow this recommendation: Portfolios with significant high-yield bond exposure may not want to increase exposure further.

Other ways to attain the goal: Increase bond market exposure by deploying cash to economically sensitive fixed income asset classes, such as investment-grade corporate bonds, preferred stocks, or bank loans.

Reduce Cash Exposure

Goal of this trade: Reduce exposure to cash. Proceeds from this allocation shift are used to increase equity and fixed income exposure.

Timeframe: Intermediate-Term

Rationale: We had temporarily increased our cash exposure as we felt there were a number of headwinds to the markets in the short term. However, with signs that the macroeconomic (Europe, U.S. debt ceiling, Japan) and microeconomic (corporate earnings) environments are improving, we are reducing our cash allocation.

Reasons we will reverse this trade: We would reverse this trade if the economic environment deteriorated or the positive tone to earnings season shifted dramatically.

Reasons why individual portfolios should not follow this recommendation: Portfolios already significantly overweight equity exposure may not want to reduce cash further.

Other ways to attain the goal: Adding bond market exposure by increasing fixed income positions.

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.

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.

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/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.

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 this program will be attained.

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.

Floating rate bank loans are loans issued by below investment grade companies for short term funding purposes with higher yield than short-term debt and involve risk.

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

Preferred Stock investing involves risk which may include loss of principal.