What A Year It Has Been!
100,716,332 Americans Did Not Vote
100 million
How Do You Feel?
76%
Not confident that life for our kids will be better than it has been for us
28%
Believe America is the best country in the world
In other words, many feel that the American Dream is cracked...
(as Measured by Peak-to-Trough GDP Decline)

- '58
- '69-'70
- '60-'61
- '73-'75
- '80
- '81-'82
- '53
- '90-'91

GREAT RECESSION '08-'09

Source: LPL Research, Haver Analytics, BEA 08/07/16

(as Measured by GDP Growth Rate)
Great Recession

UNDER POTENTIAL

WHAT WE ACTUALLY GOT

GREAT RECESSION

WHAT WE SHOULD HAVE GOTTEN

GREAT RECESSION

Source: LPL Research, Haver Analytics, BEA 08/07/16
BAD RECESSIONS USUALLY MEAN BETTER RECOVERIES – BUT NOT THIS TIME

Source: IPL Research, BEA, Congressional Budget Office (CBO) 08/07/16
BAD RECESSIONS USUALLY MEAN BETTER RECOVERIES — BUT NOT THIS TIME

- Real GDP
- Potential Real GDP

$365B

Source: LPL Research, BEA, Congressional Budget Office (CBO) 08/07/16
WE ARE MISSING THE 16TH LARGEST STATE’S WORTH OF GDP

Source: UPL Research, BEA, Congressional Budget Office (CBO) 08/07/16
WE ARE MISSING 8 STATE’S WORTH OF GDP

Source: UPL Research, BEA, Congressional Budget Office (CBO) 08/07/16
So, what has kept the U.S. economy from reaching its potential?
THE FED IS UNUSUALLY INACTIVE

Fed Funds Target Rate

Rate Increases Between Recessions

Source: LPL Research, Federal Reserve 08/16/16
But remember

Low rates affect both the interest we pay and the interest we receive
INTEREST RECEIVED OUTWEIGHS INTEREST PAID

- **Interest Received**, $Billions
- **Interest Paid**, $Billions

Source: IPI Research, BEA 08/13/16
BECAUSE RATES DON’T DISCRIMINATE, LOW RATES HURT 2X MORE THAN THEY HELP
How do low rates hurt our potential?
...until we hit the great recession

The Savings Glut

Source: LPL Research, Federal Reserve, BEA 08/13/16
Amount of Dollars of Short-Term Bonds* Needed to Generate $100k in Interest

- 1980: $763,395
- 2000: $1,956,947
- 2016: $13,888,901

*2-Year Treasuries
Source: LPL Research, Federal Reserve 08/07/16
Based on current yields, it would take more than 45 years for an investment in a 10-year Treasury to double.

Years to Double Investment (Based on 10-Year Treasury Yield and the Rule of 72)

- **1985**: 2X longer
- **2001**: 2X longer
- **2016**: ~6X longer

Investment would double only once over avg. investor’s working life.
PORTFOLIOS NEED TO GET RISKIER TO PRODUCE HISTORICAL AVERAGE RETURNS

Asset Allocation Needed to Get 7% Expected Returns*

- Bonds
- Stocks

<table>
<thead>
<tr>
<th>Year</th>
<th>Bonds</th>
<th>Stocks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>31%</td>
<td>69%</td>
</tr>
<tr>
<td>2006</td>
<td>45%</td>
<td>55%</td>
</tr>
<tr>
<td>2016</td>
<td>65%</td>
<td>35%</td>
</tr>
</tbody>
</table>

* Assumptions are:
  - Bonds return their yield
  - Stocks return 10%

Source: LPL Research, Federal Reserve, FactSet 08/07/16
This is a hypothetical example and is not representative of any specific situation. Your results will vary. The hypothetical return used does not reflect the deduction of fees and charges inherent to investing. Yields based on 10-year Treasury.
Does Anyone Want to Own Stocks Anymore?

Percentage of U.S. Adults Invested in the Stock Market

Source: IPI Research, Gallup 08/10/16
Does Anyone Want to Own Stocks Anymore?

52%
Percentage of US Adults Invested in the Stock Market

49%
Percentage of US Adults That Play the Lottery

Source: LPI Research, Gallup 08/10/16
What the Fed Wanted: Spending!

What the Fed Created: Saving!

The Bottom Line...
Monetary Policy

Income/Debt Dynamics

Potential
Median Net Worth
Monetary Policy
Income/Debt Dynamics
Potential
Average Net Worth vs. Median Net Worth
OUR GLOBAL REPUTATION: RICH AMERICANS

RANKED BY AVERAGE NET WORTH

Average Net Worth $301K

RANKED BY MEDIAN NET WORTH

Median Net Worth $45K

Source: Credit Suisse Global Wealth Databook 08/14/16
RECENTLY, WAGES HAVE BEEN FALLING—IMPACTING HOUSEHOLD NET WORTH

Median U.S. Wages per Year, $ Thousands

$53,306

$53,657

Equal to $13 Raise per Year

- 2 Big Mac Value Meals
- 1 Movie Ticket & Large Buttered Popcorn
Price Changes Since 1996

- Textbooks
- College Tuition
- Childcare
- Healthcare
- Food & Beverage
- Housing
- New Cars
- Household Furnishings
- Clothing
- Cell Phone Service
- Software
- Toys
- TVs

Source: EPI Research, Washington Post, Bureau of Labor Statistics, Haver Analytics 08/19/16
“AMERICA IS A PLACE WHERE THE LUXURIES ARE CHEAP AND THE NECESSITIES ARE EXPENSIVE”

-Prof. Joseph Cohen
This is pretty shocking, huh?
"What is striking," the investigators write, "is that simply being alone with their own thoughts for 15 minutes was apparently so aversive that it drove many participants to self-administer an electric shock".

One man shocked himself 190 times. "I have no idea what was going on there," one of the researchers said.
Cooking Up Potential
<table>
<thead>
<tr>
<th>If GDP Grows By</th>
<th>Dec ’16</th>
<th>Dec ’17</th>
<th>Dec ’18</th>
<th>Dec ’19</th>
<th>Dec ’20</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1%</td>
<td>-1.9%</td>
<td>-1.6%</td>
<td>-1.4%</td>
<td>-1.3%</td>
<td>-1.2%</td>
</tr>
</tbody>
</table>

Source: LPL Research, BEA 08/07/16.
### Real GDP Would Be Over or Under Potential GDP By...

<table>
<thead>
<tr>
<th>If GDP Grows By</th>
<th>Dec '16</th>
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<td>-1.3%</td>
<td>-1.2%</td>
</tr>
<tr>
<td>2.5%</td>
<td>-1.7%</td>
<td>-1%</td>
<td>-0.4%</td>
<td>0.1%</td>
<td>0.5%</td>
</tr>
<tr>
<td>3.0%</td>
<td>-1.5%</td>
<td>-0.3%</td>
<td>0.8%</td>
<td>1.8%</td>
<td>2.7%</td>
</tr>
<tr>
<td>3.5%</td>
<td>-1.3%</td>
<td>0.3%</td>
<td>1.9%</td>
<td>3.8%</td>
<td>5.1%</td>
</tr>
</tbody>
</table>

Source: LPL Research, BEA 08/07/16.
“...the press takes [Trump] literally, but not seriously; his supporters take him seriously, but not literally.”
<table>
<thead>
<tr>
<th>Fiscal/Deficit Spending</th>
<th>Estimate</th>
<th>Total Size</th>
<th>Annual Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>$200-300B</td>
<td>$2-3T</td>
<td></td>
</tr>
<tr>
<td></td>
<td>over 5 Years</td>
<td>over 10 Years</td>
<td></td>
</tr>
<tr>
<td>Tax Savings</td>
<td>$2-3T</td>
<td>$2-3T</td>
<td></td>
</tr>
<tr>
<td></td>
<td>over 10 Years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Category</td>
<td>Estimate</td>
<td>Total Size</td>
<td>Annual Size</td>
</tr>
<tr>
<td>-----------------</td>
<td>----------------</td>
<td>--------------</td>
<td>--------------</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>$200-300B over 5 Years</td>
<td>Indiana</td>
<td>Rhode Island</td>
</tr>
<tr>
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<td></td>
<td></td>
</tr>
</tbody>
</table>
Fiscal/Deficit Spending

<table>
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<tr>
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<th>Estimate</th>
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<td>Rhode Island</td>
</tr>
<tr>
<td></td>
<td>over 5 Years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax Savings</td>
<td>$2-3T</td>
<td>California</td>
<td>Arizona</td>
</tr>
<tr>
<td></td>
<td>over 10 Years</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## The Two-Term Curse...

<table>
<thead>
<tr>
<th>President</th>
<th>Recession?</th>
<th>Recession?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Theodore Roosevelt</td>
<td>Yes</td>
<td>Feb ’10 - Dec ’12</td>
</tr>
<tr>
<td>Woodrow Wilson</td>
<td>Yes</td>
<td>Feb ’20 - Jul ’21</td>
</tr>
<tr>
<td>Franklin D. Roosevelt</td>
<td>Yes</td>
<td>Mar ’45 - Oct ’45</td>
</tr>
<tr>
<td>Dwight D. Eisenhower</td>
<td>Yes</td>
<td>May ’60 - Feb ’61</td>
</tr>
<tr>
<td>John F. Kennedy/Lyndon B. Johnson</td>
<td>Yes</td>
<td>Jan ’70 - Nov ’70</td>
</tr>
<tr>
<td>Richard Nixon/Gerald Ford</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Ronald Reagan</td>
<td>Yes</td>
<td>Aug ’90 - Mar ’91</td>
</tr>
<tr>
<td>Bill Clinton</td>
<td>Yes</td>
<td>Apr ’01 - Nov ’01</td>
</tr>
<tr>
<td>George W. Bush</td>
<td>Yes</td>
<td>Jan ’08 - Jun ’09</td>
</tr>
<tr>
<td>Barack Obama</td>
<td>?</td>
<td>?</td>
</tr>
</tbody>
</table>

In 8 of the 9 two-term presidents, the US was either already in a recession or had one within 19 months.

Source: LPL Research, FactSet. 10/30/16

Indices are unmanaged index and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.
2017 Forecasts

<table>
<thead>
<tr>
<th>Economy</th>
<th>International</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2.5% + GDP GROWTH</strong></td>
<td>Earnings growth is strong overseas, particularly in emerging markets. Currency and trade policy risks are key to global impact.</td>
</tr>
<tr>
<td>Steady consumer spending, improved business investment, and pro-growth fiscal policy may give the economy a lift.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stocks</th>
<th>Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MID-SINGLE-DIGIT RETURNS</strong></td>
<td><strong>LOW- TO MID-SINGLE-DIGIT RETURNS</strong></td>
</tr>
<tr>
<td>Pickup in earnings growth, stable valuations likely to drive typical mid-to-late cycle returns.</td>
<td>Rates expected to climb, limiting return potential, but pace may be moderate after late year run.</td>
</tr>
</tbody>
</table>

Please refer to the Appendix for a full explanation of our forecasts.
Out of Our Revenue and Earnings Recession

Earnings and Revenue Growth on the Upswing

- S&P 500 Year-over-Year Revenue Growth
- S&P 500 Year-over-Year Earnings per Share (EPS) Growth

Source: LPL Research, Thomson Reuters, FactSet 11/30/16

Earnings per share (EPS) is the portion of a company’s profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company’s profitability. Earnings per share is generally considered to be the single most important variable in determining a share’s price. It is also a major component used to calculate the price-to-earnings valuation ratio.
How to Invest

LPL Over Index shows limited excesses so no recession on horizon

2017 likely to be volatile, but stocks poised to advance

Stay overweight growth and “Trump” sectors

Look for opportunities to add to emerging markets and energy

Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

To complete the Over Index, LPL Research measures trends in three broad economic drivers: spending, borrowing, and confidence. For each of these three drivers, we found four diverse components that reflect the economic activity of that sub-index from a different angle. The Over Index takes each of the subcomponents and uses a sophisticated statistical process to normalize and index each data series into an overall score for each of the three drivers. The combined aggregated data helps to measure the likelihood that the economy is showing signs of over-activity and that we may be approaching a cyclical peak.
So, is the American Dream is cracked?
Average of 9,672 INJURIES In Our Lifetime
Average of 9,100 DOWN MARKET DAYS In Our Lifetime
The Beauty of Cracks
Cracks Mean So Much More Than Broken.
Outlook 2017: Forecasts

- **U.S. Economy: 2.5% GDP**
  We expect GDP growth to accelerate modestly to near 2.5% with a low chance of a recession in 2017, driven by gains in consumer and business spending, supported by potential pro-growth fiscal policies.

- **Stocks: Mid-Single-Digit Returns**
  We expect mid-single-digit returns for the S&P 500 in 2017 consistent with historical mid-to-late economic cycle performance. We expect S&P 500 gains to be driven by: 1) a pickup in U.S. economic growth partially due to fiscal stimulus; 2) mid- to high-single-digit earnings gains as corporate America emerges from its year-long earnings recession; 3) an expansion in bank lending; and 4) a stable price-to-earnings ratio (PE) of 18–19.

- **Bonds: Low- to Mid-Single-Digit Returns**
  We expect the 10-year Treasury yield to end 2017 in its current range of 2.25–2.75%, with a potential for 3.0%. Scenario analysis based on this potential interest rate range and the duration of the index indicates low-to-mid single digit returns for the Barclays Aggregate Bond Index.
All performance referenced is historical and is no guarantee of future results.

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

Indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

There is no assurance that the techniques and strategies discussed are suitable for all investors or will yield positive outcomes. The purchase of certain securities may be required to affect some of the strategies.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market. All indexes are unmanaged and cannot be invested into directly.

Because of their narrow focus, specialty sector investing, such as healthcare, financials, or energy, will be subject to greater volatility than investing more broadly across many sectors and companies.

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

Investing in mutual funds and ETFs involve risk, including possible loss of principal. Managed and exchange-traded investments have specific risks such as manager, concentration, and liquidity risk. Please read the fund's prospectus for more information on risks, fees, and other important information.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond and bond mutual fund values and yields will decline as interest rates rise and bonds are subject to availability and change in price.

This information is not intended to be a substitute for specific individualized tax, legal, or investment planning advice. We suggest that you discuss your specific tax issues with a qualified tax advisor. Keep in mind that the tax circumstances for every individual are unique. Please consult a tax expert for the implications of capital gains distributions for any individual investor.

Municipal bonds are subject to availability, price, and to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate rise. Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments, and exports less imports that occur within a defined territory.
The S&P 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 Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS (agency and non-agency).

The MSCI Emerging Markets Index captures large and mid cap representation across 23 emerging markets (EM) countries. With 822 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI EAFE Index is recognized as the pre-eminent benchmark in the United States to measure international equity performance. It comprises the MSCI country indices that represent developed markets outside of North America: Europe, Australasia, and the Far East.

This research material has been prepared by LPL Financial.

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