

## Economic Outlook and The Future of Independent Research: It's Where the Puck is Going



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## Agenda

- Economic Outlook
- Research Foundation
- Implementing Research

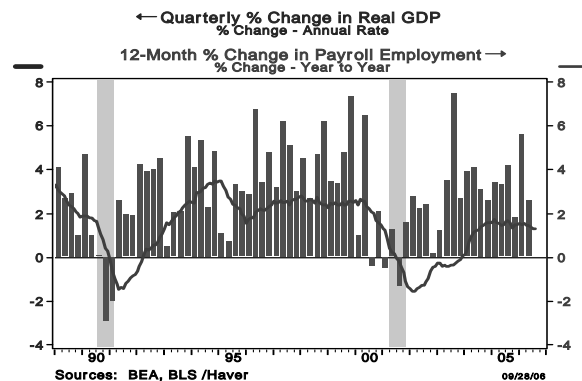
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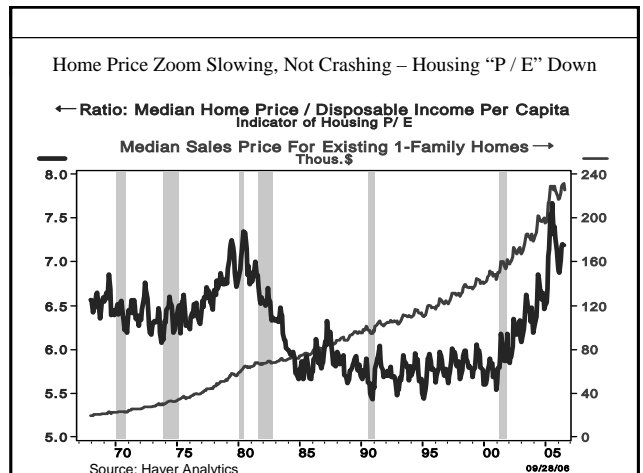
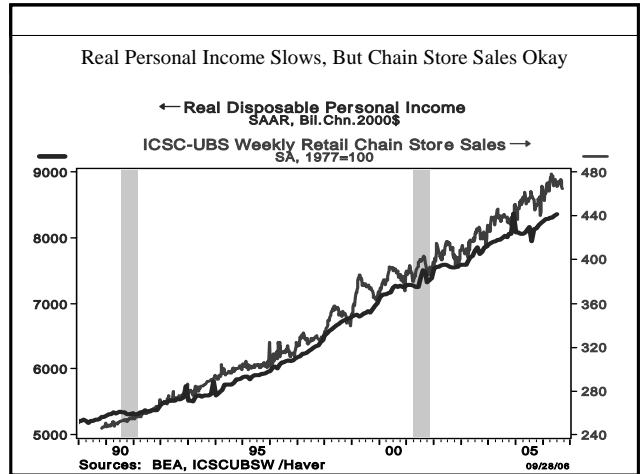
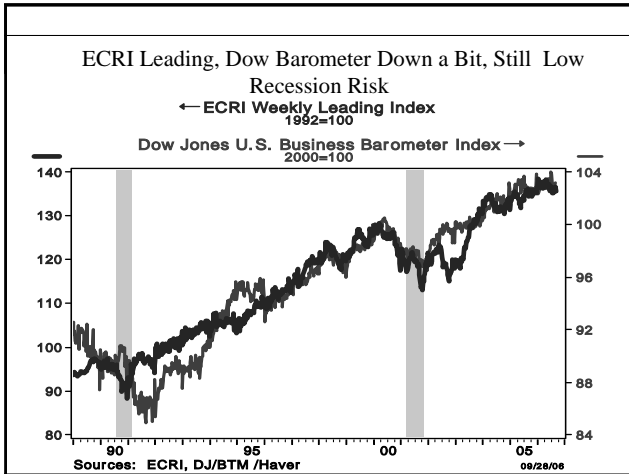
## Economy and Financial Markets: Current Conditions

- Economy slowed in Q2, but with plenty of momentum for Q3.
- Inflation contained – core up slightly, total high, but falling.
- Profits / Earnings strong – Q1 & Q2 06 up nearly 15%.
- Earnings growth well above stock price gains = P/E down.
- Risks are the same – terrorism, Iraq, oil prices.
- Bond market risk moderate due to okay inflation outlook.
- \$ exchange rate rebound in 2005 lost, but rebound is now underway.

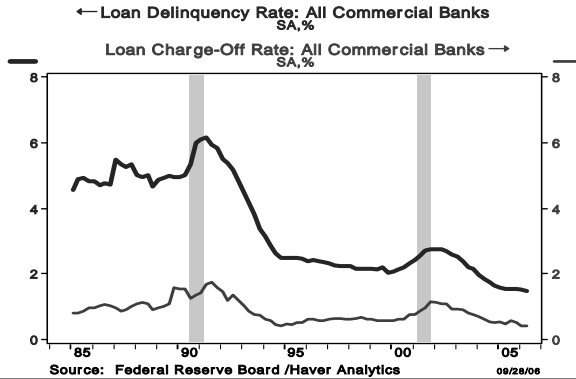
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## GDP Growth: Q1 Fast, Q2 Slower, Q3 Forecast 3%

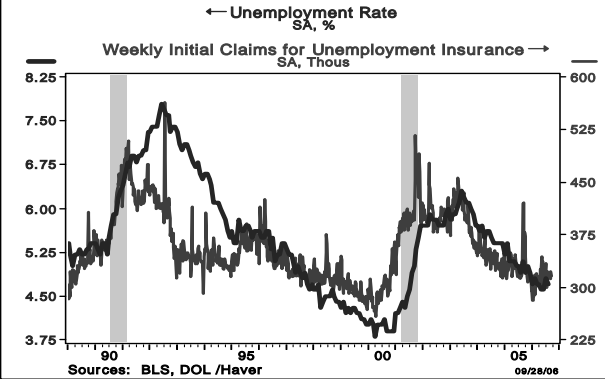




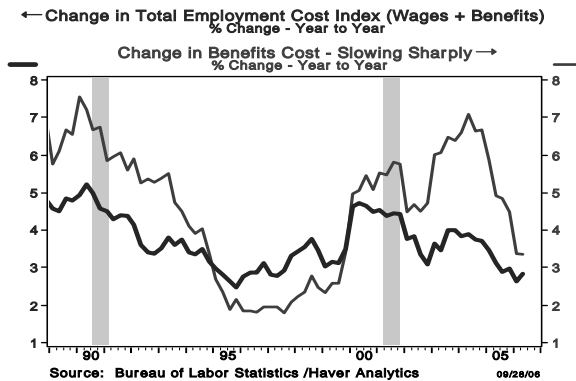
Credit Threat? No – Bank Problem Loans At Record Lows



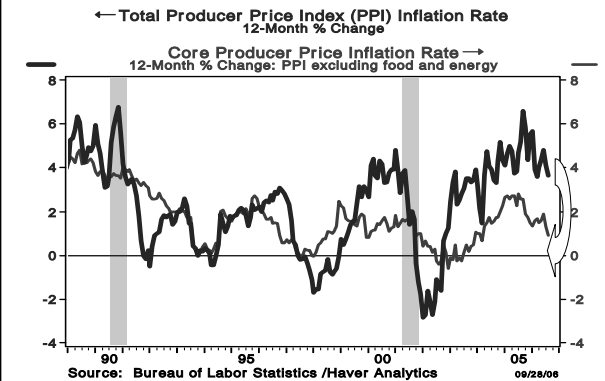
Claims Lead Unemployment Rate – at 4.7%, But Wage Inflation Slows

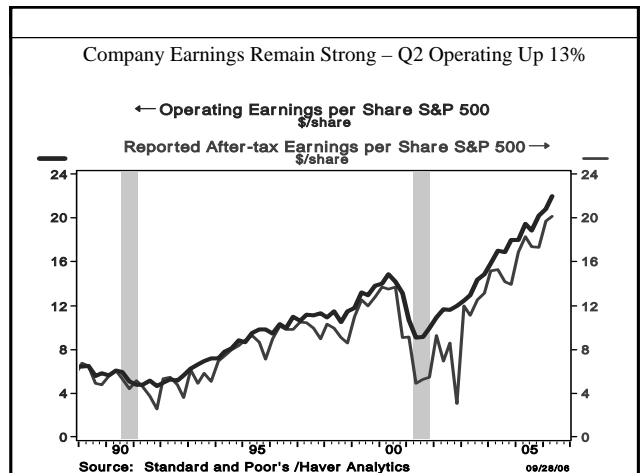
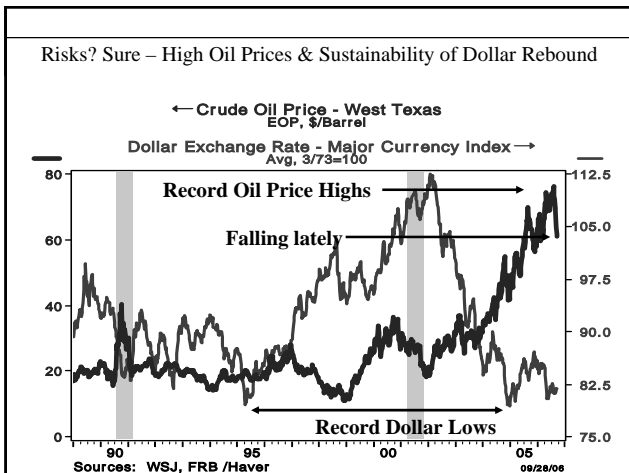
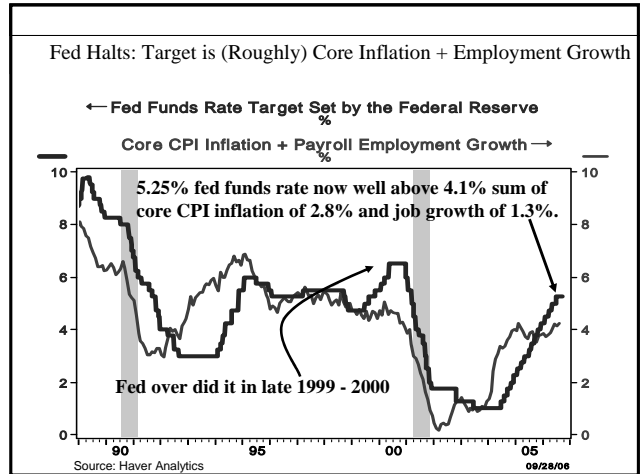
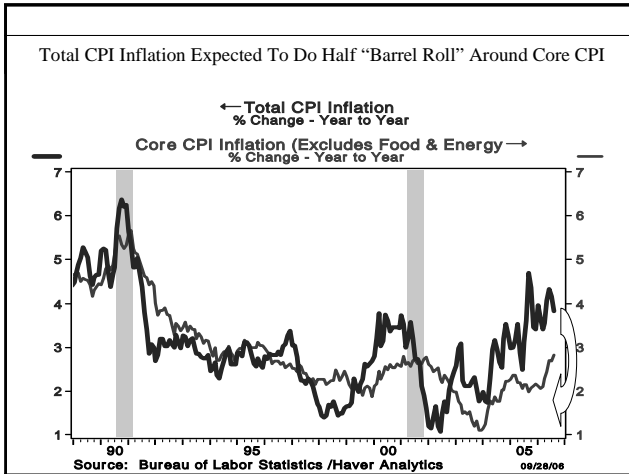


Total Labor Cost Inflation Slows to Under 3% - Benefits Slow Sharply



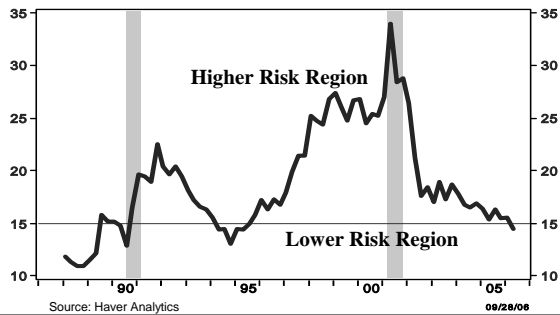
Producer Price Index (PPI) and Core PPI Inflation Down





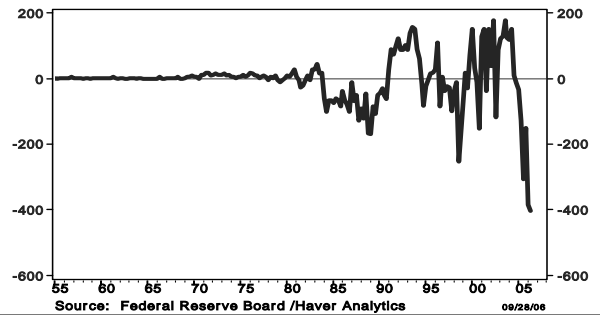
Current Quarter S&P 500 P / E below 15 – Looks Low

S&P 500 Market Cap / Annualized Operating Earnings  
Current Quarter P / E



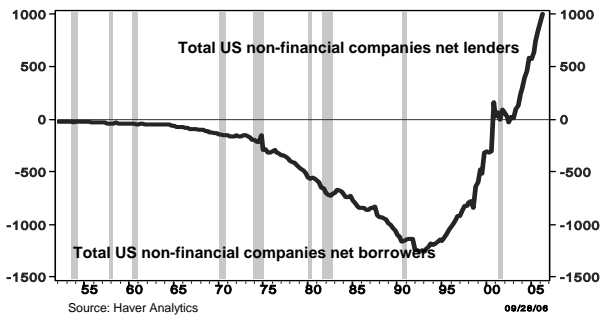
Record Stock Repurchase - \$100 Billion Q2 (\$400 B. at annual rate)

Net New Equity Issues - Record High Stock Buybacks!  
SAAR, Bil.\$



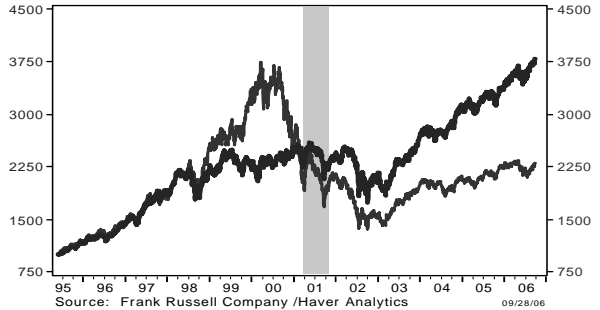
Corp. Balance Sheet – Companies Are Net Lenders of \$1 Trillion

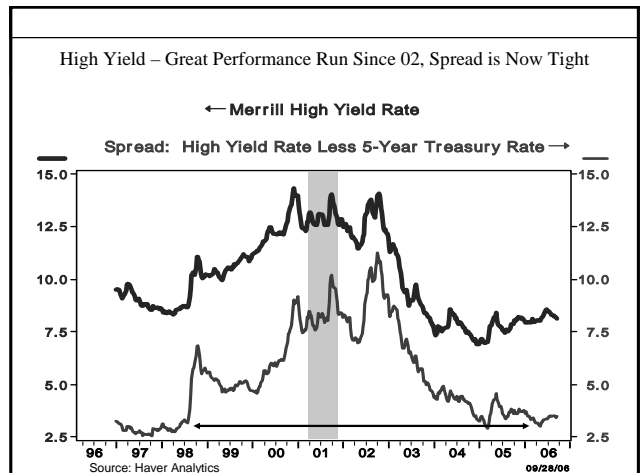
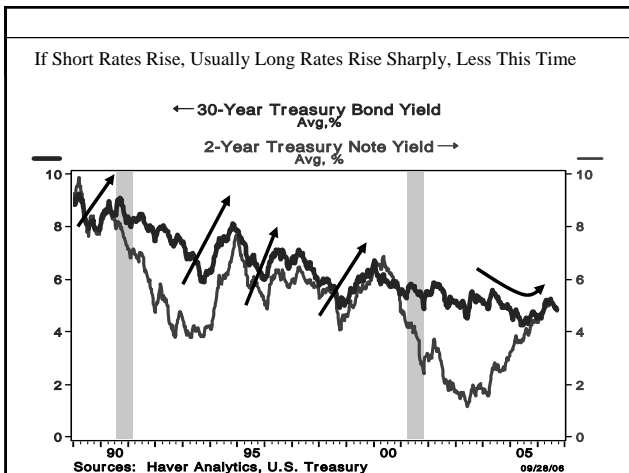
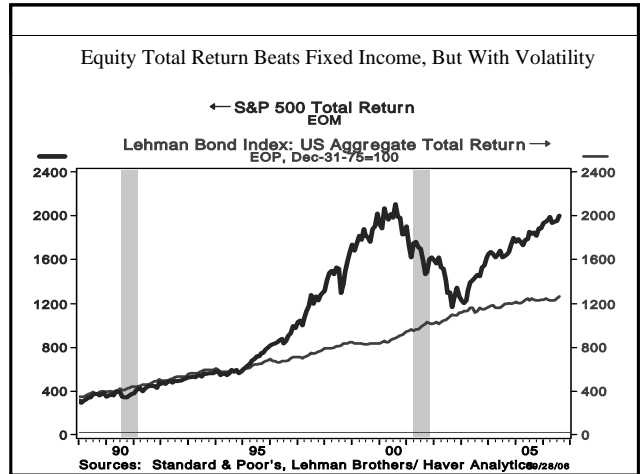
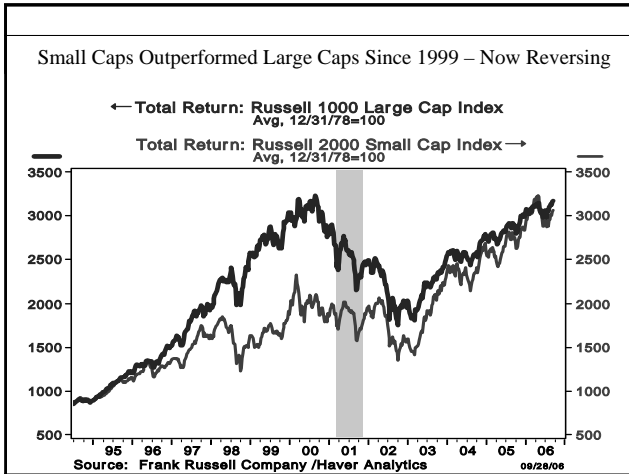
Financial Assets Less Liabilities of All US Nonfinancial Corps.  
billions - Net, US companies are now net lenders

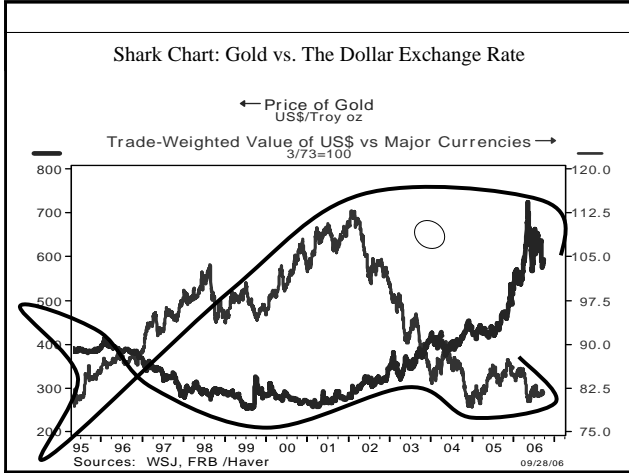


Value Has Outperformed Growth Since 2000 – Run Ending?

← Total Return: Russell 3000 Value Index  
5/31/95=1000  
Total Return: Russell 3000 Growth Index →  
5/31/95=1000







## Conclusions

- GDP growth forecast for 06 would be 4% if oil fell to \$40 range.
- \$70 knocks 0.5%-1% off GDP & cut jobs gain by 1 million.
- Core inflation up temporarily, but total inflation starting to fall.
- Profits / Earnings remain strong – expect 15%+ growth over 06.
- S&P 500 P / E below 15 – low enough for prices to track earnings.
- Earnings and Balance Sheet quality are very high.
- Bond risk moderate – no major rise in inflation.
- Dollar exchange rate risk low again (back near record low).
- Fed rate hikes likely complete, stopping at 5.25%.

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#### Required Disclosures:

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 Russell 1000 Index measures performance of 1000 large cap, US companies. The Russell 2000 Index measures performance of 2000 small cap, US companies. The Russell 3000 Growth and Value Indices measure the performance of growth and value stocks respectively.

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries, and widely held by individuals and institutional investors. These 30 stocks represent about a fifth of the \$9 trillion-plus market value of all U.S. stocks and about a fourth of the value of stocks listed on the New York Stock Exchange. It is not possible to invest directly in an index.

The Lehman Brothers Government Bond Index is comprised of all publicly issued, non-convertible, domestic debt of the U.S. Government or any agency thereof, quasi-federal corporations or corporate debt guaranteed by the U.S. Government.

The Merrill Lynch High Yield Index is an unmanaged index consisting of bonds that are issued in U.S. Domestic markets with at least one year remaining maturity. All bonds must have a credit rating below investment grade but not in default.

Government bonds and Treasury Bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

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

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.

P/E Multiple: A tool for comparing the prices of different common stocks by assessing how much the market is willing to pay a share of each corporation's earnings. It is calculated by dividing the current market price of a stock by the earnings per share.

Past performance is no guarantee of future results. Indices such as the S&P 500 may not be invested into directly.

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.

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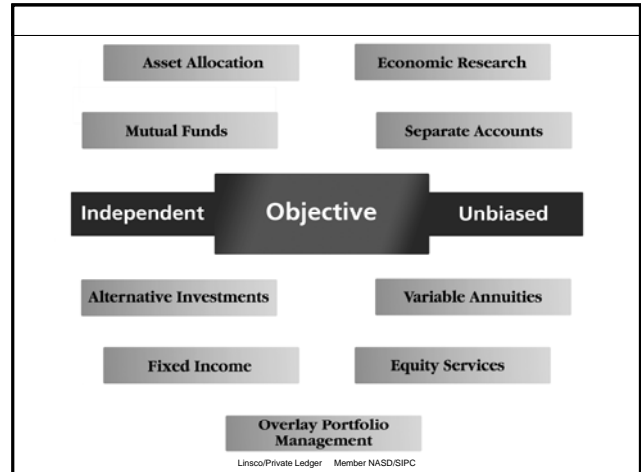
## Research Foundation

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## What You Need From a Research Partner

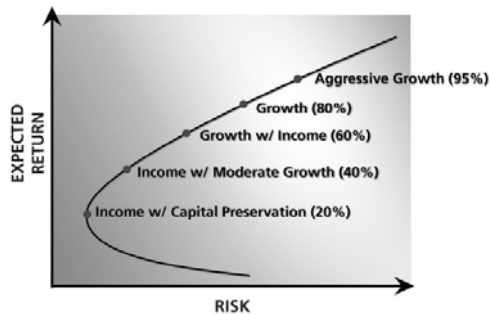
- Independent, unbiased and objective advice
- Timely, actionable insights
- Results you can depend on
- Outstanding client service

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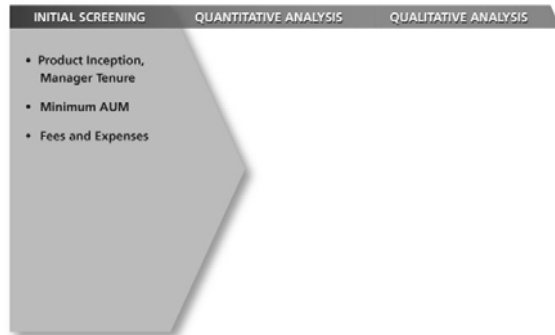
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## Asset Allocation



Note: Number in parenthesis is % allocation to equities

## Mutual Fund and SMA Research Process



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## Mutual Fund and SMA Research Process



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## Mutual Fund and SMA Research Process



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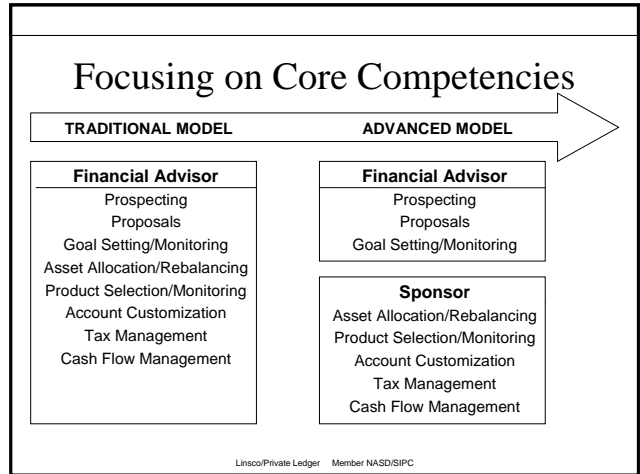
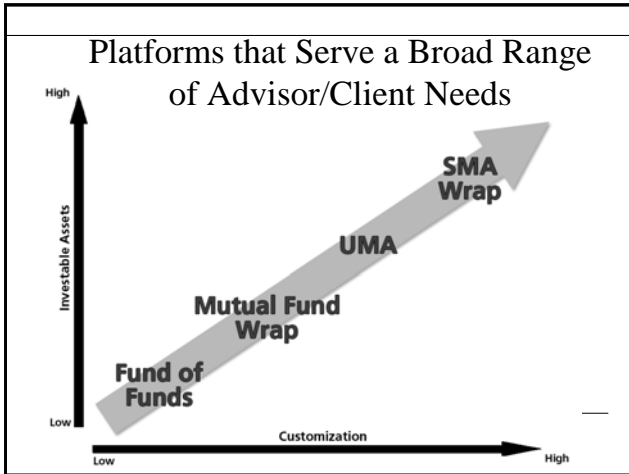
## Alternative Investments Due Diligence



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## Implementing Research

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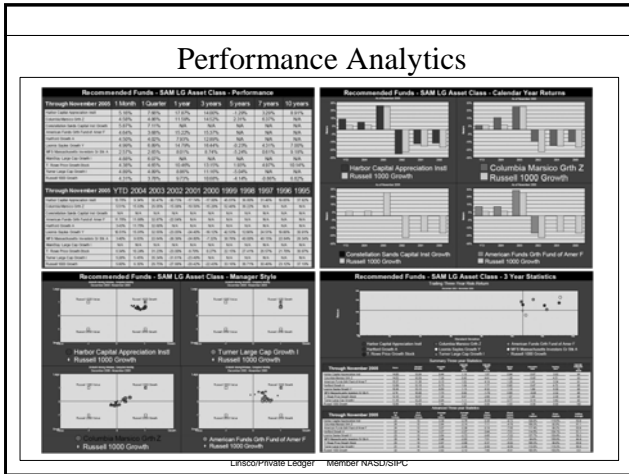
- ### Monitoring and On-going Due Diligence
- Key factors and leading indicators
    - Portfolio risk levels
    - Style drift
    - Portfolio turnover
    - Changes in investment personnel
  - Results and performance attribution
  - Quarterly conference calls
  - Annual face-to-face meetings
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### Recommended Fund Factsheets

The factsheet provides detailed information for the **Harbor Fund: Harbor Capital Appreciation Fund; Institutional Class Shares** for the **Fourth Quarter 2015 L.E.** Key sections include:

- Fund Overview:** Details on the fund's objective, investment approach, and risk factors.
- Largest Sector Holdings:** A pie chart showing the fund's exposure to various sectors.
- Top 10 Holdings:** A list of the top ten individual securities held by the fund.
- Performance:** A table comparing the fund's performance against its benchmark and other funds in the category over various periods.

Harbor Fund: Harbor Capital Appreciation Fund; Institutional Class Shares Fourth Quarter 2015 L.E.



## Mutual Fund Commentary

9/27/2006

Kirby L. Horan, Research Analyst, ext. 4130

Adding MDT Small Cap Growth fund (QISGX) to the Recommended List

**Manager Name:** David Goldsmith  
**Manager Start:** September 15, 2005  
**Fund Inception:** September 15, 2005  
**Strategy Inception:** August 1, 2000

**Number of Expense R:**  
**Top-10 Ho:**  
**Turnover:**  
**Average M:**

**Mutual Fund Commentary** 9/28/2006  
 Chris Arthur, Sr. Research Analyst, ext. 4007

**Investor Implications of Newly Elected Japanese Prime Minister**

Earlier this week, Shinzo Abe was elected prime minister in Japan, succeeding Junichiro Koizumi. While it is hard to know exactly what the implications of the election will be for investors, there seem to be some general themes developing in the Japanese equity market:

Important elections still looming, near-term focus likely on relationship building. Much of Abe's work ahead will be dependent on the result of next year's Upper House election. Until those elections are complete it will be difficult to make wholesale changes such as a proposed consumption tax hike and further economic reforms. In the near term, the equity market is more likely to be impacted by the administration's focus on improving relations with neighboring countries, particularly China.

If relations improve, many investment opportunities may present themselves. The new prime minister has already announced his desire to improve relations with Japan's neighbors. Just this week, he has agreed to meet with South Korean President Roh Moo-hyun, clearly a positive sign. Abe is also trying to improve ties with China. China has reiterated that it will not support a meeting unless the dialogue and to attend a conference was successful, as Koizumi had done in the past. It will be interesting to watch this relationship develop. Abe has been very clear in his belief that China's development is a big plus for Japan. There are many companies in Japan that can benefit from the building of infrastructure in China as well as the emergence of the Chinese consumer.

Reform movement should continue to move forward... next year. Abe has said that his government will both speed up and strengthen the reforms that were introduced by the Koizumi government. Two of the most important reforms that are currently in motion are the privatization of the postal system and revenue and spending cuts to balance the budget and reduce debt (estimated 11% of GDP). These reforms are important for equity investors as well. For example, it was the financial sector driving Japan's strong equity market last year. It was the aforementioned postal system reform that was driving Fininvest's recovery rally.

**MDT Small Cap Growth Port**

	2006	2005
Calendar Year Returns		
MDT Small Cap Growth	1.16	11
Russell 2000 Growth Index	3.31	4
Excess Returns	-2.35	7

Source: Zephyr, Morningstar Annual, August 31, 2006 based on separate assets

## Push Email

From: RESEARCH@LINSICO  
 To: Michelle Zanov  
 Subject: Vanguard Announces Important Fund Changes - Message (01/16)

**Vanguard Announces Important Fund Changes - Increasing its Mix**

Last night, April 20, Vanguard announced several important fund changes to two of our recommended funds:

- Vanguard Strategic Equity (VSEQX) Mid Blend Asset Class
- Vanguard Wellington (VWELX) Balanced category

**Vanguard Strategic Equity:** Vanguard announced it is closing the fund to new investors due to strong inflows to take effect since closed the fund as of 4/19/06. We are working diligently in an effort to continue to make this fund available to LPL advisors, but we indicate the fund may remain open to certain investors, it is unclear how that impacts purchases in LPL's advisory programs. We indicated LPL Research added the Vanguard Strategic Equity fund (VSEQX) to the Mid Cap Blend recommended list at the end of our most recent long-term performance, diversification, low expense ratio, and good risk controls.

**Vanguard Wellington:** The Vanguard press release indicated that the investment managers would be increasing effective since fund Vanguard indicated however, that they are hard closing the fund, therefore making the fund no longer be available for new purchases. We will email and post our findings when they become available.

Thank you,  
 Jeff Buchbinder, CFA, #4143 | AVP, LPL Research

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## Advisor Communications

Mutual Fund  
Commentary

Economic  
Commentary

Daily Market  
Commentary

Industry  
Reports

Daily Performance  
Report

Weekly Bond Market  
Update

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## Client Communications

Client Letters
Client Commentaries
Market Insight
Raging Bull
Fixed Facts

Interest Rate Monthly
Weekly Market Commentary
Charting the Course
Weekly Market Highlights
Stocks to Watch

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### Portfolio Review Tool

Home | New Portfolio | Portfolio Review Manager | Custom Markets Manager

**View Reports - Total Portfolio**    < 1 2 3 4 5 6 >    BACK NEXT

Intro | Total Portfolio | Equities | Mutual Funds | Fund Holdings | S&P Sectors | Fixed Income | Glossary | Conclusion

#### Aggressive Growth Current vs. Recommended Portfolio Allocation

Current Portfolio Allocation		Assets (\$) <sup>1</sup> (%)		Recommended Portfolio Allocation		Assets (\$) <sup>1</sup> (%)	
Equities	102,693.91	98.2	Equities	99,995.62	95.0		
Fixed Income	0.00	0.0	Fixed Income	0.00	0.0		
Cash & Equivalents	1,302.04	1.8	Cash & Equivalents	5,231.35	5.0		
Other	90.32	0.0					
<b>Total Reviewed Portfolio Assets:</b>	<b>\$104,626.97</b>	<b>100%</b>	<b>Total Reviewed Portfolio Assets:</b>	<b>\$104,626.97</b>	<b>100%</b>		

\* The Current Portfolio Allocation shown above distributes the portfolio into Equity, Fixed Income and Cash & Equivalents components. This allocation provides special treatment for mutual funds and certain variable annuity sub accounts in the portfolio being reviewed. Using data provided by Thomson Financial Services, the proportion of each mutual fund and/or identified variable annuity sub account equivalent mutual fund that is invested in equities, fixed income securities and cash is determined and distributed to each of these three categories. If, for example, a balanced mutual fund is held in the portfolio that has 55% of its assets invested in equities, 40% in fixed income and 5% in cash, then the Current Portfolio Allocation will add the 55% equity portion of the fund to Equities, the 40% fixed income fund portion to Fixed Income and the 5% cash portion of the fund to Cash & Equivalents. Because some of this Cash & Equivalents total may be invested in mutual funds and/or variable annuity sub account equivalent funds, it should not be viewed as cash that is readily available for use in the portfolio. Variable sub-account assets without identified equivalent funds are classified as Other, while fixed sub-account assets are classified as Fixed Income.

Current Allocation by Asset Class

Recommended Asset Class Allocation

### Securities Tracker

Quick Links: Create a New Watchlist | Review Your Watchlists | Email Preferences

SecuritiesTracker

**STW List A**    Printer Friendly    Select a watchlist to view

Export Watchlist    Add or remove    Securities | Columns

Ticker	Alerts	Watch	Name	Type	Price	Change	YTD %	Total Assets (USD)	Commission Rating	SBP Rating	Zacks Rating	CFR Rating	52-Week High	52-Week Low
ARTIC			Artisan Funds, Inc. Artisan Mid Cap Fund - Investor Shares	Fund	\$31.85	N/A	0.00	\$5,021.20	N/A	N/A	N/A	N/A	N/A	N/A
D			Dominion Resources Inc	Equity	\$77.76	-0.50	3.42	\$77,556.22	Buy/Hold	Hold	N/A	Neutral	\$96.97	\$66.51
F			Fund Meter Co	Equity	\$8.78	0.27	4.69	\$15,826.85	Hold/Sell	Hold	Neutral	\$14.65	\$7.87	
G			Gillette Co	Equity	\$59.20	0.00	0.00	\$0.00	N/A	N/A	N/A	N/A	\$59.20	\$43.60
HBCAS			Horizon Funds: Horizon Capital Appreciation Fund - Institutional Class Shares	Fund	\$34.02	N/A	0.09	\$7,721.40	N/A	N/A	N/A	N/A	N/A	N/A
IBM			Intl Business Machines Corp	Equity	\$93.75	-1.22	0.94	\$134,179.88	Buy/Hold	Hold	N/A	Outperform	\$94.98	\$71.85
S			United States Steel Corp	Equity	\$51.97	0.81	0.78	\$5,801.86	Hold	Hold	Neutral	\$63.90	\$33.59	
Y			Yankee Universal Se	Equity	\$32.29	0.03	2.03	\$34,579.72	Buy	Buy	Hold	N/A	\$33.06	\$28.79

**Quick Alert Management**

You can manage alerts for all the securities in this list with a single click.

Market Data     News     Research

Add     Acknowledge     Delete

**Watchlist Legend**

denotes an alerting market data alert     denotes a defined market data alert     denotes a recommended security

denotes an alerting IPI research alert     denotes a defined IPI research alert     denotes a 52-Week High

denotes an alerting news alert     denotes a defined news alert     denotes a 52-Week Low

## Research Value Proposition

Our Commitment

- Independent, unbiased and objective advice
- Timely, actionable insights
- Results advisors you can depend on
- Outstanding client service

➔

Your Results

- Significant opportunity to create value in your practice
- Spend more time with clients and prospects and less time on conducting research

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Thank You



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