U.S. STRATEGY REPORT

2010 ANSWERS AND OUTLOOK

As we come off an unprecedented year, you may have questions about what the markets, economy and political climate may mean for your long-term financial goals. While we can't predict the future, and we know market corrections can happen at any time, Edward Jones Chief Market Strategist Alan Skrainka offers some perspective about what may lie ahead in 2010.

Questions	Answers
What's the outlook for the new year?	We believe the immediate future for the economy looks fairly good, and certainly better than the recent past. There's no doubt our economy got way off track in 2008 and 2009, and it needed a helping hand. And while the federal government's actions were expensive and are still controversial, it now looks like they were enough to prevent a full-scale meltdown and helped lay the foundation for recovery. Not everyone agrees that the government's involvement was appropriate, but we believe that if it hadn't back-stopped the financial sector and if the Federal Reserve hadn't intervened directly to shore up the credit markets, we could be looking at something much worse than a modest recovery.
Is the economy really recovering?	We think there's no question the economy is recovering. The economy grew 2.8% in the third quarter of 2009, and the consensus of the top 50 economists from the Blue Chip Economic Indicators is that it will grow about 3% each quarter through the end of 2010. In fact, the average estimate of the 10 most pessimistic economists in the Blue Chip Economic Indicators survey expects growth between 1.5% and 2.0% each quarter through the end of 2010. That's not stellar growth, but it's considerable improvement over what we experienced last year.
Don't we still have high unemployment and tight credit conditions?	Yes, we do. Just because the recession is likely over doesn't mean all of our problems are solved. According to Bloomberg, the stock market, which leads the economy, has already risen more than 60% in anticipation of better days ahead. The unemployment rate is a lagging indicator and has peaked at every postwar recession's end. Those who wait until it's obvious the economy is stronger usually miss out on the best part of the stock market's rise.
What about investors who've missed this market recovery?	When the market is rising, it becomes more expensive the longer investors sit on the sidelines. If you did get out of the market, consider systematically investing over a period of time to get back in. Some people have said this crisis illustrates that buy-and-hold investing is a bad idea. But fewer people have been saying that since March 2009. Buy-and-hold investing doesn't feel good when the market is falling, but it also helps ensure you're invested when the market is rising. If the market fell most of the time, buy-and-hold investing wouldn't work. But historically, as this chart shows, the stock market has risen in 86% of the five-year holding periods and 96% of the 10-year holding periods since 1926. The first decade of this century was one of the worst decades in history for stock investors. But that decade is now behind us. People should look forward, not backward. Remember, you can't recover if you're not invested.

S&P 500 Total Return Rolling Periods
1926 – 2008

	% of Time Positive
1-year periods	71%
5-year periods	86%
10-year periods	96%
20-year periods	100%

Source: Ibbotson. S&P 500 total return index 1926 – 2008. The S&P 500 is an unmanaged index and cannot be invested in directly.

Questions	Answers
What about inflation?	Inflation has been a fact of life in the U.S. economy for most of the past 200 years. It has always been, and will likely always be, an important consideration when setting your investment policy. Investments such as stocks and stock mutual funds have been a better hedge against inflation than bonds over the long term, and that fact should be considered when building a portfolio. While stocks are riskier than bonds in the short run, the fact that they represent an ownership stake in companies that have the ability to raise prices has made them a more effective hedge against inflation over the long run. The potential for rising income that stocks offer can be an important offset to rising prices over the long term.

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<tr><td>What long-term impact will the government's bailout efforts have on the deficit and economy?</td><td>The numbers from these efforts are huge. The latest forecast from the Congressional Budget Office (CBO) is that we'll see $9 trillion in deficits over the next 10 years. The deficit reached $1.4 trillion for the 2009 fiscal year that ended in September, and is expected to remain near this level in 2010. In our opinion, the path we're on is unsustainable.

Our view is that either taxes will be raised or spending will be reduced, or we'll see some combination of the two (which is most likely). No one knows what the "upper limit" is for these deficit numbers, but it's worth pointing out that the deficit in 2009 was about 10% of the gross domestic product (GDP) with the new revisions, compared with the 28% we reached in 1943 during the height of World War II. The real problem is the long-term outlook for the budget, which for now doesn't look good. The only good news is this: Small changes in the spending growth rate can lead to a big improvement in the budget. In the meantime, there's nothing about the deficit that suggests an imminent collapse. The economy and markets can still recover, but longer term, the deficit will have to be addressed.</td></tr>
<tr><td>Is gold a good investment, especially with the recent weakness in the dollar?</td><td>People never seem to ask about gold when it's $200 an ounce, but when it nears $1,000, investors seem to think it's a great idea. Commodities in general – and gold in particular – can be volatile. If you invest in gold, we recommend owning an appropriate amount (usually no more than 5%) and holding it through good times and bad. A better choice may be to allocate some of your portfolio toward international equities. International markets seem to be recovering along with the U.S., they tend to pay dividends[1] (which you don't get with gold), and they tend to perform especially well when the dollar is weak.</td></tr>
<tr><td>What other issues are on the government's agenda for 2010?</td><td>After health care reform, it sounds like Congress may address our energy policy – referred to as "cap and trade." Next are likely proposals to reform the tax system. It's clear to us that each issue has the potential to raise taxes for many Americans. We believe tax rates will likely increase in 2010. As a result, we suggest meeting with your Edward Jones financial advisor to discuss strategies to limit your exposure to these changes.[2]</td></tr>
<tr><td>What should investors be focused on in 2010?</td><td>We believe people should focus less on politics and economics, and more on solutions to the financial problems they face today and will face in the future. Forecasting the short-term direction of the economy or the stock market is not the key to investing success.

The key to long-term investing success is having a well-thought-out plan and sticking to it.</td></tr>
<tr><td>What steps should investors consider taking?</td><td>We believe the following may help protect investors from things that can go wrong:
▪ Allocate an appropriate amount to short-term investments. Interest rates could rise, or the stock market could fall. That's why you should consider placing some of your money in short-term income investments.
▪ Consider adding fixed-income investments to your portfolio. Interest rates could be steady or fall, which is why you should consider investing in bonds, which offer the potential to lock in reliable income.
▪ Talk to your financial advisor about tax-advantaged investments. Taxes may increase, which means you might consider tax-advantaged investments.
▪ Review your insurance coverage, and fill in any gaps. Remember to consider unexpected life events such as disability, nursing home care, living longer than expected or passing away prematurely.

This investing approach focuses less on predicting the stock market and instead on practical solutions to financial challenges that nearly all of us face. Remember, we diversify because the future is uncertain.[3]</td></tr>
<tr><td>Any final thoughts?</td><td>In spite of the financial crisis, our advice hasn't changed. It's important to take responsibility for your financial future. Of course, investing money in the stock and bond markets can at times be painful, as this crisis clearly has illustrated. Investing involves risk, which is why we would never suggest putting all your money in the stock market. Even though short-term income investments will likely not keep pace with inflation, their role of providing safety and liquidity is important. The key is to invest in each major investment category that's suitable and appropriate for your long-term goals, need for income and tolerance for risk.

Ask your Edward Jones financial advisor if your current investments can help you keep up with the rising cost of living and reach your goals.</td></tr>
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1 Dividends can be increased, decreased or totally eliminated at any point without notice.

2 Edward Jones, its employees and financial advisors do not offer tax or legal advice. Please consult with a qualified tax or legal advisor about your situation.

3 Diversification does not guarantee a profit or protect against loss.

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