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The Outlook

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2011 ANNUAL FORECAST

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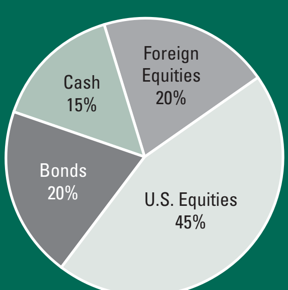
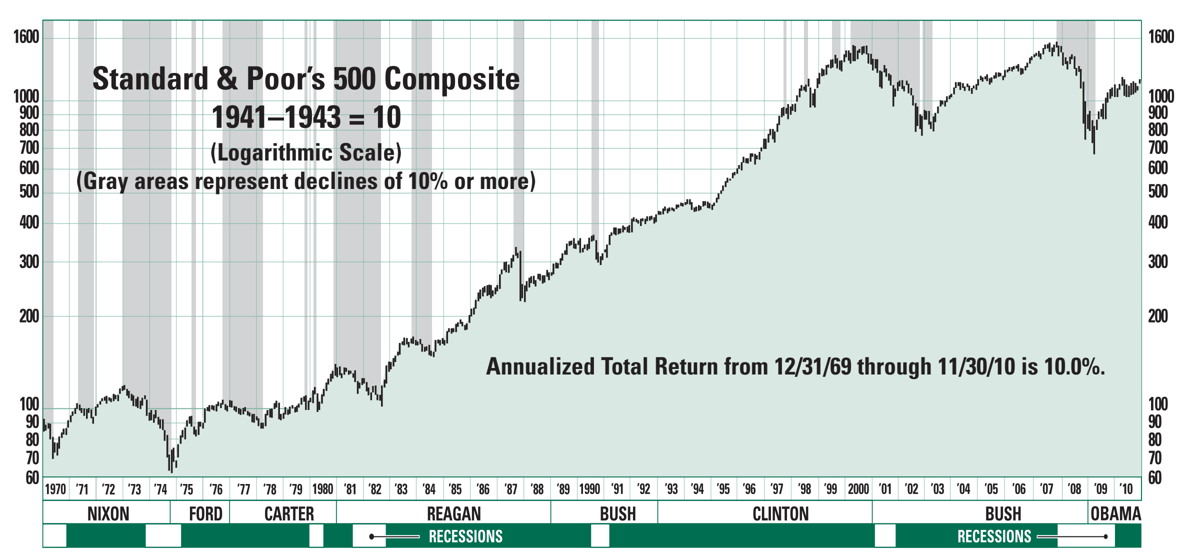
Looking Ahead

The Outlook will not be published again until January 12, an issue that will feature the 2011 PowerPicks. *The Outlook* wishes you a happy holiday season.

S&P Equity Research Recommended Asset Allocation





Please see page 3 for required research analyst certification disclosures.

For important regulatory information, please go to: www.standardandpoors.com and click on "Regulatory Disclosures."

Climbing Up From the Bottom

Beth Piskora
S&P Editorial

The recession may be over, but S&P Economics forecasts a long, hard climb from the abyss.

As forecast in this special issue last year, the longest and deepest recession since World War II is officially over, but Standard & Poor's Economics believes the recovery will be slow and uneven. What's more, another dip into recession is possible if financial markets lock up again, oil prices jump, or consumers remain scared.

S&P Economics expects U.S. gross domestic product (GDP) growth of 2.6% in 2011, down from an estimated 2.8% in 2010. But consumer spending, which led the way out of most previous recessions, is not leading the way this time.

2011 ANNUAL FORECAST

"By the time 2010 ends, we expect 1.7% growth in consumer spending, about half the pace of growth after a recession ends," explains Beth Ann Bovino, senior economist for S&P. "The consumer led previous recoveries, but that's not happening this time, due to concerns about lost wealth (401k balances) and lost job fears."

S&P Economics anticipates consumer spending to recover somewhat in 2011, growing at a 2.7% pace.

Extreme consumer pessimism appears to have subsided but consumers remain cautious, at least by pre-recession standards. The saving rate held at 5.8% in the second quarter, well above the 2.1% of 2007 but still far below the pre-1990 average of 8.9%. Car sales are beginning to come back, showing that consumers are no longer afraid of big-ticket purchases, but the November sales pace of 12.3 million light vehicles remains far below the 16.5 million of 2006. Consumer borrowing rose in September, but only because of loans from the federal government (presumably concentrated in student loan programs). Credit card receivables continued to decline. S&P Economics expects consumers to remain cautious but to continue to crawl out of their foxholes.

And there's other good news. Overseas partners are recovering, helping exports, albeit very slowly, says S&P Economics. What's more, the financial

(Continued on page 3)

MARKET MEASURES

INDEX	CLOSE FRI. 12/17/10	% CHG. YEAR TO DATE	% CHG. PAST 52 WKS.	‡OPERATING —EARNINGS— E2010	E2011	†P/E RATIO FRI. 12/17/10	INDICATED ANNUAL DIVIDEND	% YIELD
S&P 500 Composite	1243.91	11.6	12.8	83.61	94.65	13.14	23.54	1.89
S&P MidCap 400	902.64	24.2	26.3	43.73	53.42	16.90	11.91	1.32
S&P SmallCap 600	415.25	24.8	27.9	17.42	22.92	18.12	4.15	1.00
S&P SuperComposite 1500	287.96	11.7	14.4	18.61	21.27	13.54	5.21	1.81
Dow Jones Industrials	11491.91	10.2	11.3	841.17	925.77	12.41	286.80	2.50
Nasdaq Composite	2642.97	16.5	19.5	...	...	...	...	...
BBB Indus. Bond Yield (10-yr.)	5.76	-0.35 ◊	-0.28 ◊			...	...	...

Data through 12/17/10. E-Estimated. †Based on estimated 2011 earnings. ‡Before special factors. ◊Actual change in yield (not percentage change).

For even more market intelligence, visit www.outlook.standardandpoors.com.

Standard & Poor's *The Outlook*

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S&P EVALUATION SYMBOLS

STARS Rankings

Our evaluation of the 12-month potential of stocks is indicated by STARS:

- ★★★★★ **Strong Buy**—Total return is expected to outperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.
- ★★★★ **Buy**—Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.
- ★★★ **Hold**—Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.
- ★★ **Sell**—Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.
- ★ **Strong Sell**—Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.
- **NR Not ranked.**

Quality Rankings (QR)

Our appraisals of the growth and stability of earnings and dividends over the past 10 years for STARS and other companies are indicated by Quality Rankings:

A+	Highest	**B+**	Average	**C**	Lowest
A	High	**B**	Below Avg.	**D**	In reorganization
A-	Above Avg.	**B-**	Lower	**NR**	Not Ranked

Quality Rankings are not intended to predict stock price movements.

Climbing Up From the Bottom *(Continued from page 2)*

system appears to be stabilizing. Most importantly, the fiscal stimulus helped boost the economy.

"The Fed lowered the Fed funds rate to about zero, and started the alphabet soup of liquidity boosts, with TARP, QE1, and QE2," says Bovino, referring to the first and second rounds of quantitative easing. "And they got the desired impact: calmer markets."

However, the fiscal stimulus will likely be withdrawn in 2011. Private non-residential construction is still plunging. And the recent dollar strength could detract from some economic growth.

S&P ECONOMIC OUTLOOK

	PERCENT CHANGE		
	E2010	E2011	E2012
Real GDP	2.8	2.6	2.9
Consumer Spending	1.7	2.7	2.4
Equip. Investment	15.4	11.8	8.4
Nonres. Construction	-14.9	-7.7	2.9
Res. Construction	-3.9	-1.8	26.7
Federal Government Purchase	4.6	-0.3	-3.5
S&L Purchase	-1.2	0.1	0.1
Total Exports	11.6	8.6	8.5
Total Imports	12.8	5.7	4.5
CPI	1.6	1.3	1.9
Core CPI	1.0	1.1	1.6
	Levels		
Unemployment Rate	9.7	9.5	9.0
Mortgage rate (30-year conventional)	4.7	4.8	5.8
Crude Oil ($/bbl, WTI)	$78.87	$82.83	$89.23
Housing Starts (mn)	0.59	0.69	1.06

Forecasts are constructed using the Global Insight model of the U.S. economy. E-Estimated. Source: S&P Economics.

The most important negative? Housing. (See story, below.)

The U.S. housing market continues to soften, according to S&P Economics. The spring surge in sales and prices was clearly a temporary response to the tax rebates. After the expiration of the rebate, sales and prices have dropped back. The S&P/Case-Shiller Home Price Index fell 2.0% nationally in the second quarter, though the 20-city index remains up 0.6% from a year earlier in October. Although the average home price is below its historical average relative to income, and interest rates are very low, the high unemployment rate, the tightening of credit standards, and the lack of savings mean fewer households can qualify to buy a home. At the same time, the glut of houses in the process of foreclosure or likely to go into foreclosure is holding prices down even more.

Equipment spending remains very strong compared with a year ago but could be showing early signs of slowing. After rising 15% in 2010, only 11.8% growth is expected by S&P Economics in 2011. That's still healthy, but a slowdown.

The biggest concern remains employment. The meager 39,000 November job gain reverses the acceleration observed through October. The unemployment rate bounced back to a seven-month high of 9.8% and will clearly break the 1982-1983 record of 20 consecutive months at or above 9% (now 19 and counting). High unemployment scares consumers. Weak job growth means weak income growth, further damaging consumer spending. ■

2011 Housing Forecast

Kenneth Leon
S&P Equity Analyst

Watch the supply/demand dynamics.

Standard & Poor's Equity Research Services (ERS) has a negative fundamental outlook for the homebuilding industry for the next 12 months. Assuming 5% to 10% decreases in housing prices in the next nine months, ERS believes most publicly traded builders are in a stable competitive position after reducing costs, retiring debt, and increasing cash positions. However, ERS thinks the housing market will remain weak for most of 2011 as buyers' confidence and the job market continue to apply downward pressure.

Our negative view of the industry is dependent on the housing market's inability to continue to reduce existing home inventory over time, which stood at 10.5 months at the end of October 2010, up from 8.0 months in September, and still well above normalized levels of 6.0 months. In our opinion, normalized levels may not be realized until some time in 2012, considering the high levels of foreclosed homes and rising distressed inventories.

ERS believes the key factors that would drive an improved housing market are an increase in buyers' confidence with improving job conditions, available mortgage credit from lenders, a better balance of new and existing homes available for sale, and an easing of increased foreclosed properties, which continues to put downward pressure on housing prices. ■

Investment Outlook

Will the markets be up again in 2011?

Sam Stovall
S&P Chief
Investment Strategist

2011 ANNUAL FORECAST

The year 2011 should offer a trio of three-year milestones:

- In January, President Obama begins his third year in office.
- In March, the S&P 500 starts the third year of this bull market.
- In June, the U.S. economy enters its third year of recovery.

Since 1945, the S&P 500 has risen an average 17% in the third year of a president's term in office, while bull markets and economic expansions have historically lasted an average of more than four years each. Will the economy, market, and administration wind down or crank up? Will these three milestones end up being a charm, or bad luck? (In WWI, lighting three cigarettes on a single match gave an enemy sniper enough time to "ready, aim, fire.")

S&P's Investment Policy Committee believes that, while market volatility may increase over the coming year, so will equity prices. We forecast the S&P 500 to be trading at 1315 twelve months from now. In addition, we are more optimistic about stocks than bonds, and believe emerging market equities have higher price appreciation potential than U.S. or developed international equities.

History indicates, but does not guarantee, that 2011 has the potential to be a good year. In January, President Obama starts his third year in office, which historically has been the strongest of the four-year presidential cycle.

During all years since 1900, the S&P 500 increased by an average 6.8% annually (8.5% since 1945) and posted an annual advance 67% of the time (71% since 1945). During the third year of the four-year presidential cycle, the "500" has enjoyed an average annual increase of 11.3% (17.1% since 1945) and has posted an annual advance 78% of the time (94% since 1945). During years one, two, and four, however, the S&P 500 underperformed, rising only 5.4% (5.7% since 1945) and only 63% of the time (64% since 1945).

A rational for third-year outperformance, in our opinion, is stimulus anticipation. To stay in power, the president typically uses policies designed to stimulate the economy before voters go back to the polls in November of year four. Investors anticipate the benefit of this stimulus to economic growth, corporate earnings, and consumer confidence, and bid stocks higher in year three. What's more, a lot of stimulus – including several rounds of quantitative easing – has already been injected into this economy, causing many to fear that hyper-inflation will be the only outcome. Therefore, this time the president may be out of "silver bullets," and left with nothing to offer.

The current bull market should enter its third year on March 10, 2011. Since 1932, bull market durations have averaged 45 months (3-3/4 years), with the bulls of 1949, 1974, 1982, 1990, and 2002 surviving five years or more. Of course some, like the bulls of 1932, 1935, 1938 and 1947, petered out early and never celebrated their third birthdays. Yet all 10 since 1949 at least started their third years.

Since 1970, investors have gravitated away in the third year of the bull market from the sectors that traditionally perform so well during the first two years (consumer discretionary, industrials, financials, and information technology) and toward the later-cycle/early defensive sectors such as consumer staples, energy, health care, and utilities. Of course, this rotation does not instantly start at the very beginning of the third lap; it is gradual and sometimes delayed.

So much for history. What do S&P's economists and analysts tell us?

S&P equity analysts forecast operating results for the S&P 500 to advance 47% in 2010 and 13% in 2011. This estimated "bottom-up," or analyst-derived EPS (earnings per share) integer (which rolls up the projections for the individual companies in the S&P 500), is projected to reach $84 this year and $94 by the end of 2011, as a result of cost-cutting and share-repurchase programs, revenue growth improvements, and strong demand from emerging economies.

S&P equity analysts project next year's EPS advance to be fairly evenly distributed across sectors. We project that seven of the 10 sectors within the "500" will post full-year EPS increases, with gains of 10% for consumer staples and 16% for financials. The materials sector is currently

S&P 500 % CHANGES DURING THE AVERAGE FOUR-YEAR PRESIDENTIAL CYCLE

	SINCE 1900		SINCE 1945	
YEARS	% CHG.	UP YEARS	% CHG.	UP YEARS
All Years	6.8	67%	8.5	71%
Third Years	11.3	78%	17.1	94%
>1st Term	13.3	81%	21.0	100%
>2nd Term	7.3	73%	12.2	86%
Years 1, 2 & 4	5.4	63%	5.7	64%

Past performance is no guarantee of future results. Source: S&P Equity Research.

Investment Outlook *(Continued from page 4)*

expected to show the strongest EPS advance at 26%, while the telecommunications services and utilities groups should see EPS increases of 7% and 5%, respectively. What's more, it will likely be a dead heat for the S&P 500 Growth and Value indices, as they should each report EPS gains of 13%.

We believe the risk of a global double-dip recession is evaporating. That combined with strengthening commodity prices and a weakening of the U.S. dollar will aid the industrials and materials groups, while low valuations, healthy demand, and strong balance sheets will be catalysts for gains in information technology share prices. We recommend underweighting the defensive health care and utilities sectors.

Even though bottom-up earnings growth for the S&P 500 is projected to be substantial, the S&P 500 has risen more than 80% in price since the bull market started in March 2009. Are valuations therefore vulnerable to a decline?

As of December 14, the S&P 500 was trading at 15.7 times trailing operating results, which equates to a 13.2% discount to the median trailing P/E since S&P started capturing operating EPS in 1988. It is trading at 13.1 times analysts' projected 2011 results. What's more, the "500" is trading at 17.3 times trailing GAAP (also known as "As Reported") results, which is nearly 21% below the median since 1988 and one and a half percentage points above the median of 15.7 times since 1936. Therefore, it doesn't appear to us as if the market multiple is anything but supportive of a further advance in equity prices.

Several issues, in our opinion, cloud an otherwise bullish forecast, such as the discouraging jobs trend and the weak housing market.

Yet the biggest concern of all, in our opinion, is the mountain of debt that will need to be addressed at the sovereign, state, local, and personal level. Most of the market declines over the past year have been triggered by a reawakening of concerns over sovereign debt contagion. S&P believes that lingering sovereign stress is likely to persist into 2011, since the debt woes of Europe's peripheral nations are structural in nature and won't be resolved overnight.

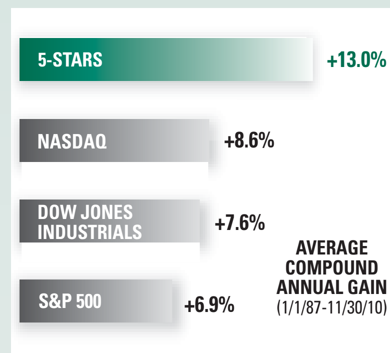
Overall we think 2011 will be a good year, but not a great one, for economic and equity markets, as history's positive leaning will be partly offset by the strong economic headwinds. Volatility will likely increase, but we believe investors will be rewarded by maintaining a slight overweighting to equities at the expense of bonds. In addition, S&P recommends embracing a more cyclical approach to equity markets early on, but warns that the age of this bull market may require an attitude adjustment as the year progresses. ■

AVERAGE S&P 500 SECTOR PERFORMANCES AND FREQUENCIES OF MARKET OUTPERFORMANCE DURING THE FIRST THREE YEARS OF BULL MARKETS SINCE 1970

	YEAR 1		YEAR 2		YEAR 3	
S&P 500 SECTORS	% CHG.	F.O.	% CHG.	F.O.	% CHG.	F.O.
Consumer Discretionary	46	83%	12	40%	(4)	0%
Consumer Staples	28	33%	19	60%	8	80%
Energy	30	33%	18	40%	16	80%
Financials	47	83%	16	80%	(2)	40%
Health Care	25	0%	14	40%	10	60%
Industrials	44	67%	14	40%	(0)	40%
Info. Technology	44	50%	9	40%	3	60%
Materials	36	67%	10	20%	(4)	0%
Telecom Services	17	17%	4	60%	7	40%
Utilities	21	17%	8	40%	12	80%
S&P 500	35	NA	13	NA	3	NA

Past performance is no guarantee of future results. NA-Not available. Source: S&P Equity Research.

5- STARS VS. MARKET



Five-STARS stocks, which are those Standard & Poor's ranks highest for potential year-ahead appreciation, have outperformed the major market indices by a wide margin over recent years. The compound annual gain of 13% for the 5-STARS group from the start of 1987 to November 30, 2010 was 1.9 times the gain for the S&P 500.

Performance results of the 5-STARS stock group have been calculated using standard time-weighted performance formulae. Since results are exclusive of transaction costs and dividend income, the actual results obtained by investors may be different. Because 5-STARS recommendations are made with the intent of maximizing gains, the volatility of the group is likely to be above average. There is no assurance that the future performance of any or all 5-STARS stocks will match the past performance, and you should understand that such recommendations do not take into account a subscriber's personal circumstances, such as tolerance for risk, investment goals, or access to investment capital.

International Outlook: Tactical is Practical

Alec Young
International
Equity Strategist

While the ride may get bumpier, foreign equities should rise in 2011.

2011 ANNUAL FORECAST

After posting strong gains in 2009, most global equity markets have continued to rise modestly thus far in 2010 with emerging markets (EM) leading the advances and Europe trailing. However, given the depth of the prior bear market, as of December 8, developed international, EM and U.S. equity benchmarks remain 25%, 9.1% and 15.7% below their respective October 2007 all-time highs. Looking ahead to 2011, we see developed foreign equity upside continuing, thanks to attractive valuations and solid fundamentals in Northern Europe, Canada, and Australia, although lingering sovereign jitters and potential weakness in the euro, whose volatility detracts from U.S. investors' dollar-denominated developed overseas equity returns, may constrain gains somewhat.

As for EM, we think faster secular growth and reasonable valuations make continued outperformance likely, although upside may be tempered by inflation-induced interest rate hikes, which we believe are likely to stoke periodic growth fears.

S&P Economics sees global growth slowing slightly in 2011 as consumer spending and business investment replace inventory restocking and government stimulus as growth drivers. While we do not see inflation-induced monetary policy tightening in faster-growing economies like China, India, Brazil, and Australia derailing strong expansions, we do expect it to slow economic growth somewhat. As for Europe, we do not expect European sovereign austerity measures to fuel a double-dip recession in the region, as most of the government spending cuts will likely occur in the peripheral countries. Also, we think Germany and France are likely to continue enjoying better momentum than the periphery, as the two-track European recovery persists.

The European Financial Stability Facility (EFSF), a 750 billion euro rescue facility put in place by the European Union and the International Monetary Fund last spring after the Greek crisis, is seen as large enough to handle bailouts of Greece, Ireland, and, potentially, Portugal, but not Spain, Europe's fourth-largest economy, which accounts for roughly 12% of euro-zone gross domestic product (GDP). The latest wave of sovereign stress has been driven by the possibility that investors will have to take haircuts on sovereign debt holdings as a condition of any rescue plans initiated after 2013, when the EFSF expires. Not surprisingly, this fueled a sharp rise in the borrowing costs of already heavily indebted and growth-challenged peripheral nations, increasing the likelihood that Portugal and Spain may be forced to seek help, by our analysis. As such, the cost of insuring peripheral sovereign debt has spiked higher than where it traded last May at the height of the first wave of 2010 sovereign turmoil.

While boosting the size of the EFSF and other European Central Bank stop gap measures may diffuse market fears over the near term, we think lingering sovereign stress is likely to persist in 2011, as Europe's peripheral debt woes are structural and won't be resolved overnight. Although, in our view, strong economic and corporate profit growth momentum in the larger northern "core" of Europe and very attractive valuations should allow for continued European equity appreciation, we think sovereign risk will detract from gains somewhat. There are two transmission mechanisms through which debt problems in smaller nations can take a broader toll on international stock performance. First, the possibility of investor haircuts on peripheral sovereign debt holdings is causing significant uncertainty in the financial services sector, amid concerns over the extent of banks' peripheral sovereign debt exposures. Financial services is, by far, the largest developed overseas sector, representing roughly one-quarter of the asset class' market value. Secondly, sovereign stress is

LED BY EMERGING MARKETS, GLOBAL EQUITIES CLAW THEIR WAY BACK

	TOTAL RETURN		
ASSET CLASS/COUNTRY	YTD	DISTANCE FROM '07 HIGH	RALLY OFF '09 LOWS
Developed International	4.0%	-25.0%	88.3%
Canada	17.4%	-8.9%	129.8%
Europe	2.7%	-27.3%	93.3%
U.K.	7.7%	-26.5%	100.9%
France	-4.1%	-28.9%	77.2%
Germany	8.4%	-25.7%	98.9%
Switzerland	7.7%	-9.0%	88.4%
Italy	-14.8%	-45.6%	79.6%
Spain	-20.3%	-33.1%	72.0%
Japan	9.9%	-25.7%	57.1%
Australia	8.3%	-14.5%	144.2%
Emerging Markets	16.0%	-9.1%	160.8%
China	6.0%	-30.7%	159.4%
Taiwan	15.1%	-2.5%	140.9%
India	15.2%	-20.4%	191.5%
Korea	19.9%	-17.4%	188.5%
Indonesia	39.1%	27.5%	344.4%
Russia	17.6%	-41.3%	188.9%
Brazil	4.2%	-15.5%	207.0%
Mexico	14.3%	0.3%	173.4%
Chile	43.8%	53.2%	206.9%
Turkey	30.1%	-6.9%	266.2%
South Africa	25.7%	9.4%	196.4%
S&P 500	**12.3%**	**-15.7%**	**88.4%**

Data through 12/8/10 (in U.S. dollars). Sources: S&P Indices, MSCI.

International Outlook: Tactical is Practical *(Continued from page 6)*

weighing on the euro, which tumbled 8% versus the greenback in November. U.S. investors' dollar-denominated foreign equity returns are diluted by dollar strength.

While we believe that the oft-repeated bullish EM secular story remains largely intact, macro risks are surfacing that may make EM equity performance more volatile in 2011 even if the prevailing trend remains up. In light of relatively slow expansions in the U.S., Europe, and Japan, the world has never been as dependent on developing economies to drive growth, by our analysis. IHS Global Insight, an independent forecasting firm, projects 2011 EM GDP growth of 6.2% versus only 2.0% for developed economies, highlighting the importance of EM in helping the global economy reach the 3.4% growth rate IHS forecasts for next year. This projection is very much a consensus view. As such, we think investors are very sensitive to anything that could threaten EM expansions.

Rising food and energy prices, growing industrial, labor, agricultural, and environmental capacity constraints and a quantitative easing-driven liquidity surge into developing economies are beginning to stoke inflation pressures. This is increasing the odds of greater-than-expected monetary policy tightening in large emerging nations like China, India, Brazil, and Indonesia, all of which have begun to hike rates in an effort to cool price pressures. We think inflation-induced tightening is likely to continue to fuel growth jitters and worries of hard landings in these increasingly important global economic engines, thereby increasing EM equity choppiness in 2011.

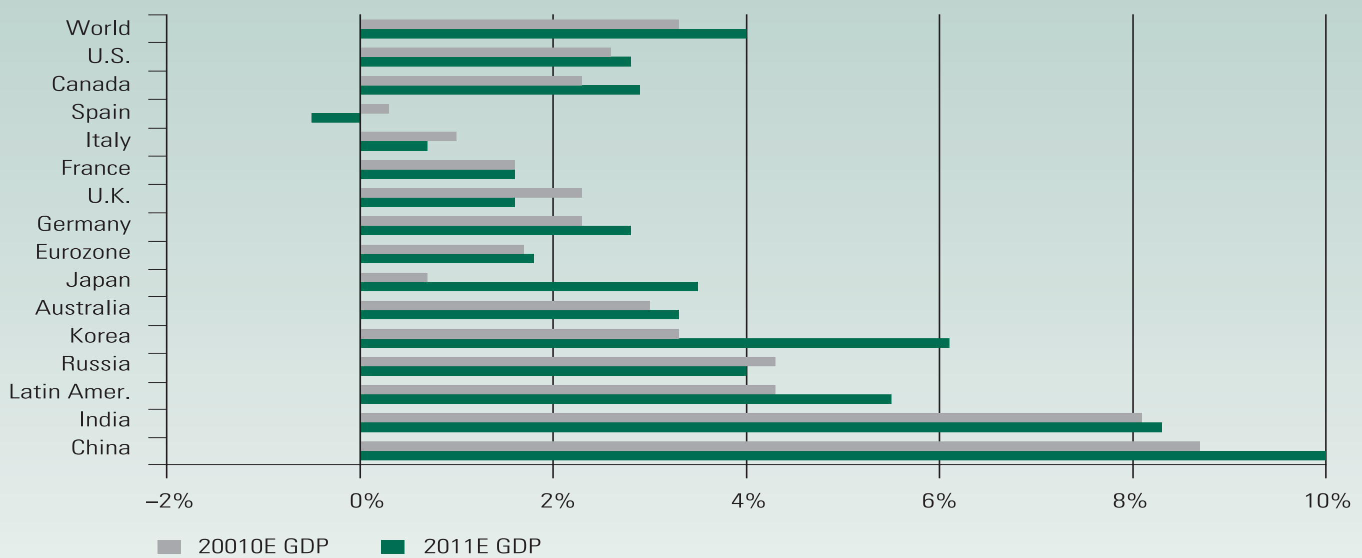
Ultimately though, we expect EM central banks to engineer soft landings in these red hot economies whereby rate hikes succeed in slowing inflation without jeopardizing strong growth. EM economies should continue to expand at a fast enough clip to both power the global economy and fuel healthy mid-teens EM profit growth, in our view. This, coupled with low valuations of only 11.3 times 2011 consensus earnings estimates and an attractive dividend yield of 2.3%, bolster our confidence in continued outperformance even if the ride gets a little bumpier. ■

ATTRACTIVE FUNDAMENTALS CUSHION MACRO RISKS

ASSET CLASS/COUNTRY	E2011 P/E	E2011 EPS GR.	DIV. YLD.
Developed Int'l	11.2	13.5%	3.3%
Canada	13.5	24.4%	2.5%
U.K.	10.0	17.4%	3.2%
Germany	10.7	9.0%	3.3%
France	10.4	13.4%	4.1%
Switzerland	11.7	11.0%	2.8%
Spain	8.8	8.0%	4.9%
Italy	9.3	17.0%	4.5%
Japan	14.3	10.2%	2.0%
Australia	11.8	12.5%	4.5%
Emerging Markets	11.3	16.0%	2.4%
China	12.1	14.9%	2.0%
India	15.0	22.8%	1.2%
Indonesia	14.2	21.8%	2.4%
South Korea	10.0	10.0%	1.3%
Taiwan	13.0	10.2%	3.4%
Russia	7.0	13.0%	1.6%
Turkey	10.5	7.9%	1.9%
Brazil	10.3	18.0%	3.2%
Mexico	15.0	25.1%	3.3%
South Africa	11.2	25.8%	3.1%
S&P 500	**13.1**	**13.0%**	**1.9%**

Data through 12/8/10. E-Estimated. Sources: S&P Indices, S&P Equity Research, Bloomberg, MSCI.

GLOBAL GROWTH SEEN SLOWING IN 2011



E-Estimated. Sources: S&P Economics and IHS Global Insight.

Bond ETFs For Income? Maybe Not

Isabelle Sender
S&P Editorial

These securities could suffer if investors increasingly shun long-term bond ETFs in favor of dividend-paying equity funds.

For years, one consistent piece of financial-planning advice given to individual investors as they age has been to incrementally move more assets into the relative safety of government bonds. But is the advice any good in the era of persistently low interest rates held down by the Federal Reserve? Would the advice be any good even if bond yields were higher?

These questions are crucially important for the Baby Boom generation. The Baby Boomers, defined as those born between 1946 and 1964, started to enter their 60s in 2006 and started retiring in 2008. If this group has been following traditional financial-planning advice, their move into their seventh decade should be accompanied by a big shift from stocks to bonds.

But Standard & Poor's Equity Research Services (ERS) believes long-term Treasuries offer little long-term value as very low yields are unlikely to keep pace with inflation. "Conversely, equity dividends are likely to rise with inflation over time and stocks also offer attractive long-term capital appreciation potential, unlike Treasuries," says Alec Young, an S&P equity strategist. As of December 2, 2010, 10-year Treasuries are yielding about 3% and 30-year bonds are yielding 4.3%.

Nevertheless, there is plenty of evidence investors are shifting more of their portfolio's assets into what are perceived to be less risky assets, principally fixed-income instruments such as bonds and bond funds, especially as they age.

U.S. household surveys by research firm Investment Company Institute (ICI) suggest that even within specified age groups, willingness to take investment risk has dropped since the late 1990s. For example, only 22% of households headed by someone younger than 35 in 2009 were willing to take above-average or substantial investment risk, compared with 30% of such households in 1998.

According to research from the ICI, 401(k)-type plan participants are much more likely to invest in stocks when they are younger and in bonds as they age. As investors grow older, their willingness to take investment risk tends to decline, according to ICI. In 2009, ICI found that only 19% of households headed by someone who is 50 to 64 year old and only 8% of households headed by someone 65 or older were willing to take above-average or substantial investment risk, versus 24% of households headed by younger investors, specifically someone under the age of 49.

There is even a formula, known as the "rule of 100" to determine about how much of someone's assets should be in bonds versus stocks. A 49-year-old investor subtracts their age from 100 to come up with an asset allocation of 49% bonds and 51% stocks. A 60-year-old, by contrast, would come up with an allocation of 60% bonds and 40% stocks.

But David Blitzer, managing director and chairman of the index committee at S&P Indices, which operates independently from S&P ERS, questions the wisdom of the "rule of 100." According to the U.S. Census Bureau, the average retirement age in America is 62, and the average length of retirement is 18 years. "Assume the leading edge of the Baby Boom began retiring at age 62 in 2008 and assume they have 18 years to live," Blitzer posits. "Did we expect them to dump all their stocks when they have an 18-year time horizon?"

Some data suggest stocks paying dividends have increasingly become an important source of income, too. S&P Indices notes the percentage of dividend income as part of personal income has steadily increased over time. In 2008, dividend income comprised 5.61% of per capita personal income in the U.S., compared to 4.65% 10 years prior and 3.07% 20 years prior.

S&P Indices also points out that during the same period, the source of income from capital markets, such as all kinds of interest-bearing instruments, steadily shrunk from 15.06% in 1988

(Continued on page 9)

NEGATIVE POTENTIAL IMPLICATIONS

FUND NAME / TICKER	TOTAL RETURN** YTD	1-YEAR	3-YEAR	CURRENT PRICE	GROSS EXPENSE RATIO
Guggenheim Bulletshares 2017 Corporate Bond ETF / BSCH	NA	NA	NA	21	0.24
iShares 10+ Year US Credit Bond Fund / CLY	7.0	6.4	NA	52	0.20
iShares 10+ Year US Government/Credit Bond Fund / GLJ	5.5	4.7	NA	51	0.20
iShares Barclays 10-20 Year Treasury Bond Fund / TLH	7.9	5.7	6.5	112	0.15
iShares Barclays 7-10 Year Treasury Bond Fund / IEF	8.1	6.2	6.6	93	0.15
PIMCO 15+ Year US Tips Index Fund / LTPZ	7.3	6.2	NA	54	0.27
PIMCO 7-15 Year Treasury Index Fund / TENZ	7.3	5.3	NA	76	0.25
PowerShares 1-30 Laddered Treasury Portfolio / PLW	6.9	4.9	5.6	28	0.25
SPDR Barclays Capital Long Term Credit Bond ETF / LWC	6.0	5.1	NA	36	0.15
SPDR Barclays Capital Long Term Treasury ETF / TLO	6.2	4.3	5.2	55	0.13

Data through 12/16/10. *Total returns include reinvested dividends and capital gains, all annualized; calculations do not reflect the effect of sales charges. NA-Not available. Source: S&P MarketScope Advisor.

Global Asset Allocation Update

Beth Piskora
S&P Editorial

The allocation model is unchanged.

MODERATE PORTFOLIO

ALLOCATION	ASSET CLASS/ INVESTMENT STYLE	ETF/TICKER	S&P RANKING	*ANNUALIZED TOTAL RETURN (%)	CURRENT PRICE
45%	**U.S. STOCKS**				
37	Large-Cap Blend	SPDR S&P 500 / SPY	OW	13.6	124
5	Mid-Cap Blend	S&P MidCap 400 SPDR / MDY	MW	25.3	163
3	Small-Cap Blend	iShares S&P SmallCap 600 / IJR	OW	25.7	68
20%	**FOREIGN STOCKS**				
13	International	iShares MSCI EAFE / EFA	OW	6.6	57
7	Emerging Markets	iShares MSCI Emerging Markets / EEM	MW	12.4	46
20%	**BONDS**				
15	U.S. Debt	iShares Barclays U.S. Aggregate / AGG	NR	5.1	105
5	U.S. Short-Term Debt	iShares Barclays 1-3 Year Treasury / SHY	NR	2.1	84
15%	**CASH**	U.S. 6-Month Treasury Bills			
Total=100					

*Data as of 12/16/10. *The Outlook*'s Moderate ETF Portfolio gained 6.2% year to date through November 30 vs. a gain of 6.6% for its custom benchmark. Past performance is no guarantee of future results. MW-Marketweight. OW-Overweight. Source: S&P ETF Reports.

The Standard & Poor's Investment Policy Committee (IPC) has a 12-month target level of 1315 for the S&P 500 index, which, as IPC Chairman and S&P Chief Investment Strategist Sam Stovall says, "represents a forecast for a good year for domestic stocks in 2011."

At recent IPC meetings, the recent rally in domestic stocks has been a frequent topic.

"In our opinion, investors are encouraged that the U.S. government is willing to entertain extending the existing tax plan, as well cut payroll taxes and encourage capital spending, despite a lame duck Congress and the resulting increase in debt," says Stovall. "Bond investors, however, feel as if a lump of coal has been dropped into their stockings and have sold, pushing the yield on the 10-year Treasury note up by nearly 100 basis points since their October low. Even though bonds may now offer a short-term trading opportunity, as they undergo a counter-trend rally and provide investors with a second chance to lighten up, S&P still believes the trend in yields is higher and recommends underweighting."

The table indicates the IPC's recommended allocation for each asset class, and advises an exchange-traded fund to track each recommended asset class.

Note: The IPC is no longer supporting the conservative and growth portfolios previously published in *The Outlook*. ■

Bond ETFs For Income? Maybe Not (Continued from page 8)

to 10.69% in 2008. But the value of total dividend income in 2000 dollars has grown fivefold from $129.7 billion in 1988 to $686.4 billion in 2008.

Interest income, on the other hand, has grown only 205% during the same period. S&P Indices projects that as equity ownership becomes even more ubiquitous, and a growing number of retiring Americans seek income-generating assets, the importance of personal dividend income shall increase.

But investor confidence in stocks has been shattered over the last decade while risk aversion has been on the rise. An overview of the past five- and 10-year performance analysis shows that stocks, even those paying dividends, have not proved to be a fruitful investment, owing mainly to the losses experienced after the credit crisis in 2008. With this crisis spreading globally, bonds proved to be a safe haven for investors, underscoring the most important risk factor differentiating debt from equity investments.

Looking ahead, however, the investment outlook bodes better for stocks than bonds, according to S&P. Economic news in the U.S. has been improving and may help fuel a rally in risk assets over the next several quarters, says Young, who is a member of the S&P Investment Policy Committee (IPC). The S&P IPC currently advises a 65% weighting to global equities in its recommended asset allocation and only a 20% weighting in fixed income.

There's evidence at least some investors share the IPC's concerns about bonds. Bonds have started weakening in the past month.

S&P Chief Economist David Wyss (also a member of the IPC) says if investors want bonds, "we recommend those with maturities of two to five years."

"We simply aren't recommending 10-year bonds right now," Wyss explains, since shorter-term bonds are paying out yields that are not significantly lower than 10-year bonds.

"We just don't think it pays to go for a longer-maturity bond," says Wyss. "We still believe that yields will go up in time, so it's better not to lock in with an investment in a longer-term bond at today's low rates." ■

Master List Portfolios

Here is a summary of our three portfolios.

For long-term investing, the stocks *The Outlook* recommends as core holdings appear in our three supervised Master List Groups. Changes to these listings are made much less frequently than changes to STARS, and the three groups have discrete portfolio objectives. For all three Master List groups, the Senior Portfolio Committee considers stocks for entry only if they have a 4- or 5-STARS ranking. The committee may replace any stock in these portfolios with another stock at any time for reasons that may include a downgrade in the S&P STARS or other fundamental factors.

The High-Quality Capital Appreciation Portfolio consists of stocks with S&P Quality Rankings of A- or better. An S&P study shows that over the long term, stocks with the best S&P Quality Rankings outperform lower quality stocks on a risk-adjusted basis.

The Total Return Portfolio, which is designed for long-term total return, contains stocks with a current yield greater than that of the S&P 500. The company must not have cut its regular dividend in the last five years, and that dividend must be secure in the opinion of the S&P analyst who follows the stock. There is no S&P Quality Ranking requirement for this portfolio.

To enter the Small/Mid-Cap Growth Portfolio, a stock must have a market capitalization of $4 billion or less, and have good long-term prospects in the opinion of the S&P analyst who follows it.

Stocks in the three Master List Groups are covered on a rotating basis. Performance figures for each group are provided regularly.

The Outlook is available online to subscribers on the Saturday before the cover date, but we count performance from the closing price on the Monday before the cover date. In this way, readers have a full trading day to act on our recommendation before we consider the stock added.

After the close on December 20, 2010, United Parcel Service (UPS 74 ★★★★) replaces H.J. Heinz (HNZ 51 ★★★) in the Total Return Portfolio. ■

HIGH-QUALITY CAPITAL APPRECIATION PORTFOLIO

COMPANY / TICKER	‡STARS	‡QUALITY RANKING	*RISK	STYLE	CURRENT PRICE	12-MONTH TARGET PRICE	†P/E RATIO	YIELD (%)
C.H. Robinson Worldwide / CHRW	4	A+	Low	Growth	79	85	28.7	1.5
Church & Dwight / CHD	5	A+	Low	Growth	68	76	15.5	1.0
CVS Caremark / CVS	5	A+	Medium	Blend	35	38	11.7	1.0
Fastenal / FAST	5	A	Medium	Growth	59	74	25.7	1.4
Hudson City Bancorp / HCBK	4	A	Low	Blend	12	15	10.5	5.0
Int'l Business Machines / IBM	4	A	Medium	Growth	145	160	11.5	1.8
McKesson / MCK	5	A-	Medium	Blend	69	78	14.3	1.0
Mylan / MYL	5	A-	Medium	Growth	21	25	10.5	Nil
Nike / NKE	4	A+	Medium	Growth	89	90	20.3	1.4
Occidental Petroleum / OXY	4	A-	Medium	Blend	94	96	13.0	1.6
Oracle / ORCL	4	A-	Medium	Growth	32	37	16.0	0.6
Procter & Gamble / PG	4	A+	Low	Growth	65	68	16.4	3.0
United Technologies / UTX	4	A+	Low	Growth	79	88	14.9	2.2
VF / VFC	5	A	Medium	Blend	88	106	13.0	2.9
Wal-Mart Stores / WMT	5	A+	Low	Blend	55	63	13.6	2.2

*Based on our analysts' assessment of qualitative factors, including financial strength, potential share volatility, competitive position, industry cyclicality, regulatory/legal issues, and other factors. Please note that all investments carry risks. Specific risks to each stock recommendation and target price can be found in each company's individual stock report. †Price/earnings ratios are based on Standard & Poor's estimated fiscal 2011 per-share earnings. ‡See definitions on page 2. Source: S&P Equity Research.

TOTAL RETURN PORTFOLIO

COMPANY / TICKER	‡STARS	‡QUALITY RANKING	*RISK	STYLE	CURRENT PRICE	12-MONTH TARGET PRICE	†P/E RATIO	YIELD (%)
Abbott Laboratories / ABT	4	A	Medium	Growth	49	62	10.5	3.6
Altria Group / MO	5	A	Medium	Blend	25	28	12.4	6.1
AT&T / T	5	B+	Medium	Value	29	33	11.6	5.8
Chevron / CVX	5	A-	Low	Blend	89	107	9.2	3.2
Coca-Cola / KO	5	A+	Low	Growth	65	73	17.0	2.7
Deere / DE	4	A-	Medium	Blend	82	100	16.2	1.5
ExxonMobil / XOM	5	A+	Low	Blend	72	85	10.9	2.4
Heinz (H.J.) / HNZ	3	B+	Low	Blend	51	51	16.9	3.5
Honeywell / HON	4	B+	Medium	Value	53	62	14.5	2.5
Intel / INTC	4	B+	Medium	Growth	21	22	11.3	3.4
Kinder Morgan Energy / KMP	5	NR	Low	Blend	70	82	29.2	6.3
Merck / MRK	4	B+	Medium	Blend	37	42	9.7	4.1
NY Community Bancorp / NYB	5	B	Medium	Blend	18	20	13.0	5.6
Oneok / OKE	5	A-	Medium	Value	54	58	15.9	3.6
PPG / PPG	5	B+	Medium	Blend	81	100	14.5	2.7

*Based on our analysts' assessment of qualitative factors, including financial strength, potential share volatility, competitive position, industry cyclicality, regulatory/legal issues, and other factors. Please note that all investments carry risks. Specific risks to each stock recommendation and target price can be found in each company's individual stock report. †Price/earnings ratios are based on Standard & Poor's estimated fiscal 2011 per-share earnings. ‡See definitions on page 2. Source: S&P Equity Research.

SMALL/MID-CAP GROWTH PORTFOLIO

COMPANY / TICKER	‡STARS	‡QUALITY RANKING	*RISK	STYLE	CURRENT PRICE	12-MONTH TARGET PRICE	†P/E RATIO	YIELD (%)
AllianceBernstein / AB	4	NR	Medium	Foreign	23	30	11.3	6.6
American Medical Systems / AMMD	4	B	High	Growth	20	24	14.8	Nil
Bally Technologies / BYI	4	B-	High	Growth	41	50	19.5	Nil
Boston Beer / SAM	4	B+	High	Growth	95	99	24.1	Nil
Covance / CVD	4	B+	Medium	Growth	52	54	19.4	Nil
Delta Air Lines / DAL	4	NR	High	Blend	13	16	4.7	Nil
Gentex / GNTX	3	B+	Medium	Growth	29	28	27.1	1.5
Itron / ITRI	4	B-	Medium	Growth	55	78	12.9	Nil
Kelly Services / KELYA	5	B-	Medium	Value	20	25	18.2	Nil
Medicis Pharmaceutical / MRX	4	B	High	Growth	28	32	11.0	0.9
MKS Instruments / MKSI	4	C	High	Value	23	23	8.5	Nil
SBA Communications / SBAC	4	C	High	Blend	39	46	NM	Nil
Teleflex / TFX	4	A-	Medium	Blend	56	68	12.0	2.4
United Rentals / URI	5	C	High	Value	23	30	14.1	Nil
US Airways Group / LCC	4	C	High	Blend	10	14	3.0	Nil

*Based on our analysts' assessment of qualitative factors, including financial strength, potential share volatility, competitive position, industry cyclicality, regulatory/legal issues, and other factors. Please note that all investments carry risks. Specific risks to each stock recommendation and target price can be found in each company's individual stock report. †Price/earnings ratios are based on Standard & Poor's estimated fiscal 2011 per-share earnings. NM-Not meaningful. Source: S&P Equity Research.

Building a Well-Balanced Portfolio

This portfolio affords diversification among major industry groups.

2011 ANNUAL FORECAST

Investment pros frequently use the S&P 500 as a benchmark when constructing a diversified portfolio. The 500, which is market-value weighted, includes 10 sectors and more than 100 industry groups. Each stock's weighting in the index is determined by multiplying the number of shares outstanding by the current share price.

The sample portfolio below is broadly representative of the S&P 500, though we also included some mid- and small-cap names for capitalization diversification purposes. We adjusted the sector weightings to reflect S&P's investment policy and economic projections, so we expect the 20-stock list (composed entirely of stocks ranked four and five STARS) to outperform the index in the coming year. (Following the sector name in the table, the first figure in parentheses represents the sector's approximate weighting in the S&P 500; the second figure is our suggested weighting.)

Choices from *The Outlook*'s Master Lists were used wherever possible. Performance of the portfolio is not tracked. ■

PORTFOLIO BASED ON SUGGESTED SECTOR WEIGHTINGS

SHARES	COMPANY NAME / TICKER	‡STARS	‡QUALITY RANKING	*RISK	STYLE	PRICE	COST	ANNUAL INCOME	YIELD (%)	†P/E RATIO	**12-MONTH TARGET PRICE
	CONSUMER DISCRETIONARY (11%, 11%)										
110	Family Dollar Stores / FDO	5	A+	Medium	L-Blend	50	5,500	68	1.2	15.6	58
60 ●	Nike / NKE	4	A+	Medium	L-Growth	89	5,340	74	1.4	20.3	90
	CONSUMER STAPLES (11%, 11%)										
220 ●	Altria / MO	5	A	Medium	L-Blend	25	5,500	334	6.1	12.4	28
90 ●	Procter & Gamble / PG	4	A+	Low	L-Growth	65	5,850	173	3.0	16.4	68
	ENERGY (12%, 12%)										
70 ●	Chevron / CVX	5	A-	Low	L-Blend	89	6,230	202	3.2	9.2	107
80 ●	ExxonMobil / XOM	5	A+	Low	L-Blend	72	5,760	141	2.4	11.5	85
	FINANCIAL SERVICES (15%, 15%)										
80	Chubb / CB	4	A	Medium	L-Blend	60	4,800	118	2.5	9.8	67
280 ●	NY Community Bancorp / NYB	5	B	Medium	M-Blend	18	5,040	280	5.6	13.0	20
110	State Street / STT	5	A-	Medium	L-Growth	46	5,060	4	0.1	11.6	52
	HEALTH CARE (11%, 9%)										
70 ●	McKesson / MCK	5	A-	Medium	L-Blend	69	4,830	50	1.0	14.3	78
85	Teva Pharmaceutical / TEVA	4	NR	Medium	Foreign	52	4,420	57	1.3	10.0	62
	INDUSTRIALS (11%, 12%)										
50 ●	C.H. Robinson Worldwide / CHRW	4	A+	Low	L-Growth	79	3,950	58	1.5	28.7	85
70 ●	Fastenal / FAST	5	A	Medium	L-Growth	59	4,130	57	1.4	25.7	74
200 ●	Kelly Services / KELYA	5	B+	Medium	S-Value	20	4,000	0	Nil	18.2	25
	INFORMATION TECHNOLOGY (19%, 20%)										
20	Apple / AAPL	5	B	High	L-Growth	321	6,420	0	Nil	17.4	375
50 ●	Int'l Business Machines / IBM	4	A	Medium	L-Growth	145	7,250	130	1.8	11.5	160
220 ●	Oracle / ORCL	4	A-	Medium	L-Growth	32	7,040	44	0.6	16.0	37
	MATERIALS (4%, 5%)										
60 ●	PPG / PPG	5	B+	Medium	L-Blend	81	4,860	132	2.7	14.5	100
	TELECOM SERVICES (3%, 3%)										
100 ●	AT&T / T	5	B+	Medium	L-Value	29	2,900	168	5.8	11.6	33
	UTILITIES (3%, 2%)										
25	Entergy / ETR	4	A	Medium	L-Blend	70	1,750	83	4.7	10.6	79
	Total					100,630	2,175	2.2			

● Master List issue. *Based on our analysts' assessment of qualitative factors, including financial strength, potential share volatility, competitive position, industry cyclicality, regulatory/legal issues, and other factors. **Please note that all investments carry risks. Specific risks to each stock recommendation and target price can be found in each company's individual stock report. ‡See definitions on page 2. †Based on S&P estimated fiscal 2011 earnings. L-Large cap. M-Mid cap. S-Small cap.