Information About Investment Proposal Tools

This information is provided to help you understand the investment proposal, report, or analysis you received from your LPL financial professional.

What is an investment proposal tool?
An investment proposal tool is an interactive tool that generates potential investment strategies or portfolios and helps you and your financial professional analyze those strategies and make investment decisions. The tool uses information that you and your financial professional input into the tool, including your assets, your risk tolerance, your investment timeline, and other information. Based on your inputs and on simulations and statistical analyses about investments, the tool projects the likelihood of various investment outcomes over different time periods and market environments. The tool is designed to help you and your financial professional decide on an investment strategy, a specific portfolio, or a specific financial product (like a stock, mutual fund, or exchange-traded fund). The tool generates a customized report that you should discuss with your financial professional.

Will I achieve the same investment results as the proposal tool's report?
No. An investment proposal tool is not a guarantee of any specific returns, but is instead designed to show a statistical simulation using mathematical models of the likelihood of different investment outcomes. Results shown by a report will vary – potentially with each use and over time – because of different market conditions and changes in investment variables. The use of a proposal tool alone cannot determine the investments you should make. All investing carries the risk of loss, including the risk of a loss of your entire investment.

Important: The projections or other information generated by an investment analysis tool regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results.

What is "hypothetical performance," and why is it important?
Simulating or calculating how a proposed portfolio of investments would have performed in the past or may perform in the future is hypothetical when it's not based on an actual funded portfolio, and the results weren't actually achieved. Projected performance cannot accurately predict future market conditions or resulting performance. Hypothetical past performance illustrations are created with the benefit of hindsight and can be manipulated by choosing investments with better performance, even if your financial professional was not recommending those investments at that time. Hypothetical performance does not reflect actual investment results and does not assure or guarantee future results. Because hypothetical results were not actually achieved by any client account, those results are not an indication of the ability or skill of your financial professional. Because of the inherent inability to predict future returns and the limitations on hypothetical past performance, you should not rely on any presentation of hypothetical performance as the primary basis for your investment decisions.

What should I ask my financial professional?

- What assumptions and limitations are involved in the investment proposal tool we are using?
- What inputs and data about my financial situation did we include in the tool? How did those affect the outcomes?
- What investments are considered in the overall analysis? Why did the tool suggest the investments in the report it generated?
- Does my report contain substitute or backfilled holdings?
- Is the benchmark used to compare holdings the right choice for this report? How would the returns look against a different benchmark?

For more information
To learn more about investing risks, please visit: lpl.com/InvestmentRiskLibrary

Where can I learn more?
Visit lpl.com/disclosures.html and scroll to the Investor Regulatory & Educational Resources section, or visit the SEC's website at Investor.gov. You should also carefully review LPL's Form ADV Brochure for your advisory program, and ask your financial professional any questions you may have.

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How does a proposal tool generate projections?

Most proposal tools use Monte Carlo analysis to run thousands of simulations that produce predicted future investment results based on statistical methodologies and probability distributions. Although a Monte Carlo simulation is a widely accepted methodology for making predictions, there is no guarantee that the predicted performance will be achieved.

Performance predictions are dependent upon the accuracy of the data and information you input into the tool. Predictions are also based on a series of assumptions that will not be true for an actual investment account. For example, the fees and expenses reflected in a proposal are different than fees actually charged. Predictions also assume that you will hold the proposed investments over the entire period shown, will not withdraw or add assets, and will not make different investments.

Other assumptions used will be specific to a particular proposal tool. You should understand the methodology and assumptions used by the tool, including the types of investments considered by the tool and whether the tool favors any types of investments.

How does a proposal tool generate hypothetical past performance?

Proposal tools typically generate hypothetical past performance by calculating the aggregate historical performance of the individual investments in the proposed portfolio. The tool calculates net performance using an investment advisory fee equal to either the fee for your proposed account or the highest fee that LPL charges in its advisory program, but the proposal does not reflect all of the expenses that will be charged to your account and that would reduce your performance returns.

Some tools use “substitute” performance for investments that do not have a performance history over a report’s entire period. For example, if a tool includes a mutual fund that has been in existence for only five years in a report showing ten years of performance history, the tool may substitute another mutual fund or an investment index or benchmark for the first five years. Substituted performance is an additional layer of hypothetical information that will further reduce the accuracy of the projected results. Substituted holdings should be considered approximations for illustrative purposes only. Because you cannot invest directly an index, and index returns do not reflect fees and expenses of an actual investment product like a mutual fund, hypothetical past performance using a substitute is overstated.

In addition, most tools will compare investment results to a benchmark, often a securities index. Discretion to choose which benchmark a proposal report is compared against can make investment returns of a proposal report look comparatively more favorable.

How do fees affect an investment proposal?

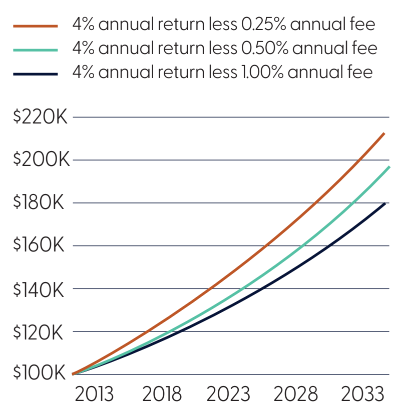
The report’s returns may not include all fees and expenses that would reduce the performance of an actual account, including, but not limited to, advisory fees, manager fees, and/or transaction charges (if applicable); taxes; and other miscellaneous fees and expenses you may incur. Fees differ between LPL’s advisory programs. Please visit lpl.com for more information, including a copy of the Account Packet and Form ADV Brochure for the program you are considering, as well as the applicable Miscellaneous Account and Service Fees Schedule.

Fees and expenses reduce your investment returns. The effects of fees on your long-term investment returns are compounding, meaning higher fees will cause you to earn relatively less on your investment over time. Below is a sample graph showing the compounding effect of fees.

Portfolio value from investing $100,000 over 20 years

In 20 years, 0.50% annual fees reduce the portfolio (orange line) by $10,000 compared with a portfolio with a 0.25% annual fee (blue line).

In 20 years, 1.00% annual fees reduce the portfolio (gray line) by nearly $30,000 compared with a portfolio with a 0.25% annual fee (blue line).



Source: investor.gov/introduction-investing/getting-started/understanding-fees

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