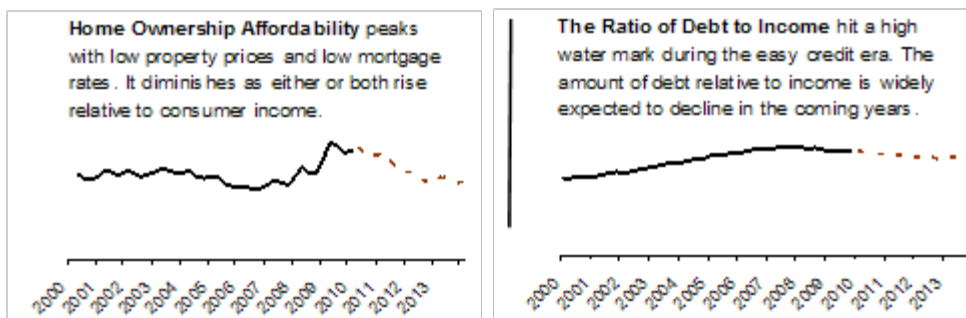


2010 Is Coming. Are You Ready?

Based on the state of the market at the end of November 2009, Standard & Poor's projects a 9.5% rise in the level of the S&P 500 over the next year, to 1215.

Time and tide wait for no one, as the proverb says. But those are likely to be the only inevitable characteristics of the year to come. All other things have some degree of uncertainty attached to them. Will the economy spurt? Or sputter? Will the stock market recoup? Or retrench? Definitive answers to questions such as these are elusive, but clues about direction could provide you with valuable insights for managing your portfolio. Here are some things to watch for:

- **The Economy** - In all likelihood, the recent era of painful contraction is behind us, so the real question is how fast the economy will get better. Standard & Poor's projects that the economy will grow about 1.9% in 2010 after contracting 2.5% in 2009. The unemployment rate is likely to hover near its current levels for a year or more. Early indicators of an impending upturn would be growth in consumer spending and an increase in business investment. The principal lagging indicators would be a rise in the level of employment and a broad increase in the value of real estate. The important uncertainties from an investment perspective are the speed and magnitude of the increases. Many economists fear that consumer spending may recover less robustly than in previous recoveries due to the higher levels of debt consumers carry today. Housing sales may also lag.
- **The Stock Market** - A rebounding economy usually produces increasing earnings for companies. That, in turn, usually drives companies' stock prices higher. More earnings generally lead to faster stock appreciation. If 2010 follows the economists' consensus forecast track, the gentle slope of rebound could gently boost earnings. Of course, an unexpected business failure or a jolt in commodity prices could slow or stop the gains. Based on the state of the market at the end of November 2009, Standard & Poor's projects a 9.5% rise in the level of the S&P 500 over the next year, to 1215.
- **Interest Rates** - From a consumer's perspective, interest rates represent the cost of borrowing the money needed for credit purchases, such as homes and cars; for a business, it's the cost of financing new investments. At the dawn of 2010, interest rates are hovering near their historic lows, which should make it fairly inexpensive to finance purchases and investments. The longer that financing costs stay low, the better the prospects for growth. Right now, the Federal Reserve is keeping short-term rates low, while long-term rates, which are set by the market, are likewise low. Rates should stay low as long as everyone feels safe about credit risk and inflation remains only a distant threat. Assuming current trends continue, the benchmark for short-term rates (the federal funds rate) is not likely to rise past 1% until late 2010 or 2011. It is currently just barely above 0%. The benchmark for long-term rates (10-year Treasuries) could start edging higher from its current 3.5% level, but it is unlikely to reach 4% under current circumstances until 2011. Any change in overall economic perceptions could ripple quickly to the credit markets.



Sources: Standard & Poor's; The National Association of Realtors; the Federal Reserve. Solid lines represent historical data; dashed lines represent S&P projections based on the most likely economic scenarios for the next three years.

Portfolio Strategy Considerations for 2010

In the event of any of the contingencies listed below, you may wish to increase your investment in assets that are favored by those particular conditions. A typical reallocation is a one or two percentage point increase in the allocation of the favored subgroup, with a corresponding decrease in a least-favored allocation. Some investors minimize their trading costs by focusing their new investment commitments on most-favored sectors and styles without selling off anything.

- **A climate of healthy economic growth** tends to favor high-growth sectors such as Consumer Discretionary and Technology.
- **Slow economic conditions** tend to favor so-called defensive sectors such as Health Care and Consumer Staples.
- **A steady economy and low inflation** tends to favor long-term bonds and speculative-grade bond issuers.
- **A climate of rising interest rates or significant volatility** tends to favor short-term debt securities and those with higher credit quality.
- **A long-term growth trend** tends to favor a higher proportion of equity investments in a portfolio and a reduced allocation to fixed income.
- **Periods of significant uncertainty** tend to favor greater weight on low-risk options, such as U.S. Treasury bonds.