

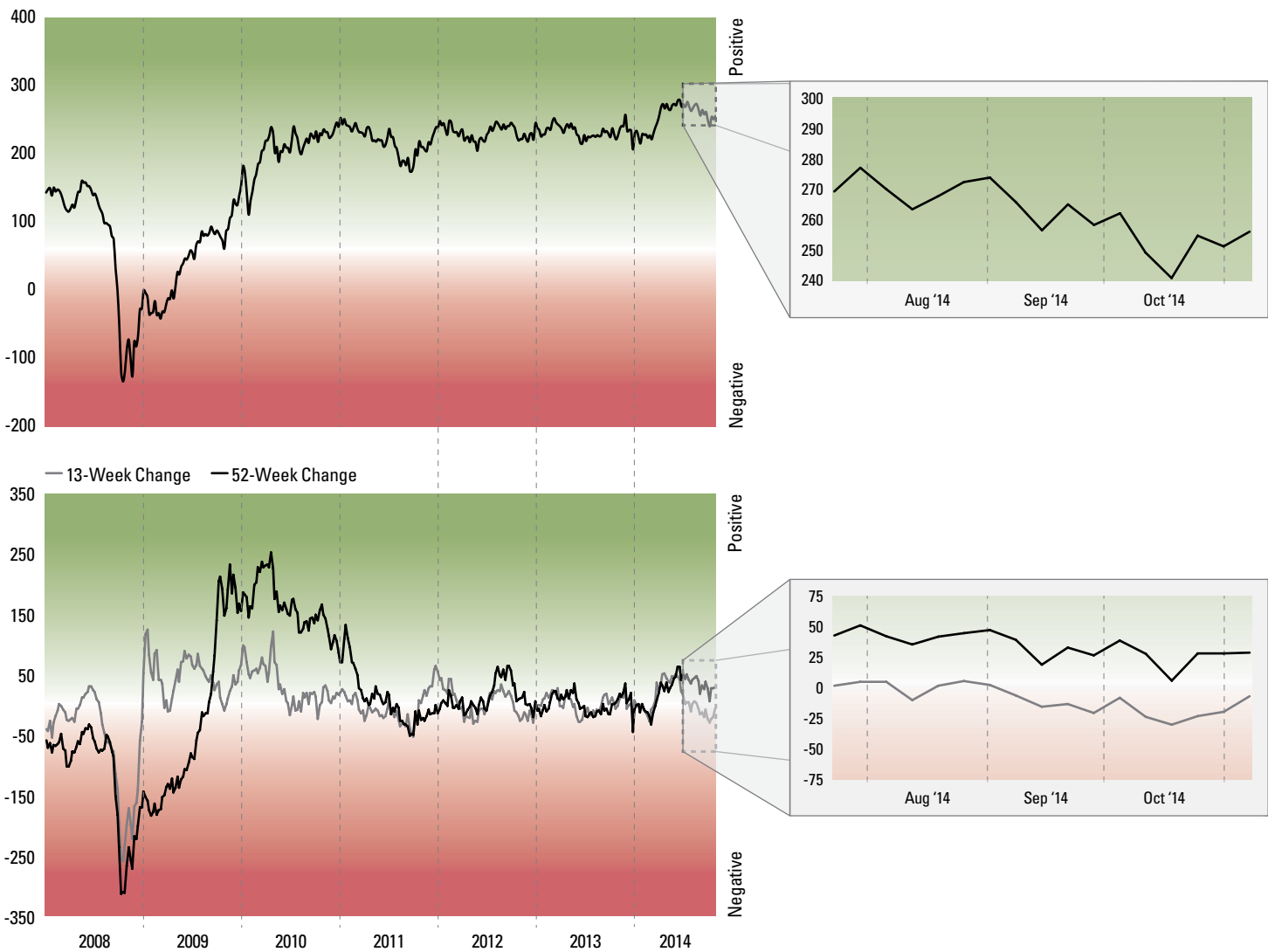
# Current Conditions Index

November 12, 2014

Over the last week, the LPL Financial Current Conditions Index (CCI) rose 5 points to 256.

While the CCI has shown some downward movement since its June 2014 multiyear high, it still sits near the peak levels established between the end of the Great Recession and early 2014. The current level remains consistent with the U.S. economy emerging from the modest, but steady, economic growth of recent years.

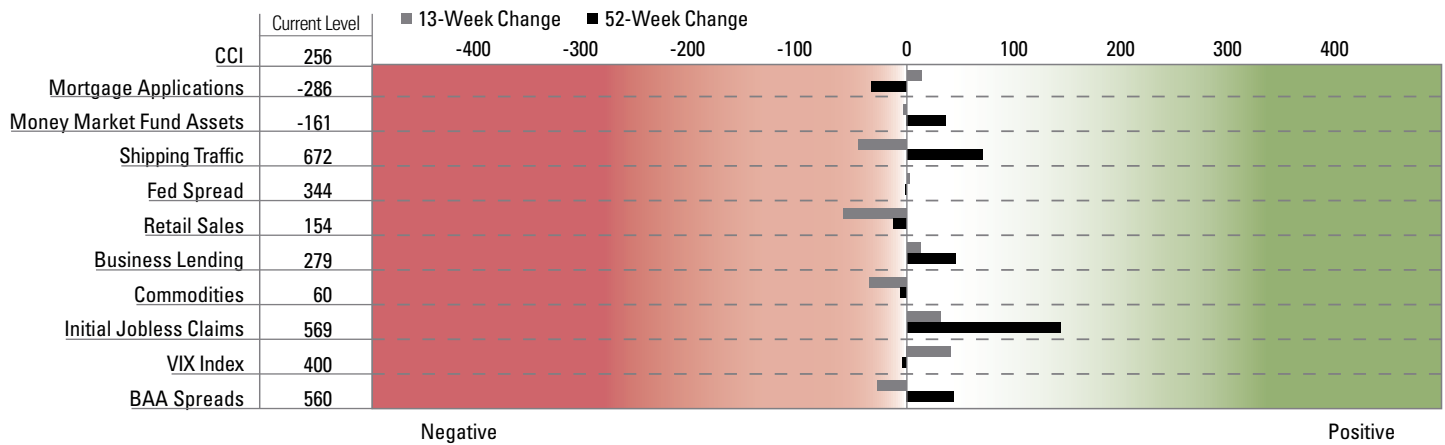
LPL Financial Research Current Conditions Index



Source: LPL Financial Research 11/12/14

Shipping traffic, retail sales, and the VIX, a measure of market volatility, were the largest positive contributors to the change, while yield spreads were the largest negative contributor.

LPL Financial Research CCI Components



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**How to Use the CCI**

The CCI is a weekly measure of the conditions that underpin our outlook for the markets and economy. It provides real-time insight into the trends that shape our recommended actions to manage portfolios and has proven to be a useful investment decision-making tool.

This index is not intended to be a leading index or predict future conditions; it is a coincident measure of where they are now. Because our index is tailored to the current environment, the components of the CCI are periodically changed to retune the index to those factors most critical to the markets and economy, so it may continue to be a valuable investment decision-making tool.

**How the Index Is Constructed**

To create the index we found 10 indicators that provided a weekly, real-time measure of the conditions in the economic and market environment. We then standardized these components compared with their pre-crisis 10-year average, equally weighted their standardized scores, and aligned the resulting index with zero at the start of 2009. These components capture how the conditions are evolving from a wide range of angles and are each described on the following page.

## CCI Components

**BAA Spreads:** The yield on corporate bonds above the rate on comparable maturity Treasury debt is a market-based estimate of the amount of fear in the bond market. BAA-rated bonds are the lowest quality bonds still considered investment grade, rather than high-yield. Therefore, they best reflect the stresses across the quality spectrum. A rise in BAA spreads acts as a negative for the CCI.

**Business Lending:** A good gauge of business' willingness to borrow to fund growth, the Federal Reserve (Fed) tabulates demand for commercial and industrial loans at U.S. commercial banks. More borrowing reflects increasing optimism by business leaders in the strength of demand. A rise in loan growth acts as a positive for the CCI.

**Commodities:** While retail sales captures end-user demand for goods, commodity prices reflect the demand for the earliest stages of production of goods. Commodity prices can offer an indicator of the pace of economic activity. The CRB Commodity Index includes copper, cotton, etc. A rise in commodity prices acts as a positive for the CCI.

**Fed Spread:** A measure of future monetary policy, the futures market gives us the difference between the current federal funds rate and the expected federal funds rate six months from now. Typically, a rise in rate hike expectations weighs on the markets because higher rates increase the cost of bank borrowing and have tended to slow the growth in the economy and profits. A rise in the Fed spread acts as a negative for the CCI.

**Initial Jobless Claims:** Measures the number of people filing for unemployment benefits. A rise in the number of new claims acts as a negative for the CCI.

**Money Market Fund Assets:** A measure of the willingness to take risk by investors, the year-over-year change in money market fund assets tracked by Investment Company Institute shows the change in total assets in cash equivalent money market funds. A rise in money market asset growth acts as a negative for the CCI.

**Mortgage Applications:** The weekly index measuring mortgage applications provides an indication of housing demand. With much of the credit crisis tied to housing, keeping tabs on real-time buying activity can offer insight on how the crisis is evolving. A rise in the index of mortgage applications acts as a positive for the CCI.

**Retail Sales:** International Council of Shopping Centers tabulates data on major retailers' sales compared with the same week a year earlier. This measures the current pace of consumer spending. Consumer spending makes up two-thirds of gross domestic product (GDP). Rising retail sales acts as a positive for the CCI.

**Shipping Traffic:** A measure of trade, the Association of American Railroads tracks the number of carloads of cargo that moves by rail in the United States each week. A growing economy moves more cargo. A rise in railroad traffic acts as a positive for the CCI.

**VIX Index:** The VIX is a measure of the volatility implied in the prices of options contracts for the S&P 500. It is a market-based estimate of future volatility. While this is not necessarily predictive, it does measure the current degree of fear present in the stock market. A rise in the VIX acts as a negative for the CCI.

### 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. All performance referenced is historical and is no guarantee of future results. All indexes are unmanaged and cannot be invested into directly.

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

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

This research material has been prepared by LPL Financial.

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