LPL Financial

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Dear Valued Investor:

Psychologists at the University of Scranton have found that by the end of January one-third of people had broken their New Year's resolution and by March that rises to about half. The failure rate goes up from there.

Many of us make New Year's resolutions such as eating healthier or losing weight. These resolutions are easy to make but difficult to keep. Why? They are too broad. We hope to eat healthier, but we haven't thought about how to overcome afternoon snacking. We hope to lose weight, but we have no specific plan for taking the pounds off. Focusing on the small steps—such as losing two pounds a month—is more realistic and helps us build more momentum toward our goal.

In 2012, investors' New Year's resolution may have been to buy stocks. After many years of selling stocks, investors appeared to take a break from this pattern this January. They began buying U.S. stock mutual funds, according to Investment Company Institute data. In two of the past three years, investors were net sellers of U.S. stock funds in February after resolving to buy them in January. It will be interesting to see if the decision to buy stocks begins to fade—like most resolutions—as February matures.

However, we do see reasons investors may continue to buy stocks, starting with the steady steps toward a healthier economy demonstrated in recent weeks. The January employment report shows the economy expanding: the jobless rate has dropped to 8.3%, and 243,000 new jobs were created last month—one more sign that the U.S. is not heading toward a recession. Policy makers and government leaders are also taking steps toward supporting a healthier economy. European leaders are continuing to work toward resolving the sovereign debt problems, building on the work done in 2011. Closer to home, the Federal Reserve has announced that it expects to keep interest rates on hold through at least 2014.

We are encouraged by these signs. We are sticking by our outlook for 8–12%* gains for the stock market. While we may be due for a modest "February fallback" in the stock market, even after January's strong start we probably have not yet seen the highs for the year. All segments of the bond market have responded well to this bond-friendly environment, with high-quality corporate bonds outperforming Treasuries, based on Barclays Index data.

Volatility may soon return to the markets, testing resolutions. However, we would use any pullback as a buying opportunity in what is likely to be a fourth year in a row of gains for the stock market, based on our

analysis. Ultimately what matters is not the big resolution, but the small steps we take to reach a goal. With this in mind, now is the time to stay focused on your resolutions, while others may lose discipline. And now is the time to take small steps toward your longer-term investment goals.

As always, please contact your financial professional with any questions.

Sincerely,

Jeffrey Kleintop, CFA
Chief Market Strategist
LPL Financial

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult me 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.

*LPL Financial Research provided this range based on our earning per share growth estimate for 2012, and a modest expansion in the price-to-earnings ratio.

The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Stock investing involves risk including the risk of loss.

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.

Treasuries: A marketable, fixed-interest U.S. government debt security. Treasury bonds make interest payments semi-annually and the income that holders receive is only taxed at the federal level.

The Federal Reserve is the central bank of the United States. Its unique structure includes a federal government agency, the Board of Governors, in Washington, D.C., and 12 regional Reserve Banks (Atlanta, Boston, Chicago, Cleveland, Dallas, Kansas city, Minneapolis, New York, Philadelphia, Richmond, San Francisco, and St. Louis).

The University of Scranton study was performed in 2002.

This research material has been prepared by LPL Financial.

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