

March 17, 2008

Dear Valued Investor:

Well, the chickens are coming home to roost. Investment banks and other “money center” financial institutions are under renewed pressure due to so-called “credit market” concerns. There are concerns alright, but I do not think they are general credit market concerns. Folks are, rightly, concerned about: 1) a continued lack of transparency at some big financial institutions and 2) a lack of trust; known in the business as “counter-party risk.” We had a large investment bank declare last Wednesday that it was in decent shape and then go to near bankruptcy two days later. Now that risk is a very real thing to cause concern.

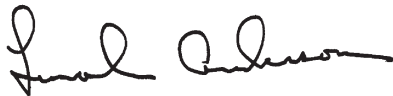
Given all this turmoil in the investment banking system, I thought it might be useful to address the situation at LPL Financial. LPL Financial has a much different business model than the financial institutions that have been troubled. LPL Financial does not provide loans to hedge funds or other speculators, and does not create proprietary products of any kind, including leveraged closed-end funds. This firm does not hold any securities on their books that are open to market risk, and does not engage in investment banking. Because LPL Financial does not engage in these practices, it withstands shocks to the markets very well. In the early 2000s when the technology equity valuation bubble burst, the company remained stable with no fall in earnings and no layoffs. LPL Financial provides our advisors with industry leading technology, service, research and a wide array of investment products, with great care taken to avoid these risky products that have been blowing up. The sole focus of LPL Financial is on you and your investment goals, free of conflicts, hidden agendas, and opaque balance sheets. We will not be needing a loan from the Federal Reserve.

As I noted previously, the Federal Reserve (the Fed) is moving quickly to restore some semblance of order. It lent \$30 billion this last weekend to head off this bank’s complete demise, and it is moving to lift an enormous amount of debt off of, not only banks’ balance sheets, but all primary dealers’ balance sheets. The Fed has also announced a big increase in their lending facility. Their statement about what is acceptable collateral under this Primary Dealer Credit Facility (PDCF) will likely be looked upon as hilarious after things settle down. Here it is: “[collateral] includes all collateral eligible for pledge in open market operations, plus investment grade corporate securities, municipal securities, mortgage-backed securities, and asset-backed securities. Collateral that is not priced by the clearing banks will not be eligible for pledge under the PDCF.” Talk about including the kitchen sink! It looks to me as though the only thing they will not take is a security that cannot be priced. Good idea!

I think the Fed is doing the right thing. They do have a responsibility as “lender of last resort” to restore order to the banking system now and then sort out the innocent from the guilty later. The Fed has nearly \$1 trillion in financial assets, so there is no lack of firepower. And they can create more by lowering interest rates and printing money. Which takes me to their second role – tomorrow the Fed’s policy making committee will likely cut the fed funds rate from 3% to possibly as low as 2%. Some argue that such a cut represents excessive money creation and will bring higher inflation, that the Fed is losing its inflation fighting credibility. I disagree. When the Fed prints money, it shows up immediately in the monetary base. But this money measure has been flat for the last six months and currently shows its second lowest one-year growth rate (1.2%) of the last 46 years! In addition, a good forward total CPI inflation measure – the difference between a standard five years to maturity Treasury bond yield and an equivalent maturity inflation protected bond yield – is 2.3%. This snapshot does not at all look like erosion in the Fed’s inflation credibility. So I expect and welcome another deep cut in rates tomorrow.

I understand these are scary, troubled times. I continue to believe that we will work our way through this mess on Wall Street and return to growth. Perhaps we will slide into recession, but if so, I expect it will be a mild downturn. It would be a shame to have all the great efforts of American workers and companies over the last six years end in a serious recession because of these shenanigans in the investment banking system. As always, please call your financial advisor with any questions or concerns.

Sincerely,



Lincoln Anderson
 Managing Director, Chief Investment Officer

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 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.

This research material has been prepared by LPL Financial.

The LPL Financial family of affiliated companies includes LPL Financial, UVEST Financial Services Group, Inc., IFMG Securities, Inc., Mutual Service Corporation, Waterstone Financial Group, Inc., and Associated Securities Corp., each of which is a member of FINRA/SIPC.

Not FDIC/NCUA Insured	Not Bank/Credit Union Guaranteed	May Lose Value
Not Guaranteed by any Government Agency		Not a Bank/Credit Union Deposit