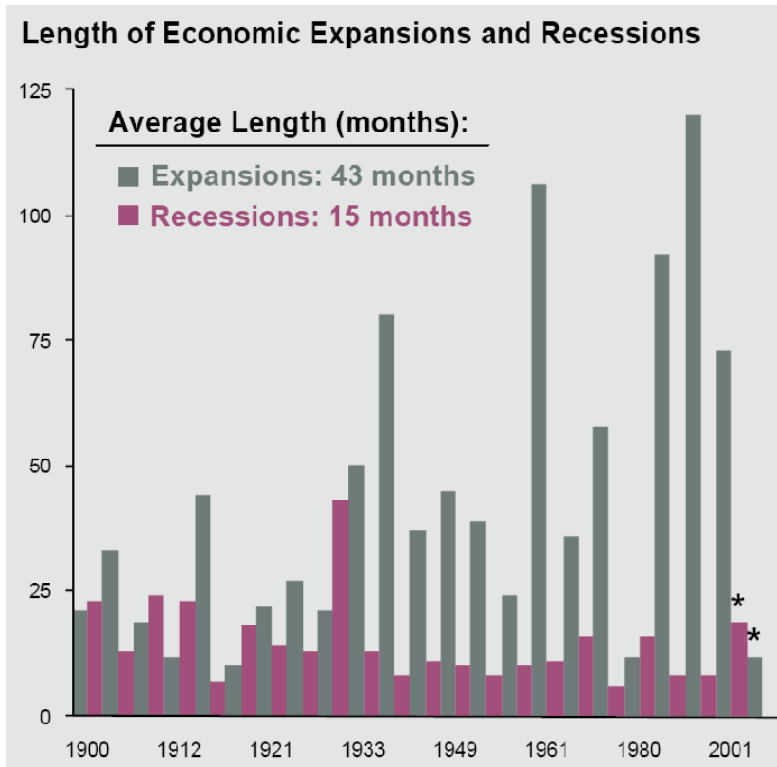

Double-dips, Deflation and Deficits: What's an investor to do?

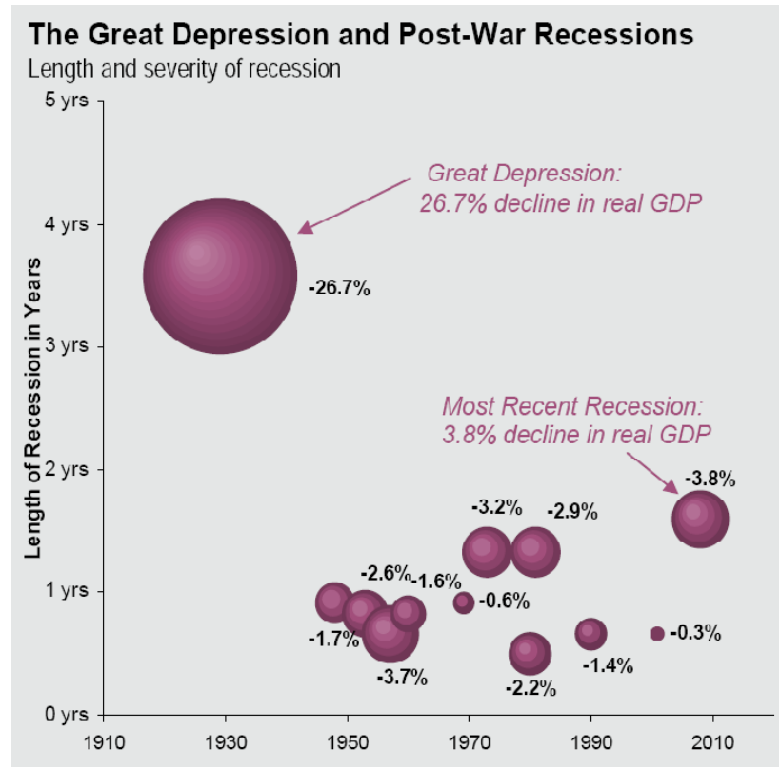
Presented by
Jeff Pantages, CFA



U.S. Economic Expansions and Recessions



Source: NBER, J.P. Morgan Asset Management.
 Data for length of economic expansions and recessions obtained from the National Bureau of Economic Research (NBER). This data can be found at www.nber.org/cycles/ and reflects information through June 2010. *Assumes recession started December 2007 and ended June 2009. Assumes most recent expansion extended through June 2010. For illustrative purposes only.



Source: NBER, BEA, J.P. Morgan Asset Management.
 Bubble size reflects the severity of the recession, which is calculated as the decline in real GDP from the peak quarter to the trough quarter except in the case of the Great Depression, where it is calculated from the peak year (1929) to the trough year (1933), due to a lack of available quarterly data. Data are as of 6/30/10.



Consensus Outlook for U.S. – No Double Dip!

	2008	2009	2010	2011
Real GDP (% YoY)	0.40	-2.40	3.20	2.92
Inflation (% YoY)	3.85	-0.35	1.80	1.70
Unemployment (%)	5.80	9.30	9.60	9.10
Fed Funds (%)	0.25	0.25	0.25	-
10-Yr Note (%)	2.21	3.84	3.80	-

Data: Bloomberg Consensus Forecasts

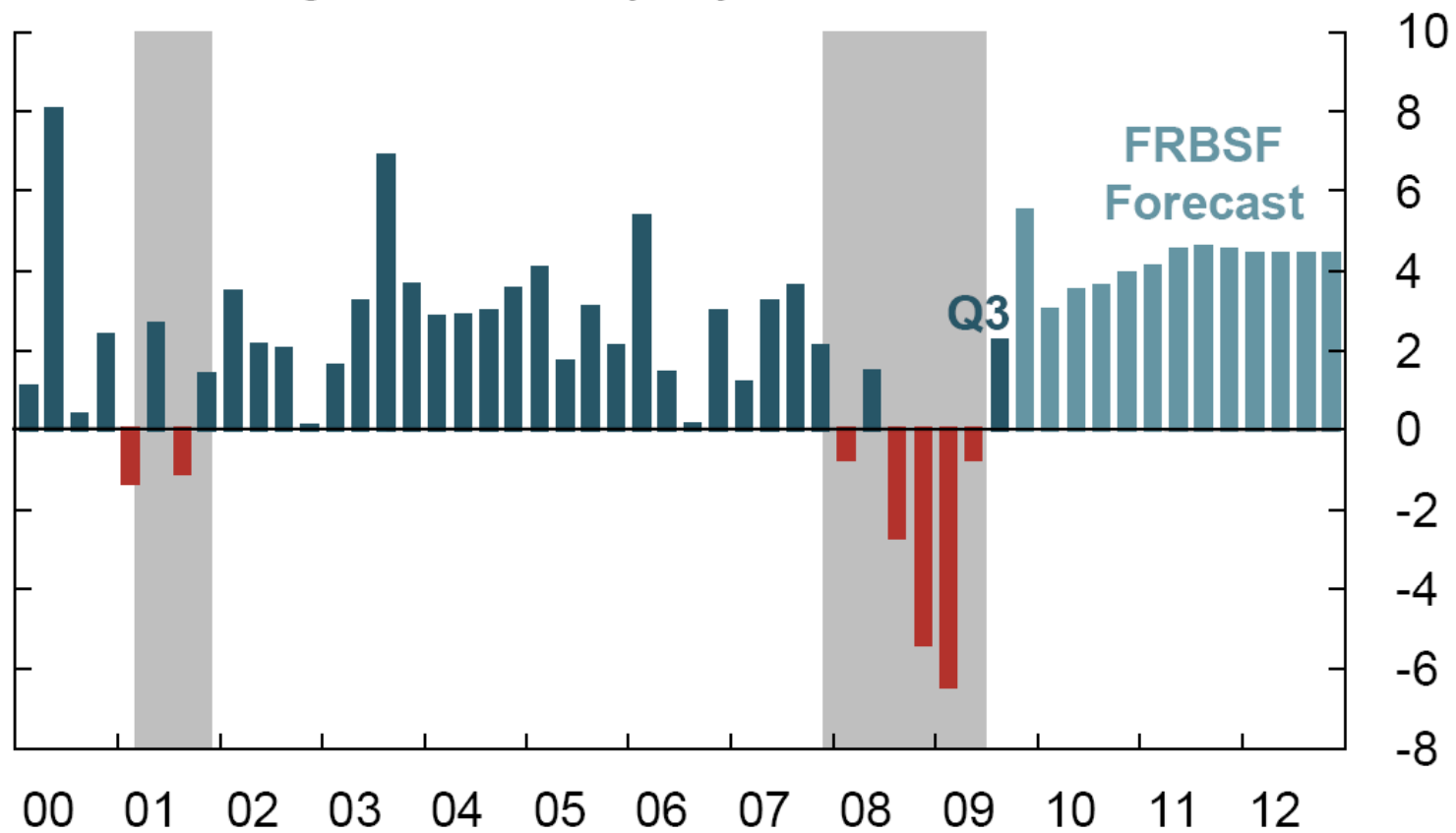


Consensus believes economy is in recovery

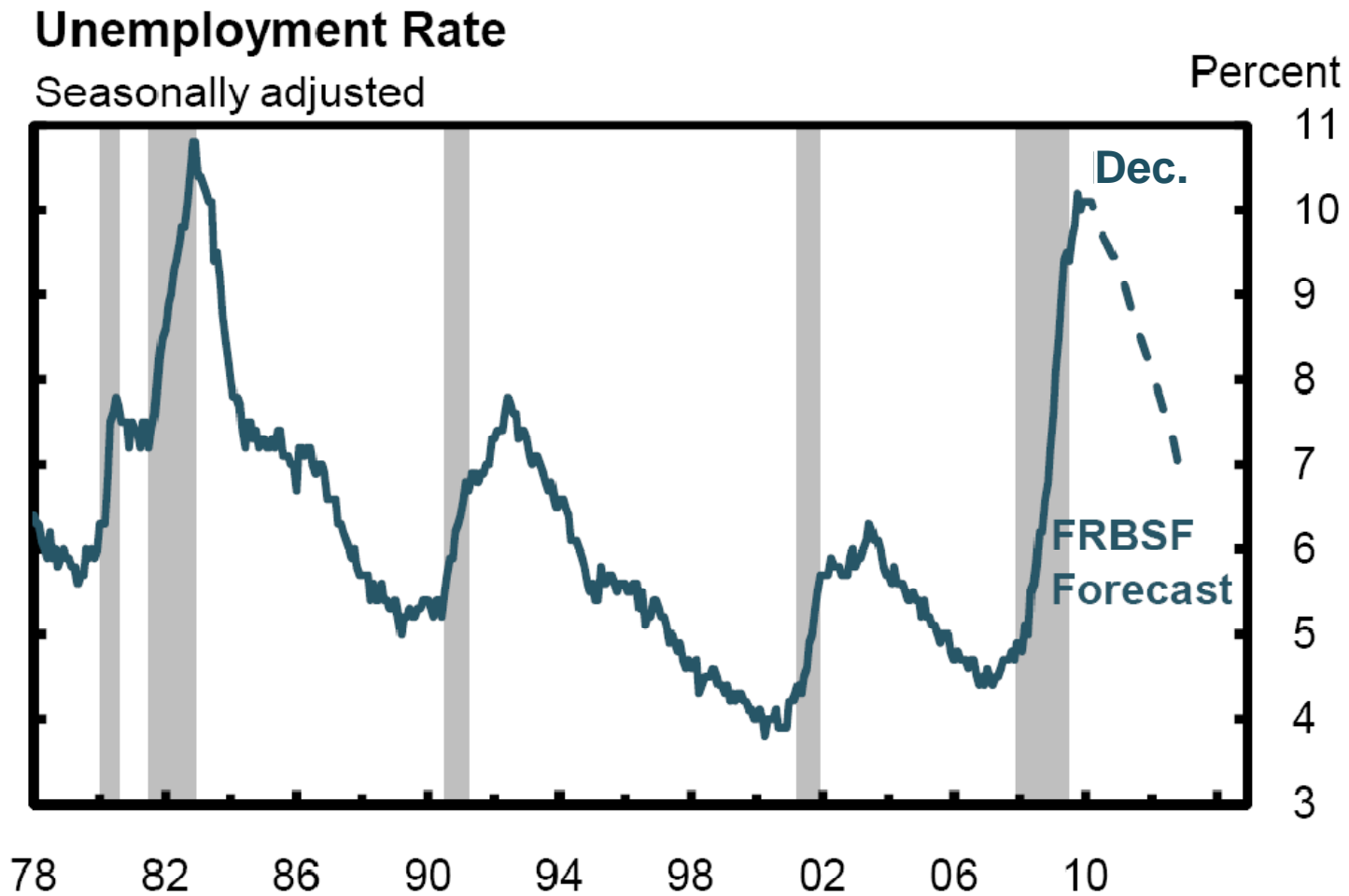
Real GDP

Percent change at seasonally adjusted annual rate

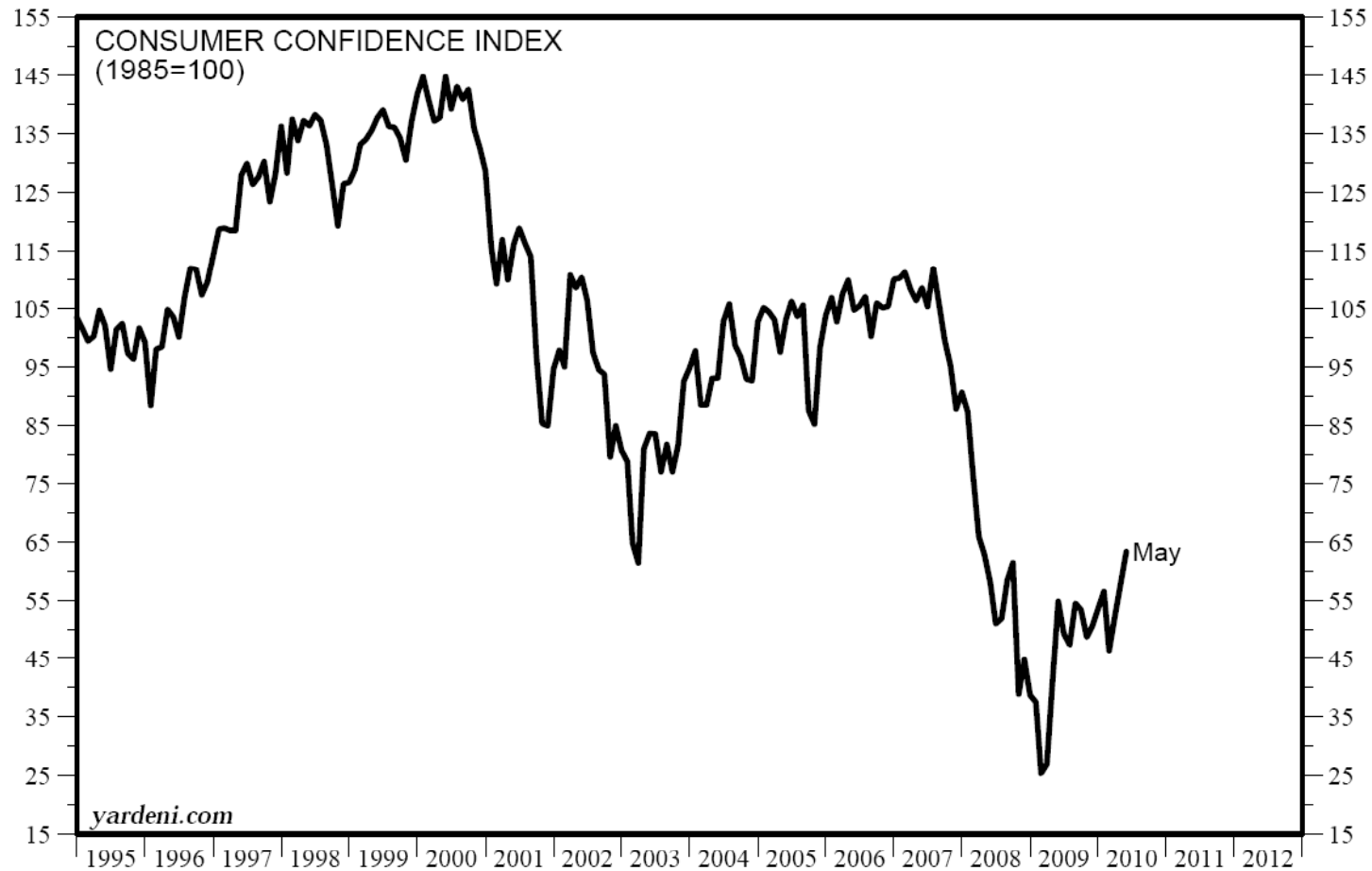
Percent



Enormous pool of unemployed workers

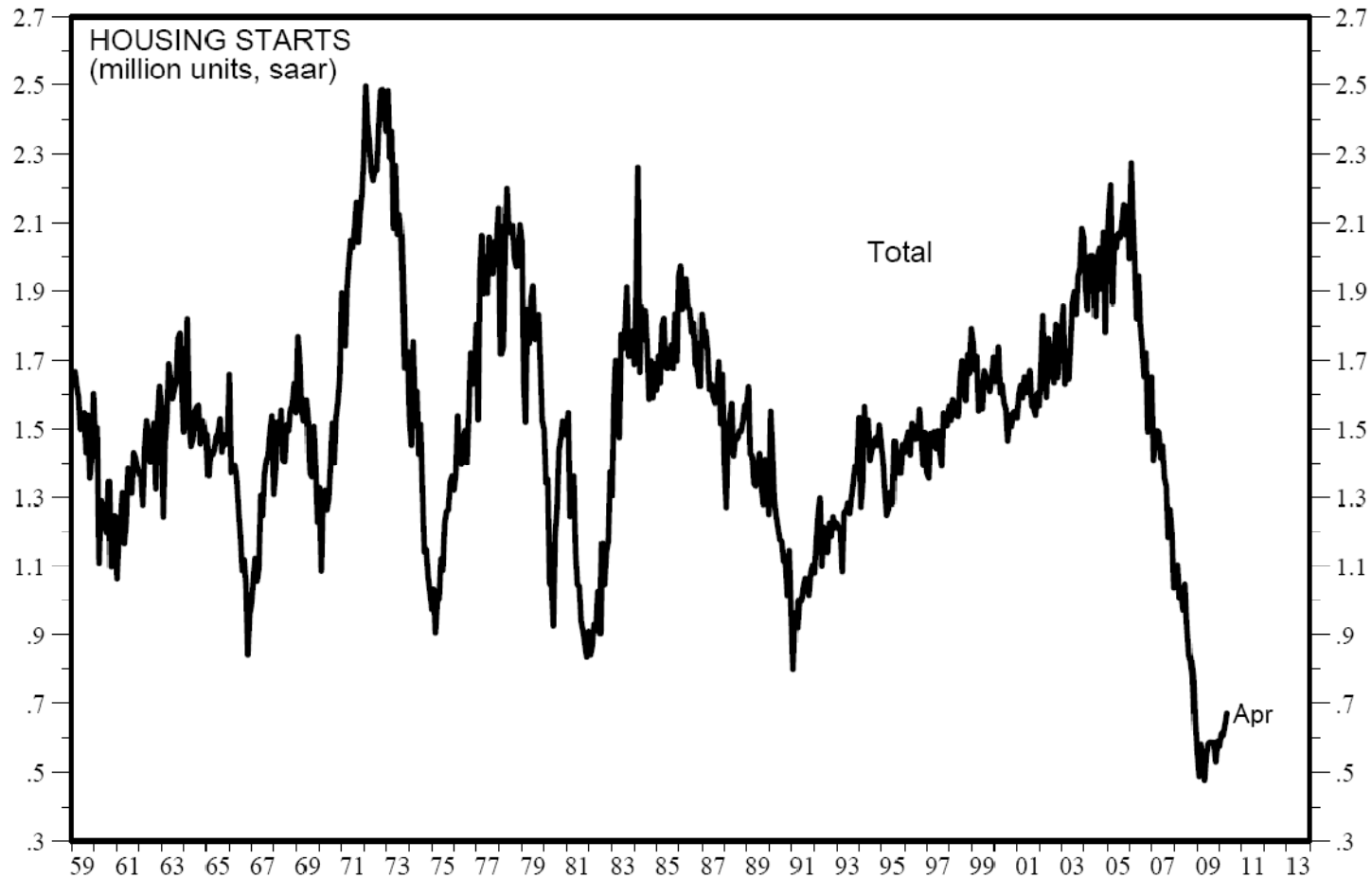


Consumers feeling a bit better



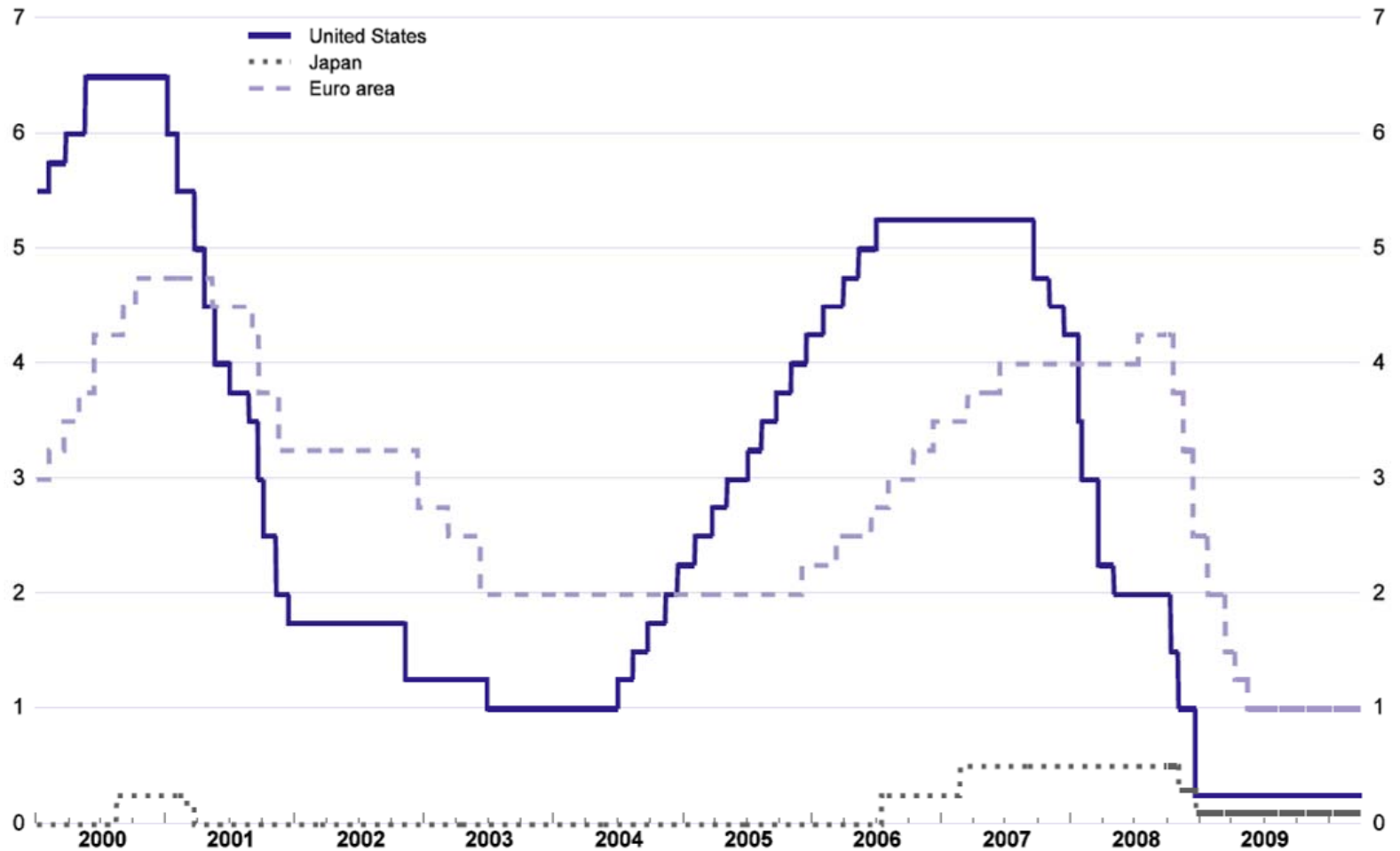
Source: The Conference Board, yardeni.com

But housing is still a drag...



Source: U.S. Department of Commerce Bureau of the Census, yardeni.com

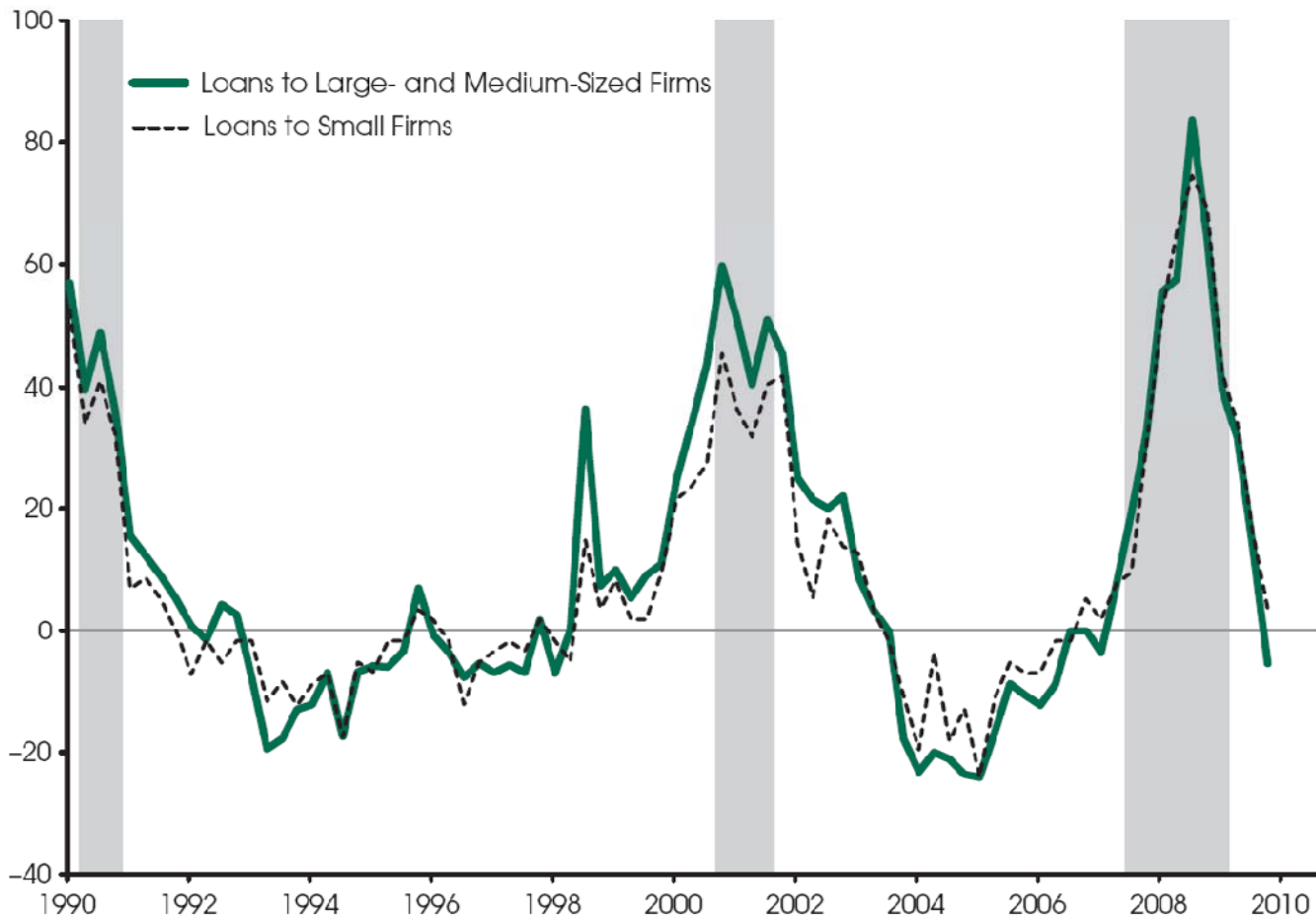
Central bankers have kept interest rates low – Pushing on a string?



Source: Federal Reserve; Bank of Japan; and European Central Bank.

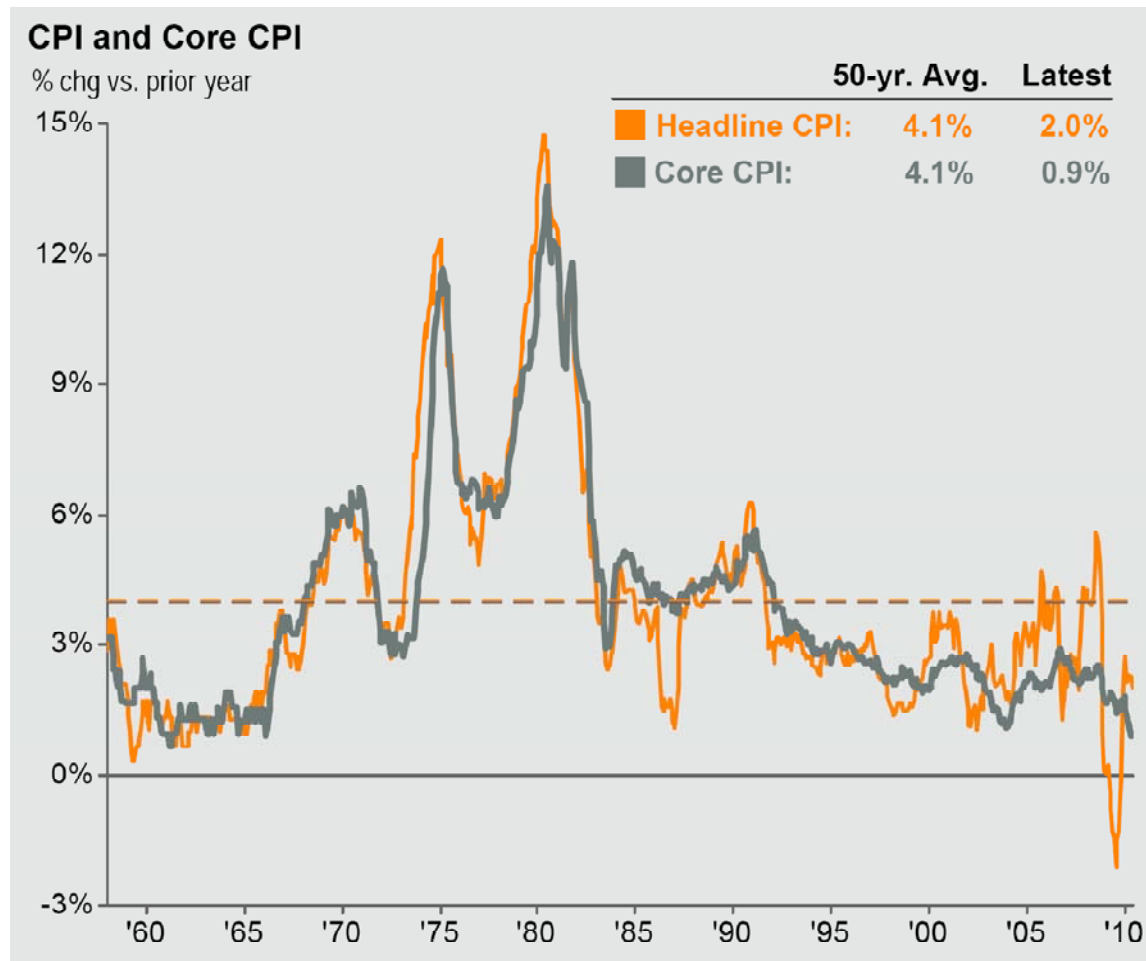
Bank lending is easing...but demand?

Net Percentage of Domestic Respondents Tightening Standards for Commercial and Industrial Loans



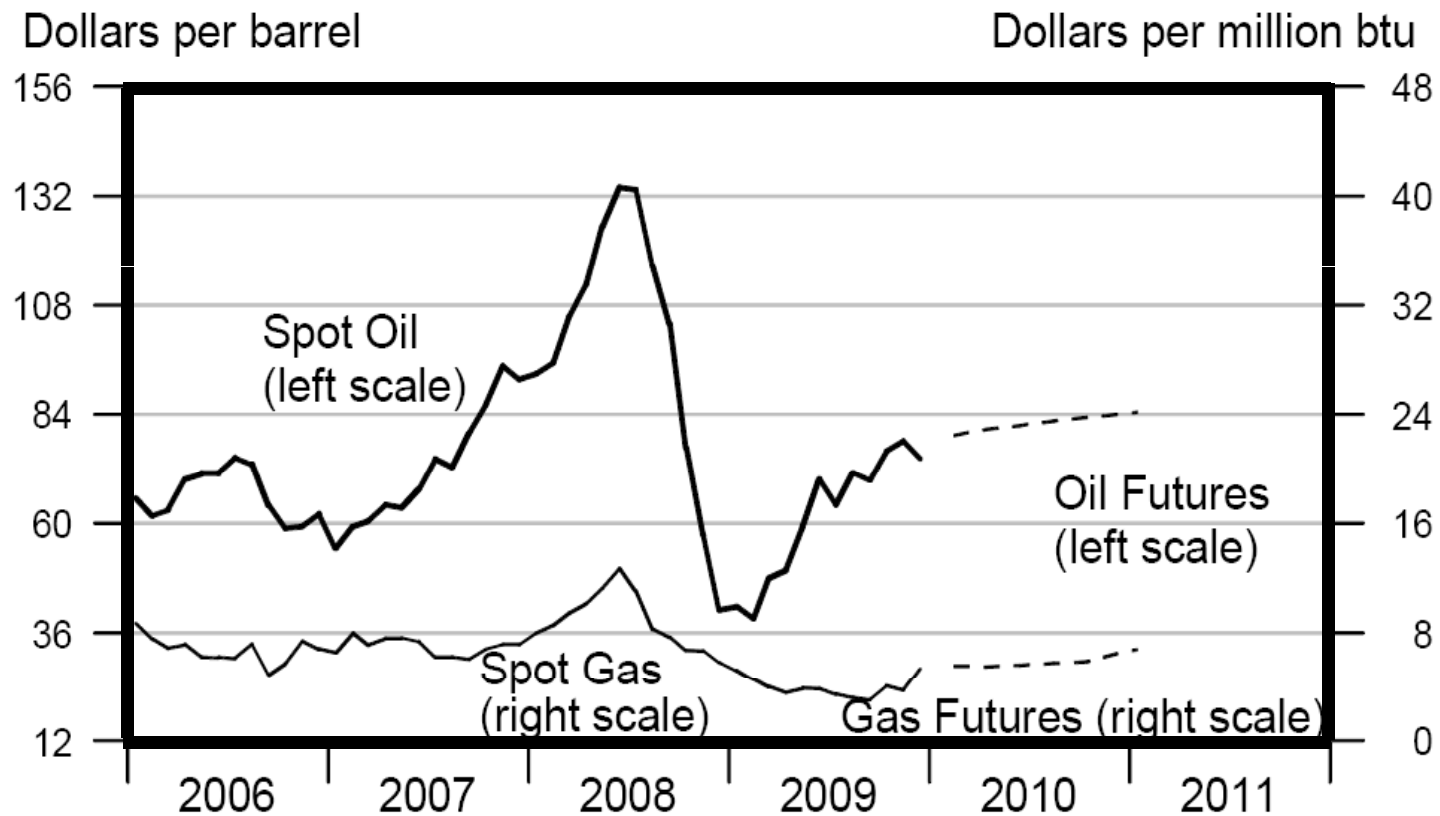
NOTE: Gray bars indicate recessions as determined by the National Bureau of Economic Research. The current recession end date of 2009:Q2 is used for illustrative purposes.

Inflation or Deflation?



Source: Bureau of Labor Statistics, J.P. Morgan Asset Management.
Data reflect most recently available as of 6/30/10. CPI values shown are % change vs. 1 year ago and reflect May 2010 CPI data. Core CPI is defined as CPI excluding food and energy prices.

Oil prices expected to remain high



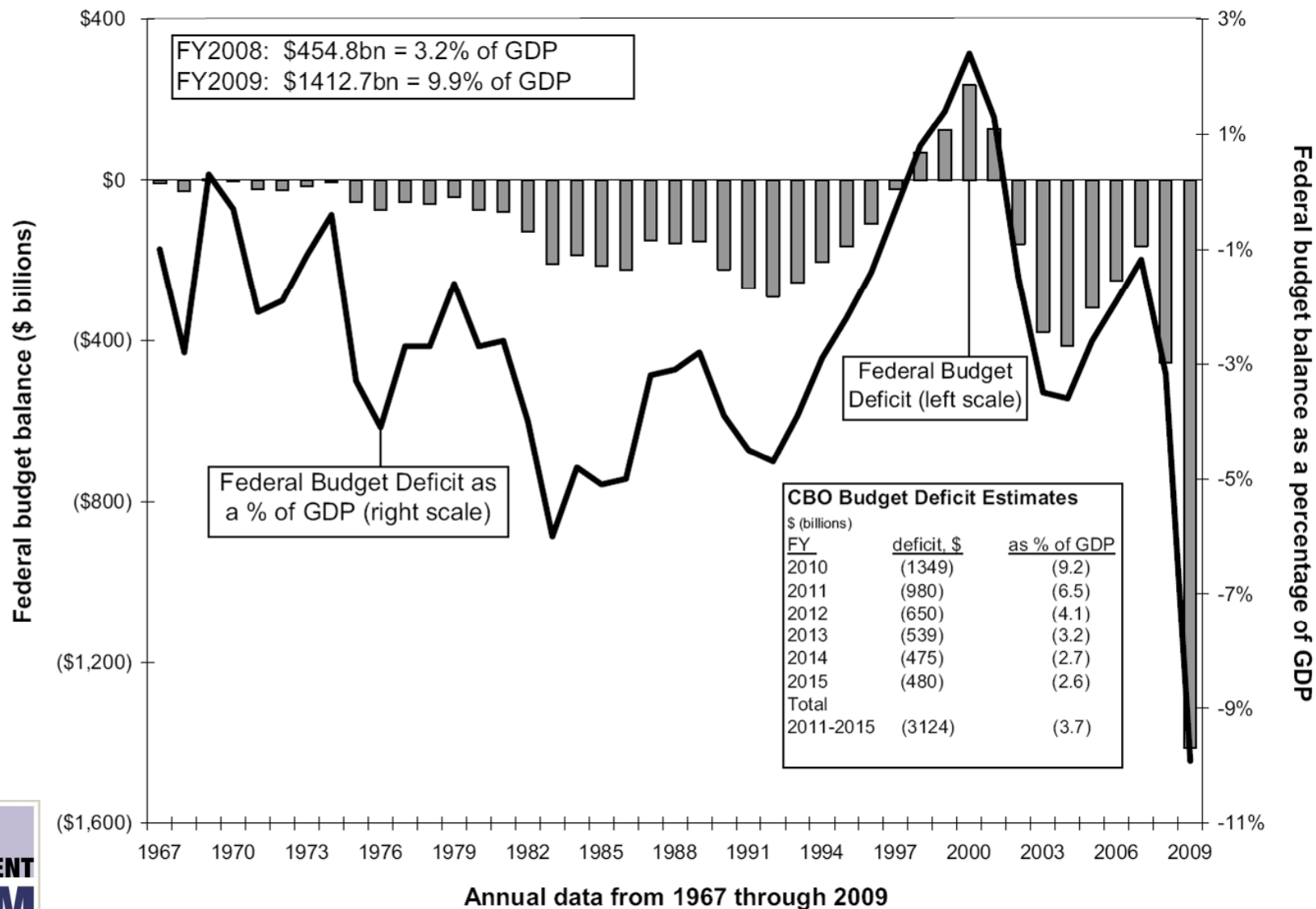
Note: Futures prices as of 12/31/2009.

Fiscal stimulus from Washington was necessary...

\$792 billion and counting!



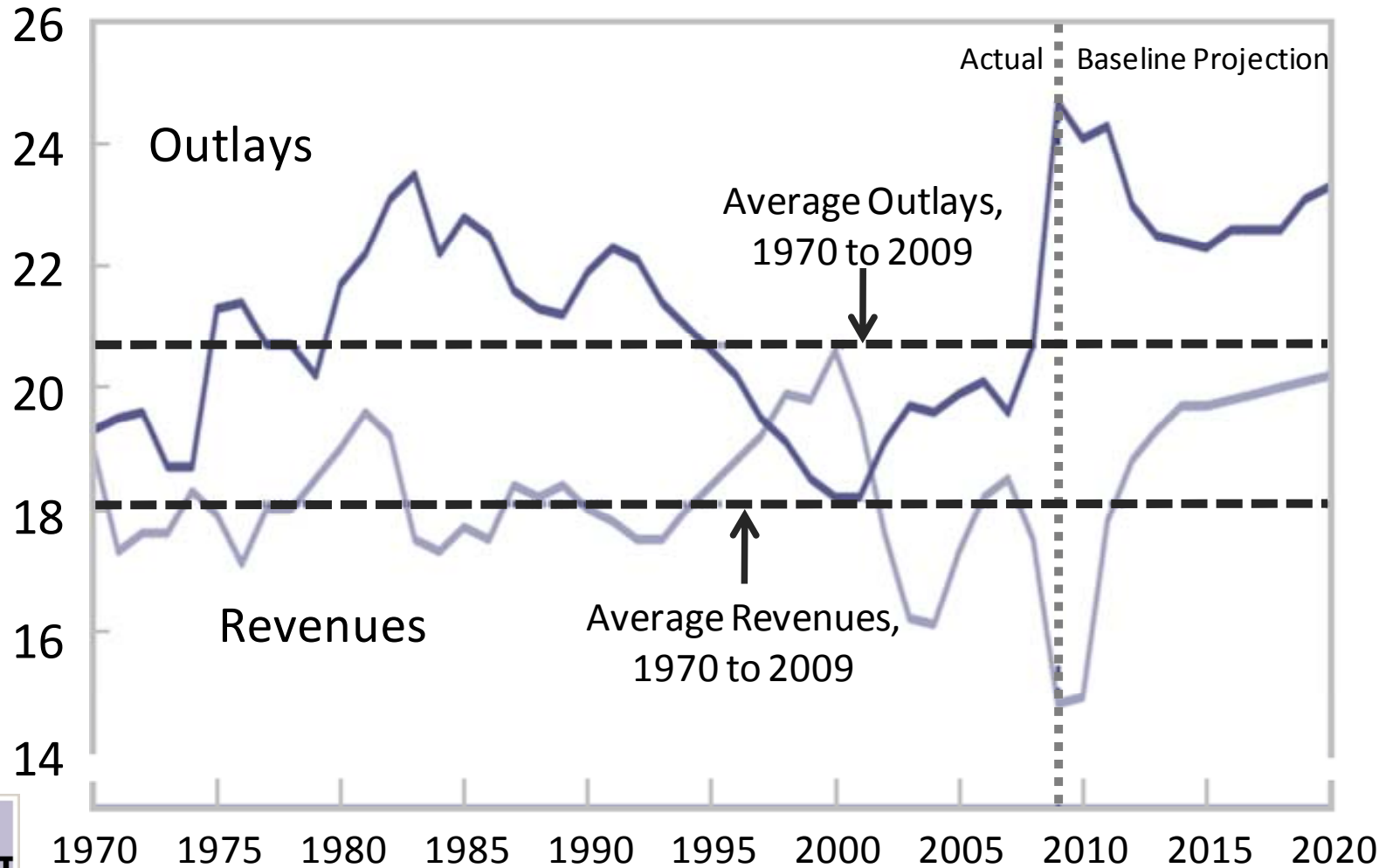
Budget Deficits: A worrisome, unsustainable trend...



Source: US Department of the Treasury, CBO, Goldman Sachs Economic Research, Goldman Sachs Global Markets Institute.

CBO: Government spending persistently high

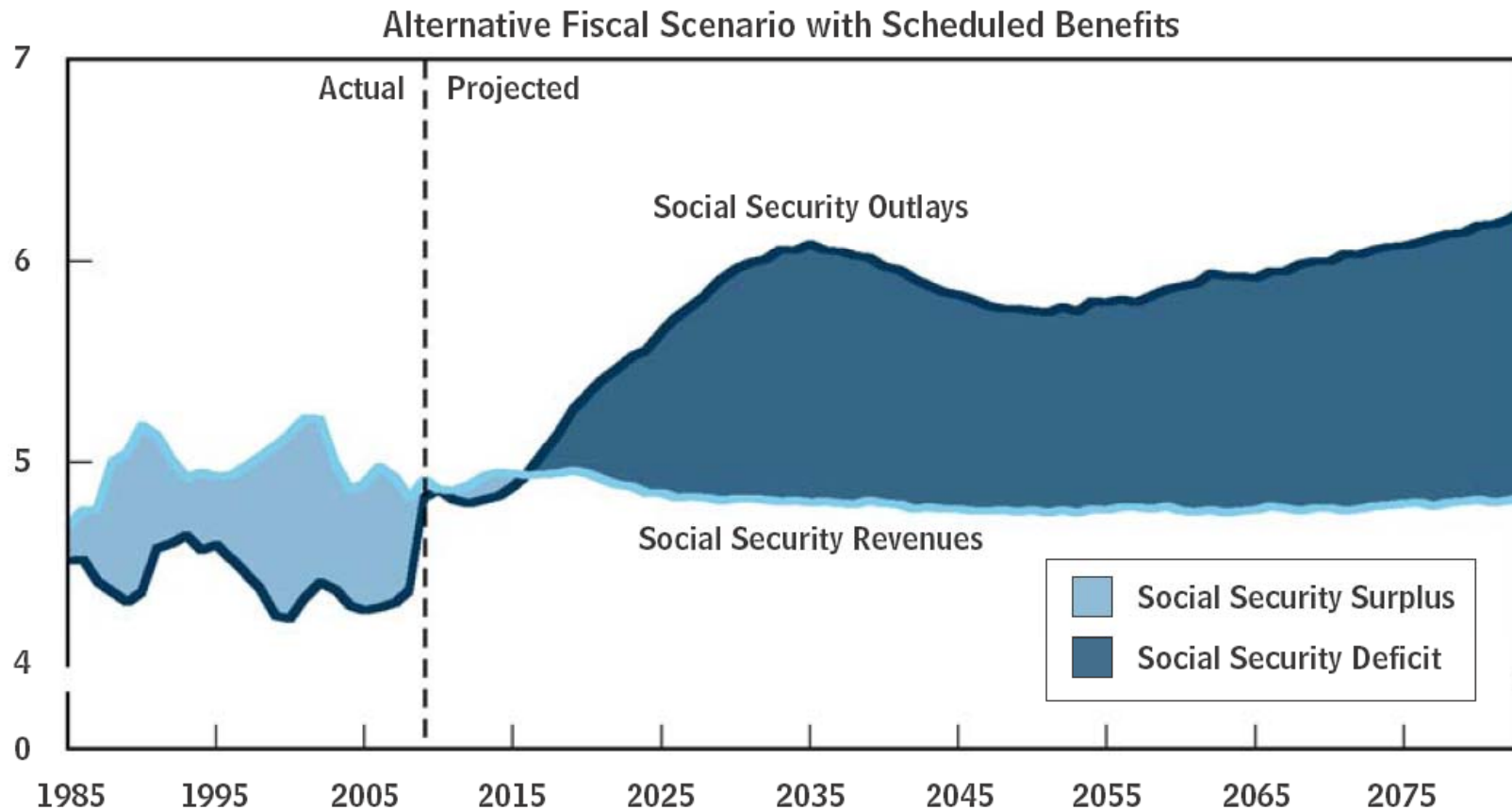
Percentage of GDP



Source: Congressional Budget Office

Social Security: From Surplus to Deficit

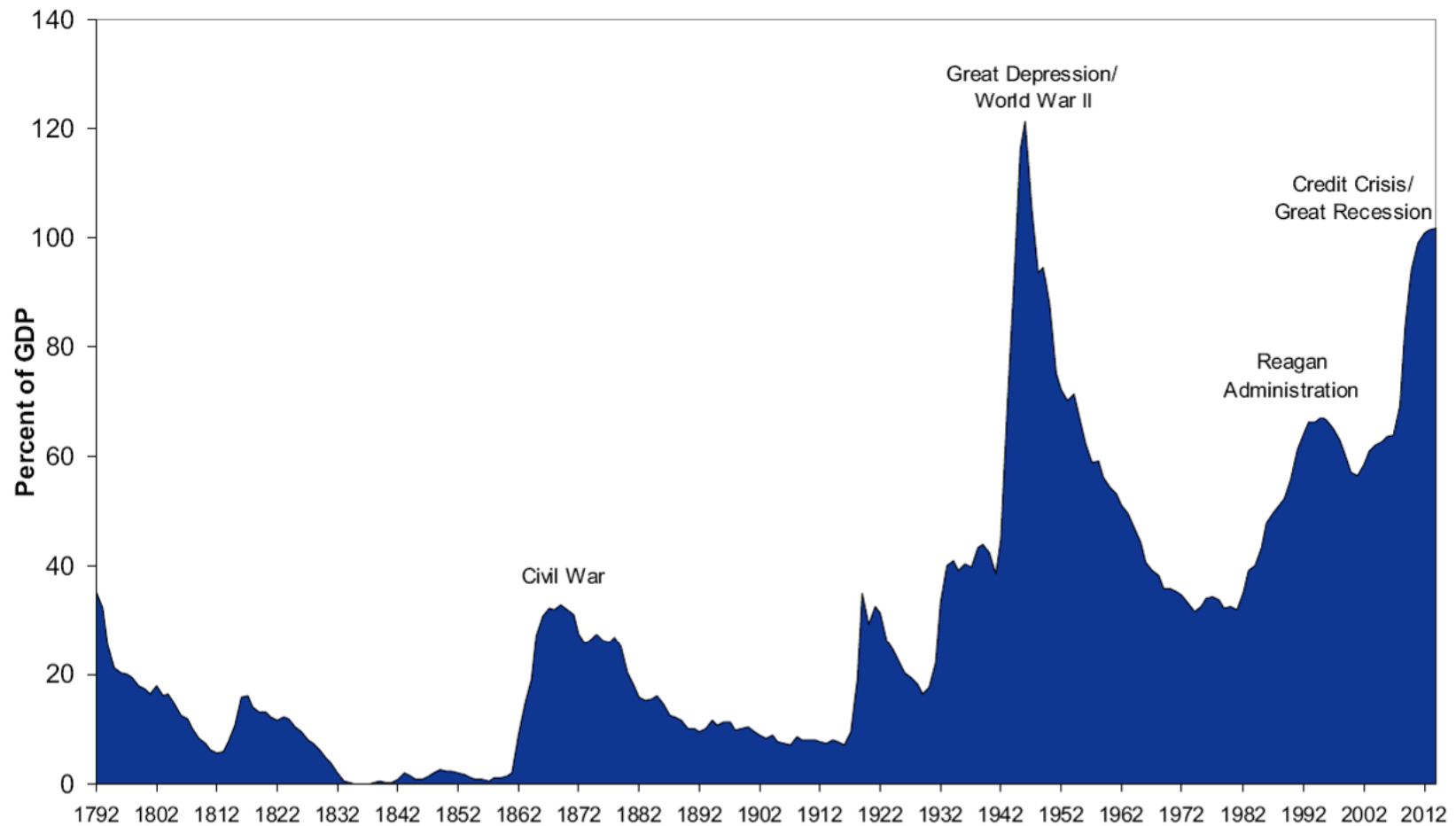
(Percentage of gross domestic product)



Source: Congressional Budget Office based on the agency's *The Long-Term Budget Outlook* (June 2009)

Note: The alternative fiscal scenario deviates from CBO's baseline projections, incorporating some changes that policymakers have regularly adopted in the past and others that may occur.

U.S. Federal Debt as a % of GDP








Source: USGovernmentSpending.com

It's different this time... (Post WWII vs. Post Panic 2008)

- The run up in debt in the 1940's was temporary. Spending was \$93B in 1945, but by 1956 it was only \$71B (**down 24%**).
- The CBO projects outlays will hit **\$5.7T** in 2020, **up 61%** from 2009 levels.
- Back then we owed the debt to ourselves, now foreign creditors hold close to **50%** of U.S. debt (vs. **0%** at the end of WWII).
- In 1945 interest payments peaked at **1.8%** of GDP. The CBO projects a rise to **4.1%** in 2020.
- Back then, interest rates were low and the average maturity of Treasury debt outstanding was **8 years vs 4 years** now (roll-over risk).

The Coming Tax Hikes?

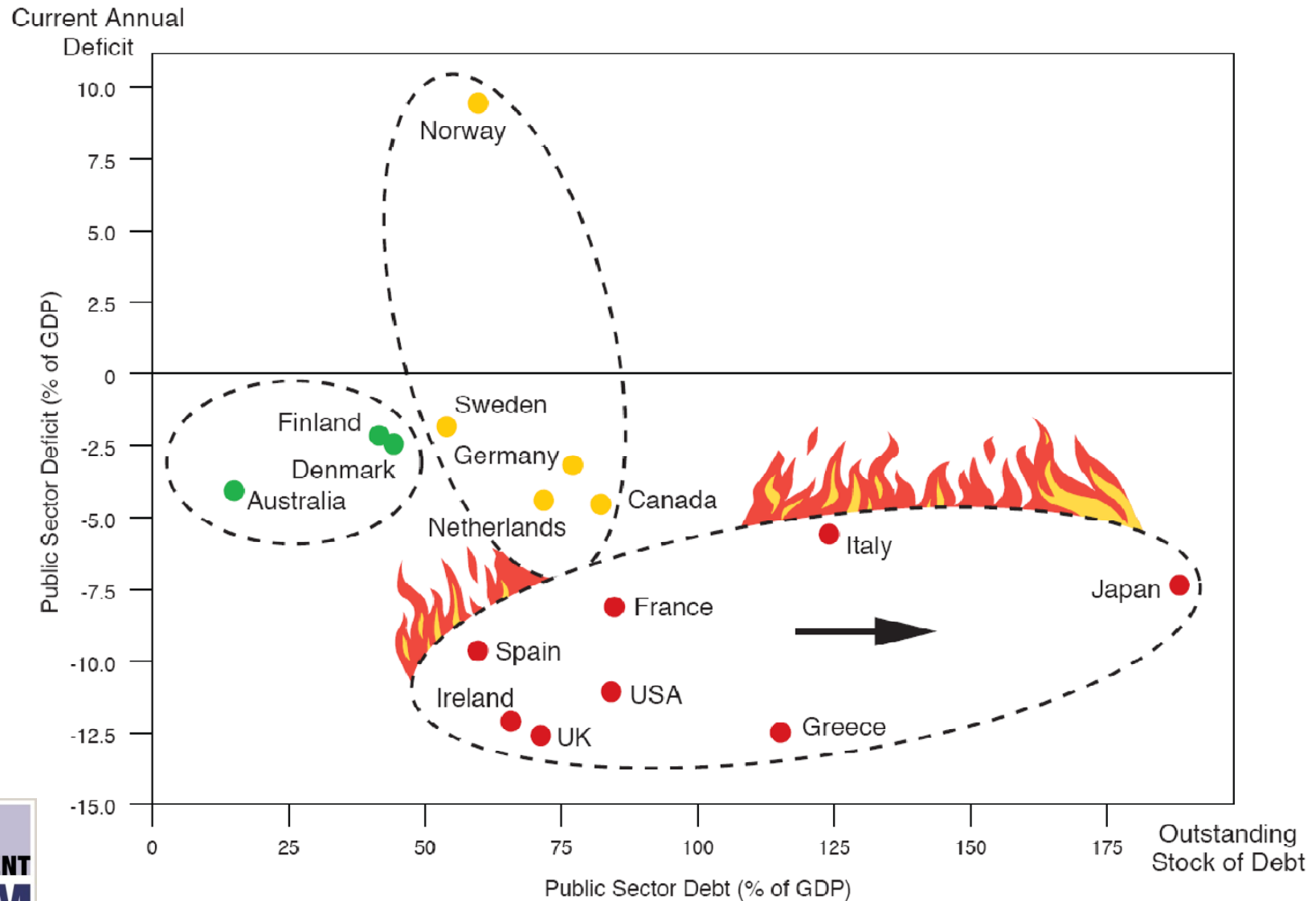
➤ **Bush Tax Cuts Expiring 12/31/2010**

- Highest federal personal income tax rate rises to 39.6% 
- Other personal tax rates left unchanged 
- Stock dividend tax rises from flat 15% to ordinary income rate 
- Tax rate on long-term capital gains from 15 to 20% 
- Wither Section 646 tax election for Settlement Trusts 

➤ **SS, Medicare, Medicaid Entitlements “Unsustainable”**

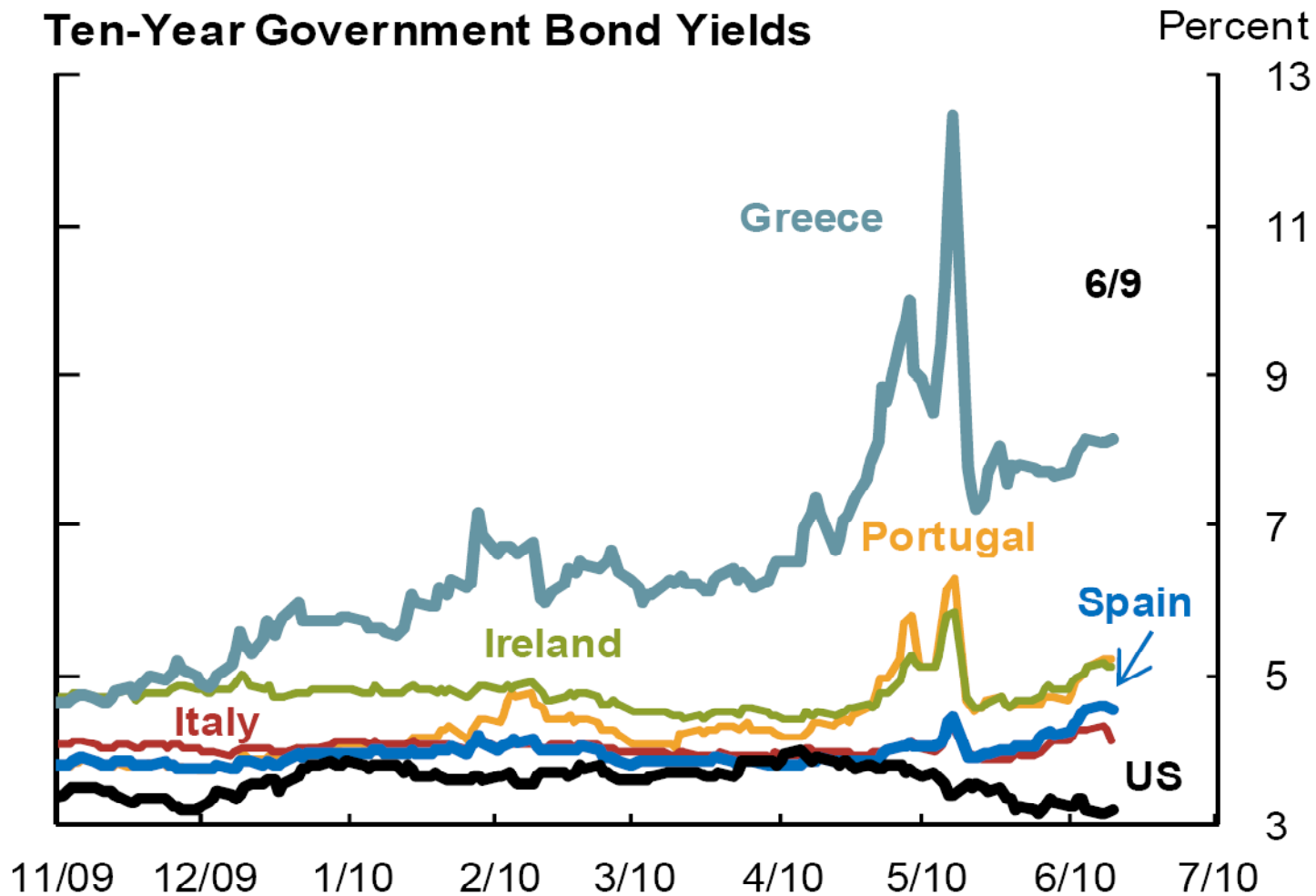
- National Commission on Fiscal Responsibility and Reform reports in December 2010

Deficits and debt across the globe



Source: PIMCO, Reuters EcoWin

Acute distress in sovereign debt markets



Source: Federal Reserve Bank of San Francisco

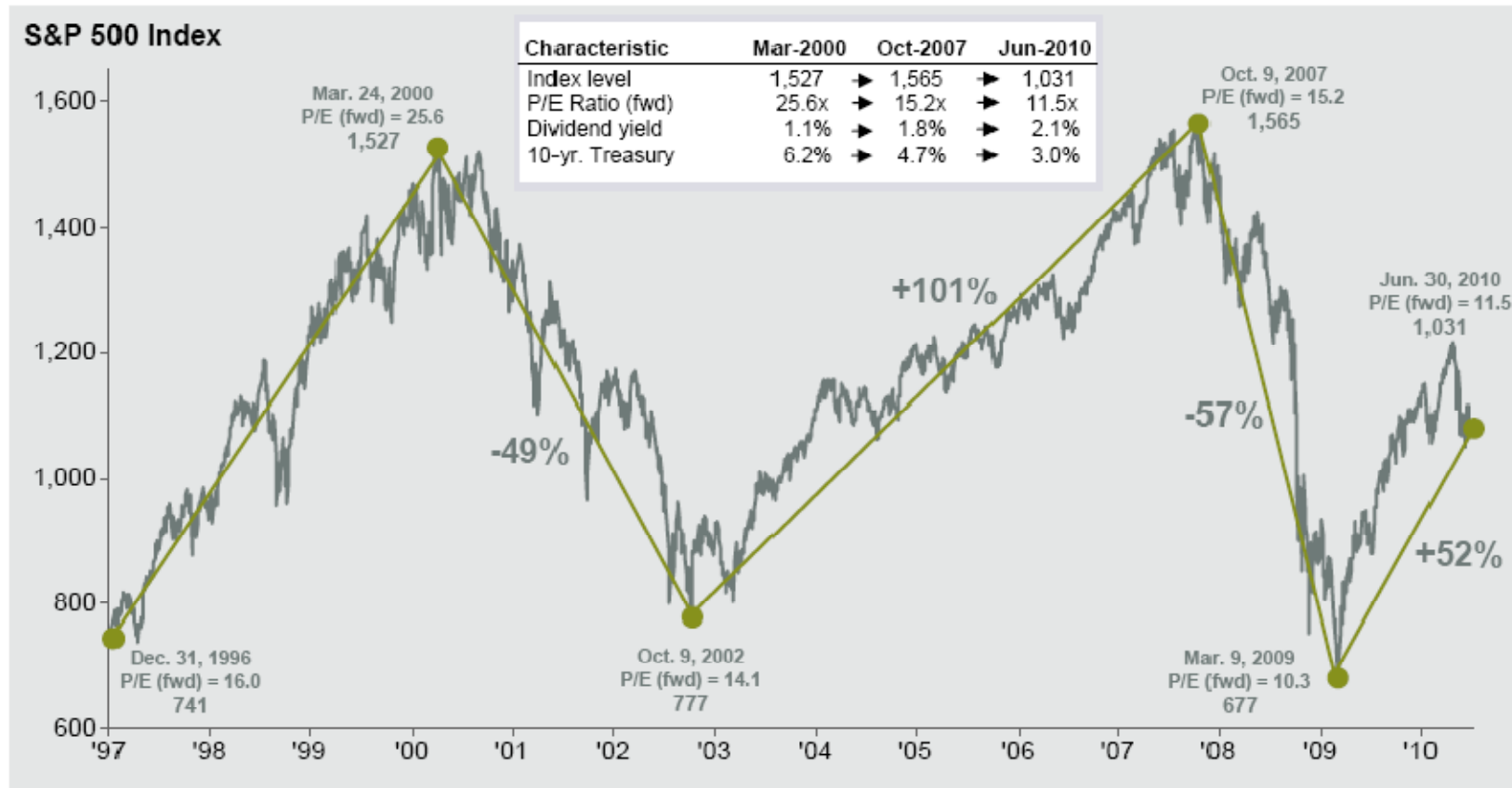
IMF World Economic Outlook – No Double Dip!

	2008	2009	2010	2011
GDP Growth (%)	Actual	Actual	Forecast	Forecast
Advanced Economies	0.5	-3.2	2.3	2.4
U.S.	0.4	-2.4	3.1	2.6
Europe	0.6	-4.1	1.0	1.5
Emerging Economies	6.1	2.4	6.3	6.5
China	9.6	8.7	10.0	9.9
World	3.0	-0.6	4.2	4.3



Source: International Monetary Fund, April 2010

U.S. Stocks



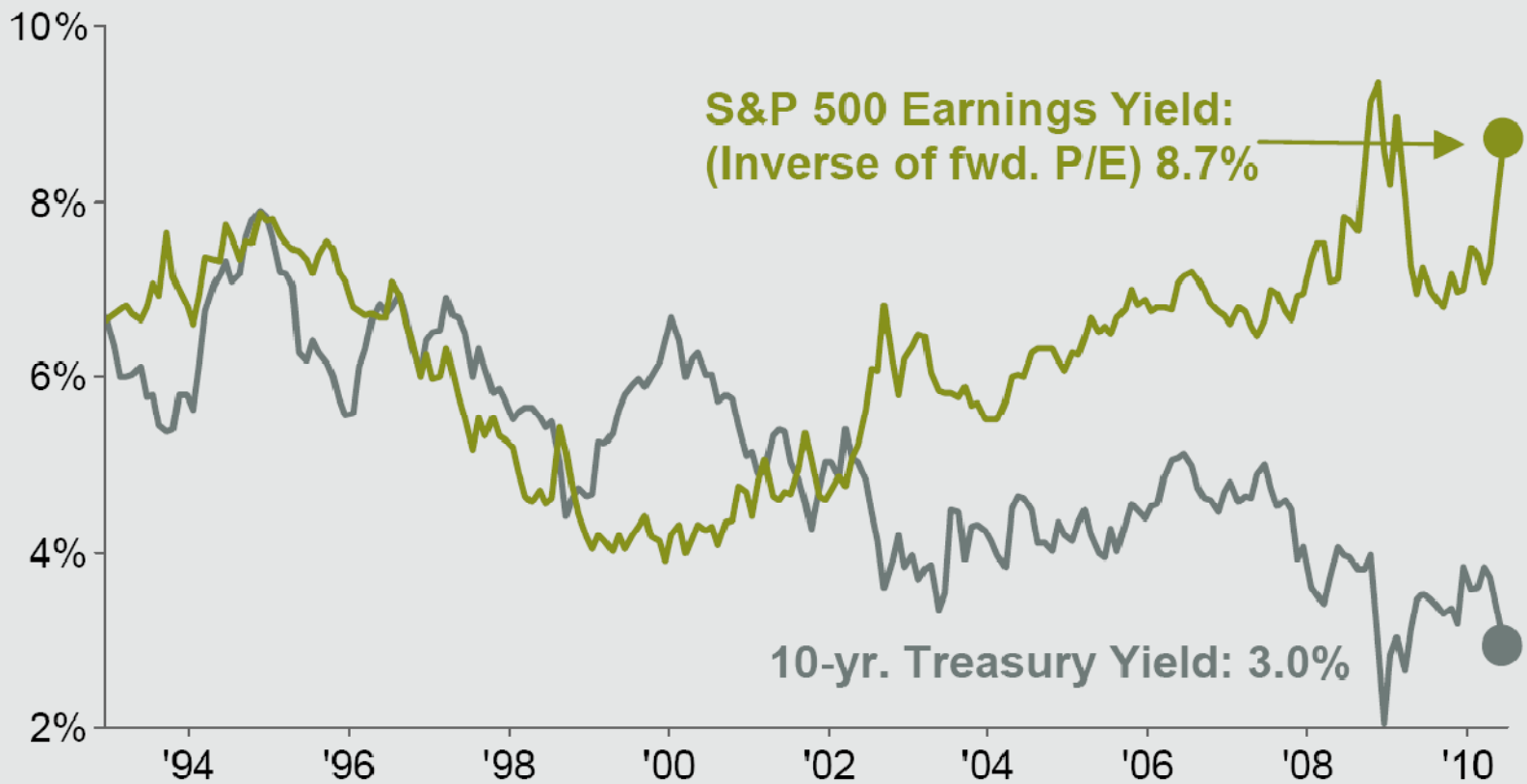
Source: Standard & Poor's, First Call, Compustat, FactSet, J.P. Morgan Asset Management.

Trailing P/E ratios for the S&P 500 Index are provided by Standard & Poor's, and reflect the index price divided by the last four completed quarters of operating earnings except for the most recent quarter, which is the 6/30/10 price divided by four quarters of operating earnings ending on 12/31/09. Forward Price to Earnings Ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next twelve months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends.



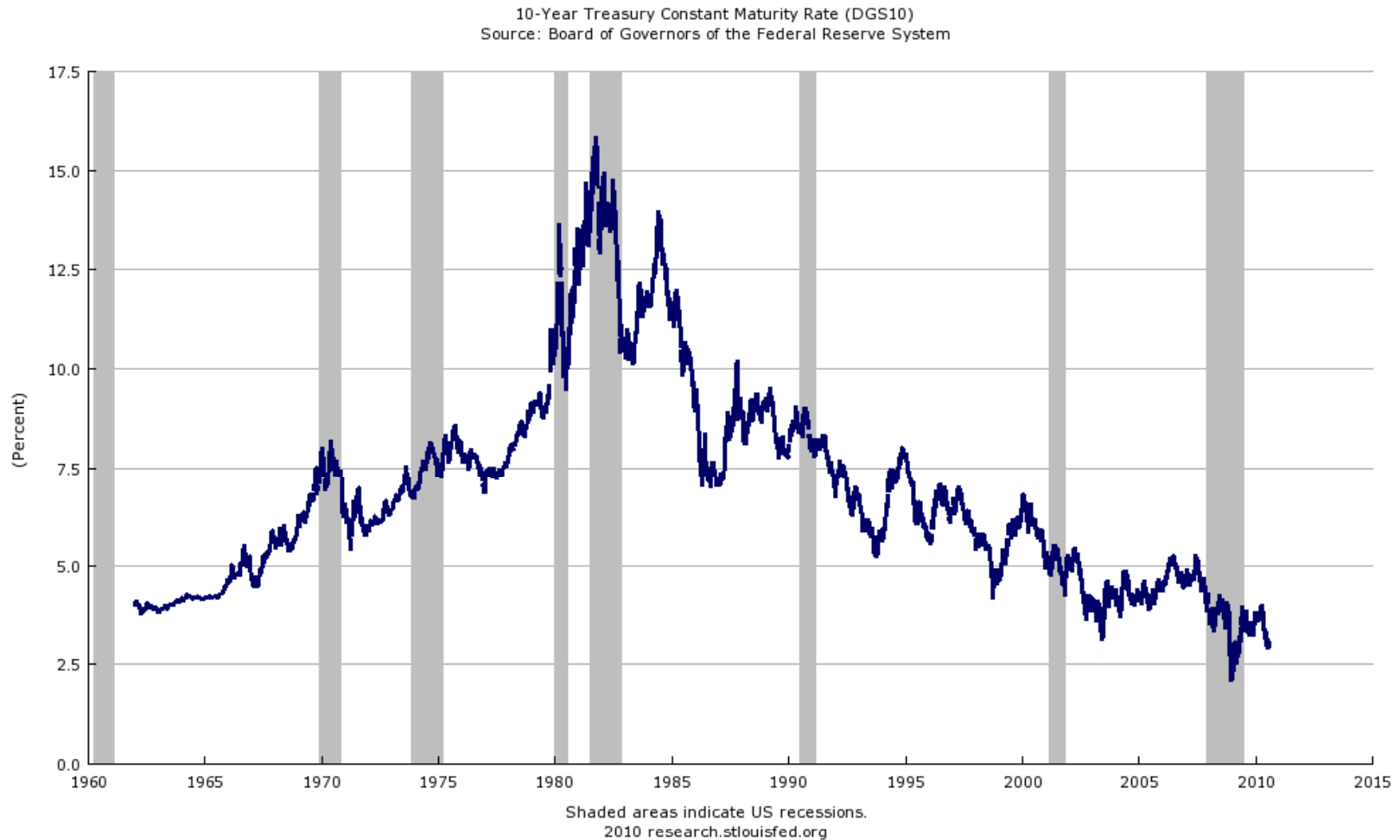
Stocks and Bonds

S&P 500 Earnings Yield vs. 10-yr. Treasury



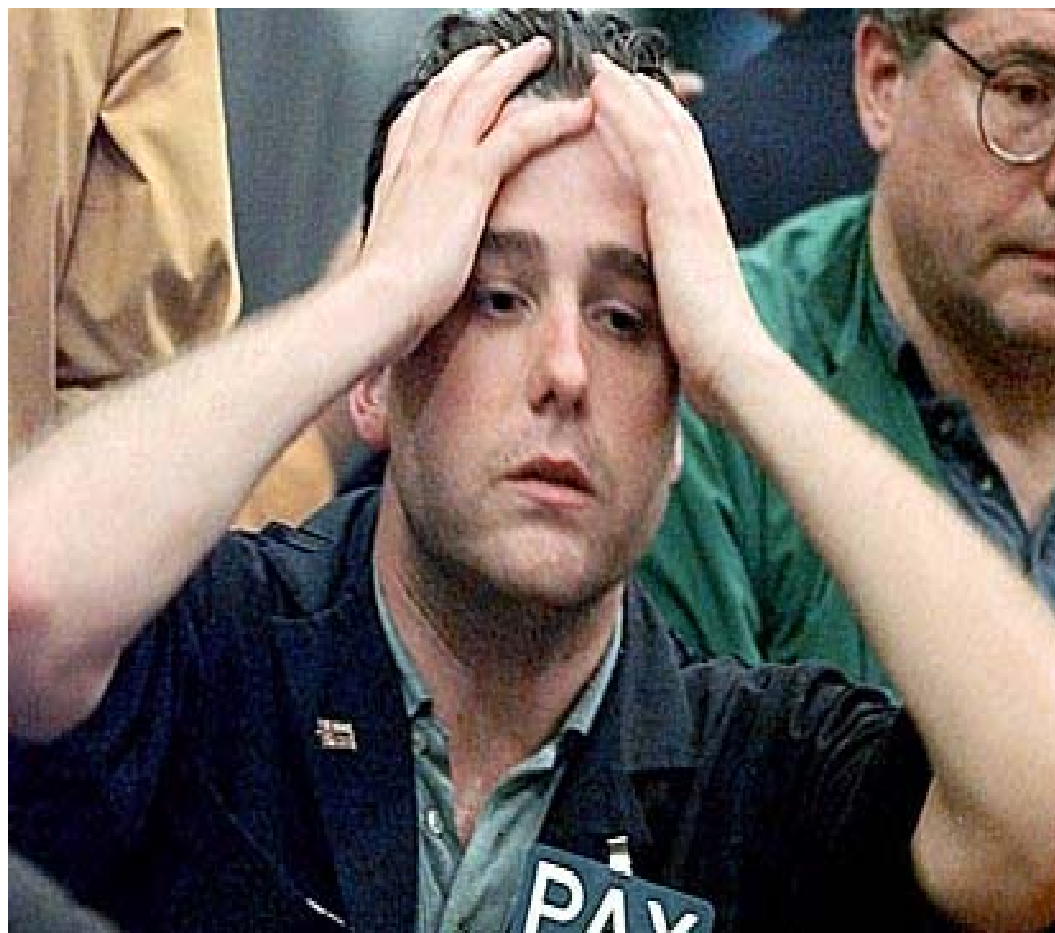
Sources: Standard & Poor's, Treasury, J.P. Morgan Asset Management

10 Year Treasury...how low can they go?

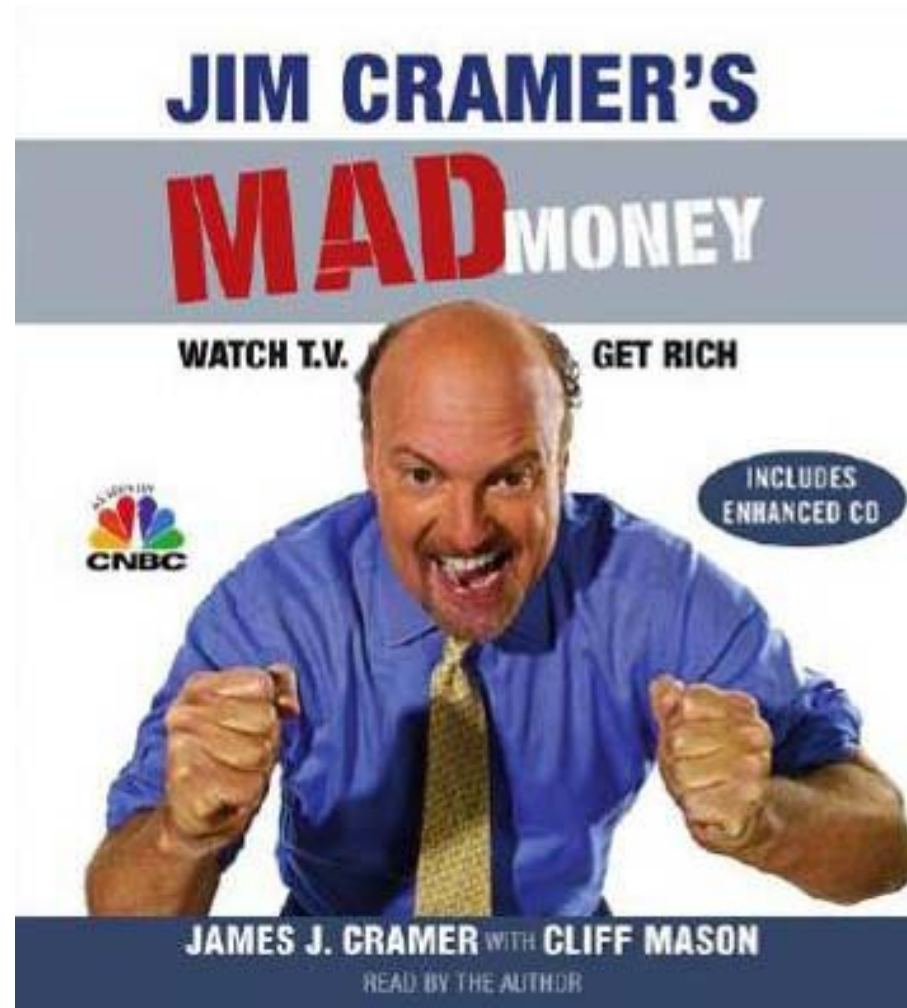


Source: Federal Reserve Bank of St. Louis

What is an investor to do?



Don't watch CNBC!



Personal Investing Tips

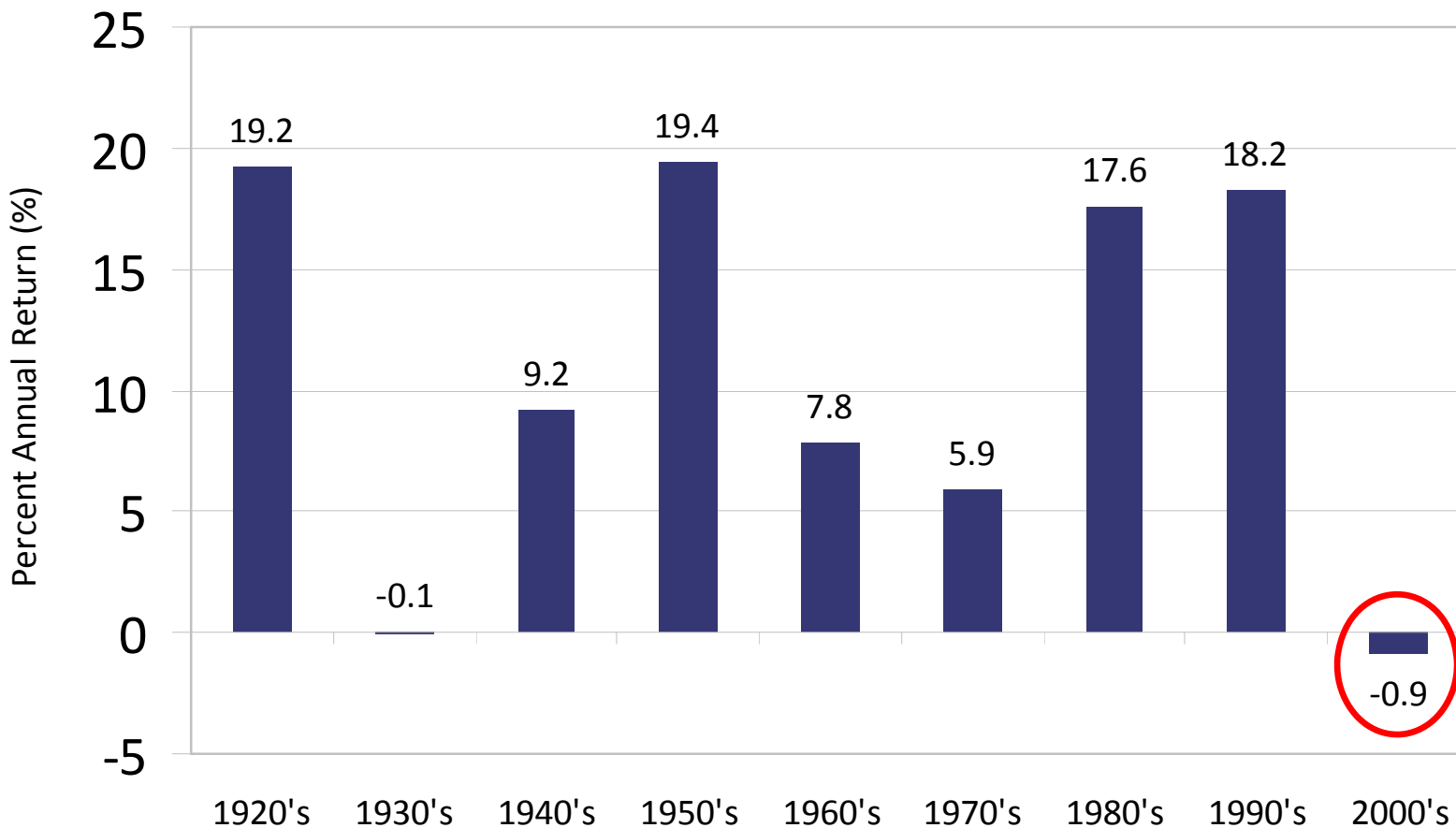
- **Develop reasonable expectations and diversify**
- It's tough to beat the market
- Stay the course, and avoid market timing
- Seek tax advantages

According to a nationwide survey...

“Investors expect the U.S. stock market to return an annual average of **13.7 percent** over the next 10 years.”

The Wall Street Journal
January 16, 2010

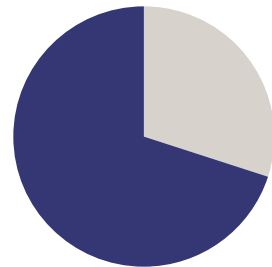
Stock Returns by Decade



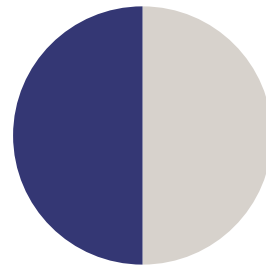
Source: Morningstar Ibbotson

Average = 9.8%

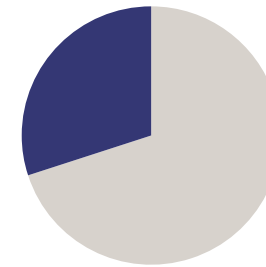
Returns in the Oughts (2000's)



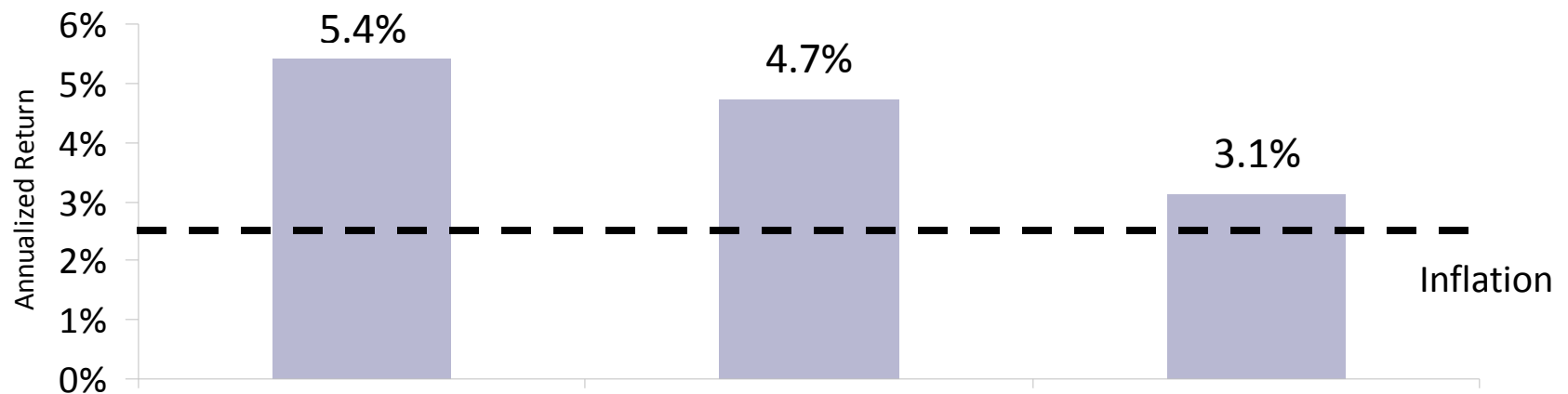
70% Bonds
30% Stocks



50% Bonds
50% Stocks



30% Bonds
70% Stocks



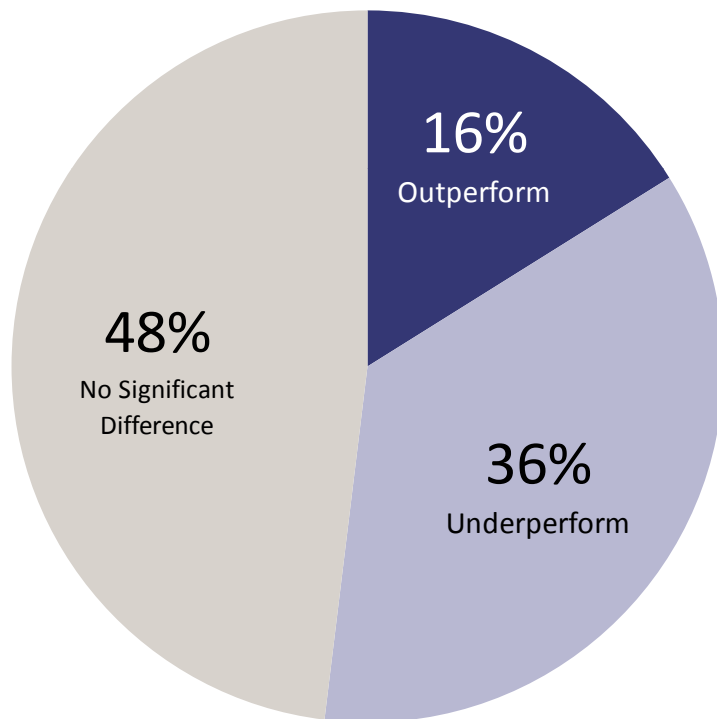
Annualized Returns - January 1, 2000 to December 31, 2009

Personal Investing Tips

- Develop reasonable expectations and diversify
- **It's tough to beat the market**
- Stay the course, and avoid market timing
- Seek tax advantages

What are the odds of active outperformance?

Based upon 40 years of performance for 198 balanced funds...



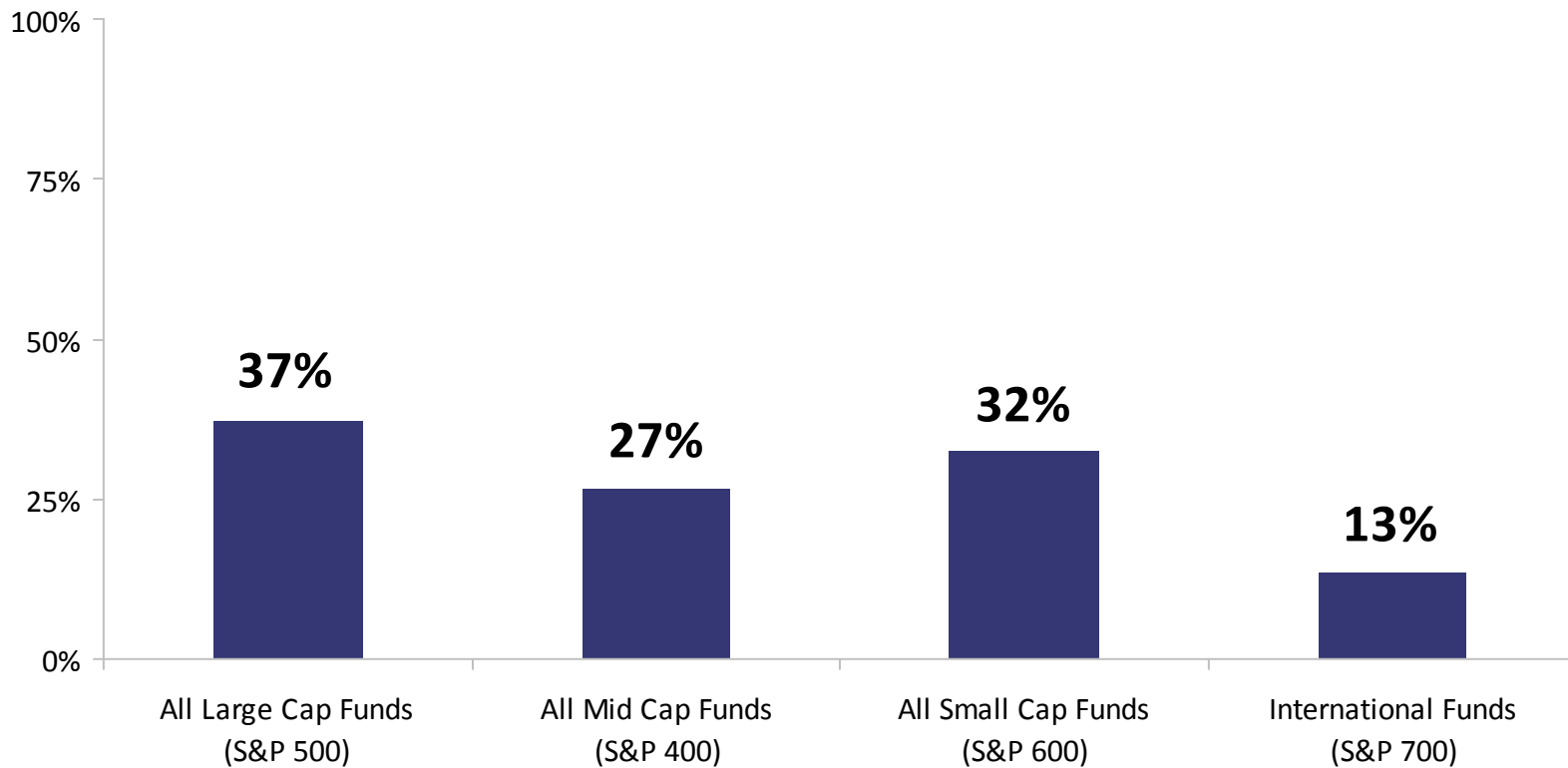
Traits of Outperformers

- **Lower average expense ratio**
- **Lower turnover**
- **More assets under management**

\$1.9 billion, on average, vs. \$538 million

Managers don't beat the market!

Percentage of Equity Mutual Funds That **Outperformed** The Index



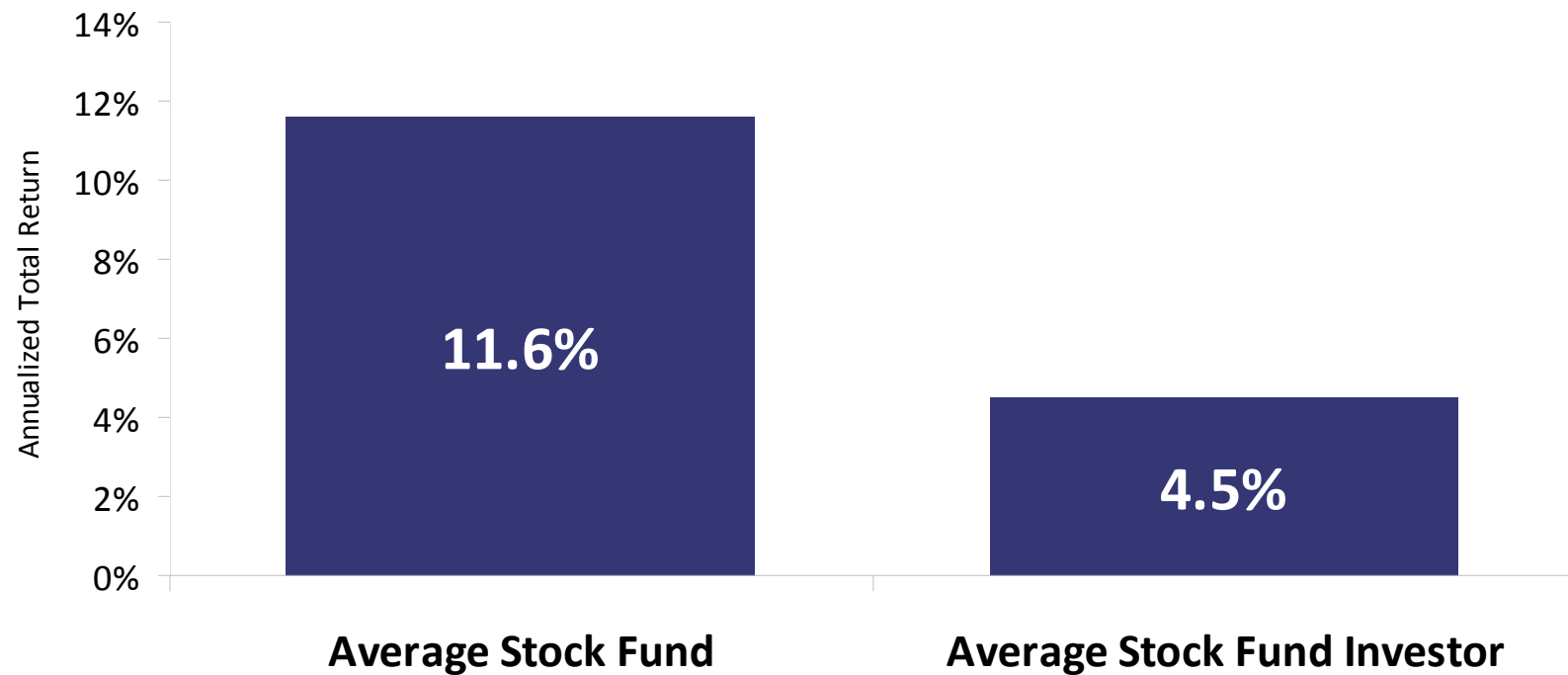
Over a 5 year period ending June 30, 2009. Equal weighted. Net Returns.
Source: Standard & Poor's

Personal Investing Tips

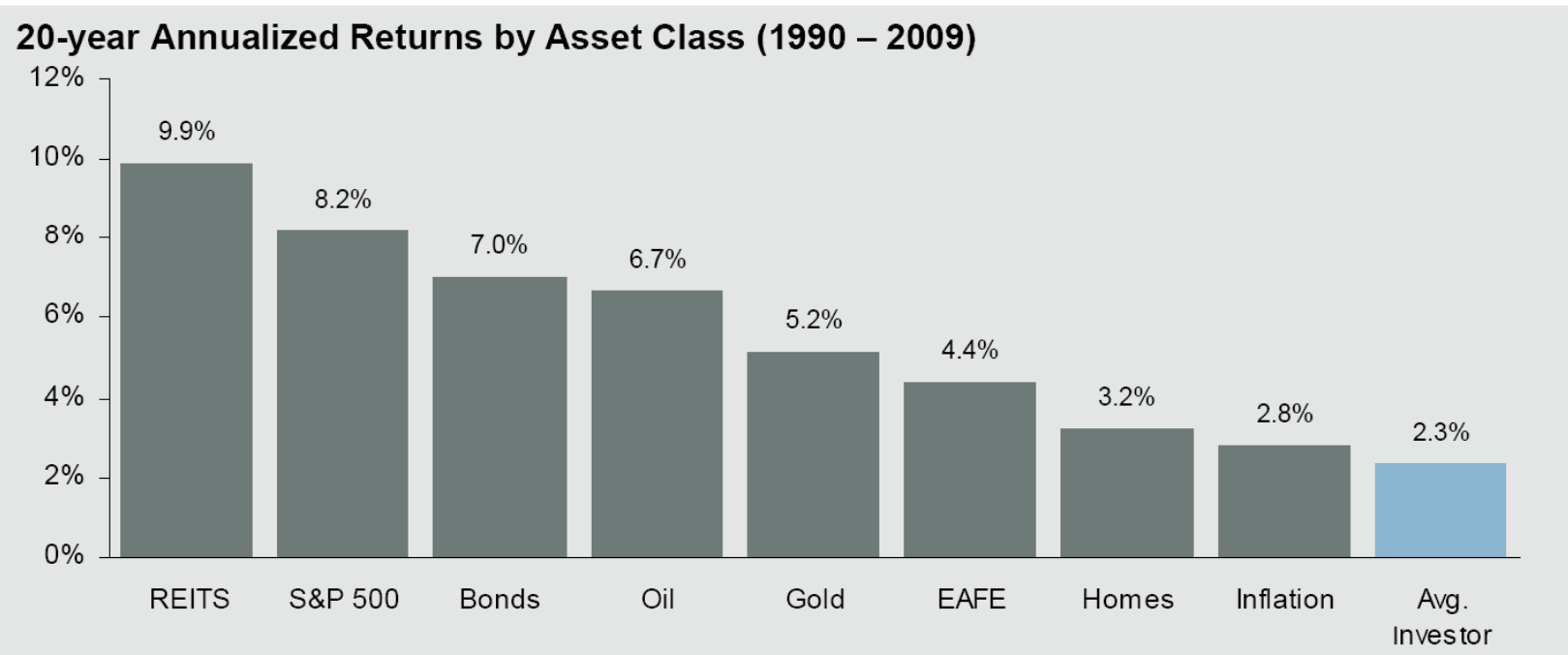
- Develop reasonable expectations and diversify
- It's tough to beat the market
- **Stay the course, and avoid market timing**
- Seek tax advantages

Average investors have bad timing...

Annualized Returns from 1988-2007



Asset Class Returns and the Average Investor



Source: J.P. Morgan Asset Management

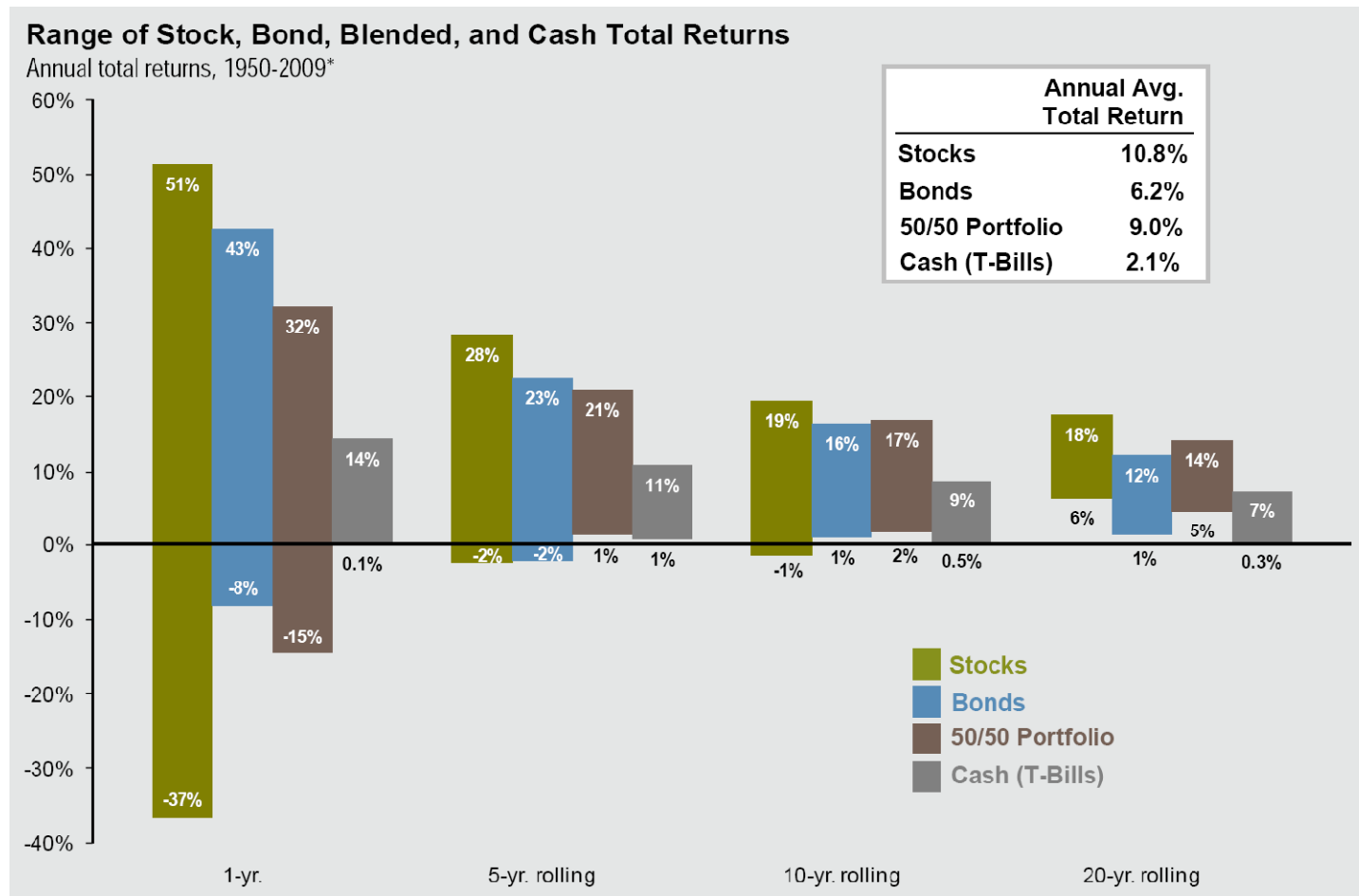
The indexes used are as follows: REITS: NAREIT Equity REIT Index, EAFE: MSCI EAFE, Oil: WTI Index, Bonds: Barclays Capital U.S. Aggregate Index, Homes: median sales price of existing single-family homes, Gold: USD/troy oz, Inflation: CPI.

Average asset allocation investor return is based on an analysis by Dalbar Inc. which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior.

All returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/09 to match Dalbar's most recent analysis.

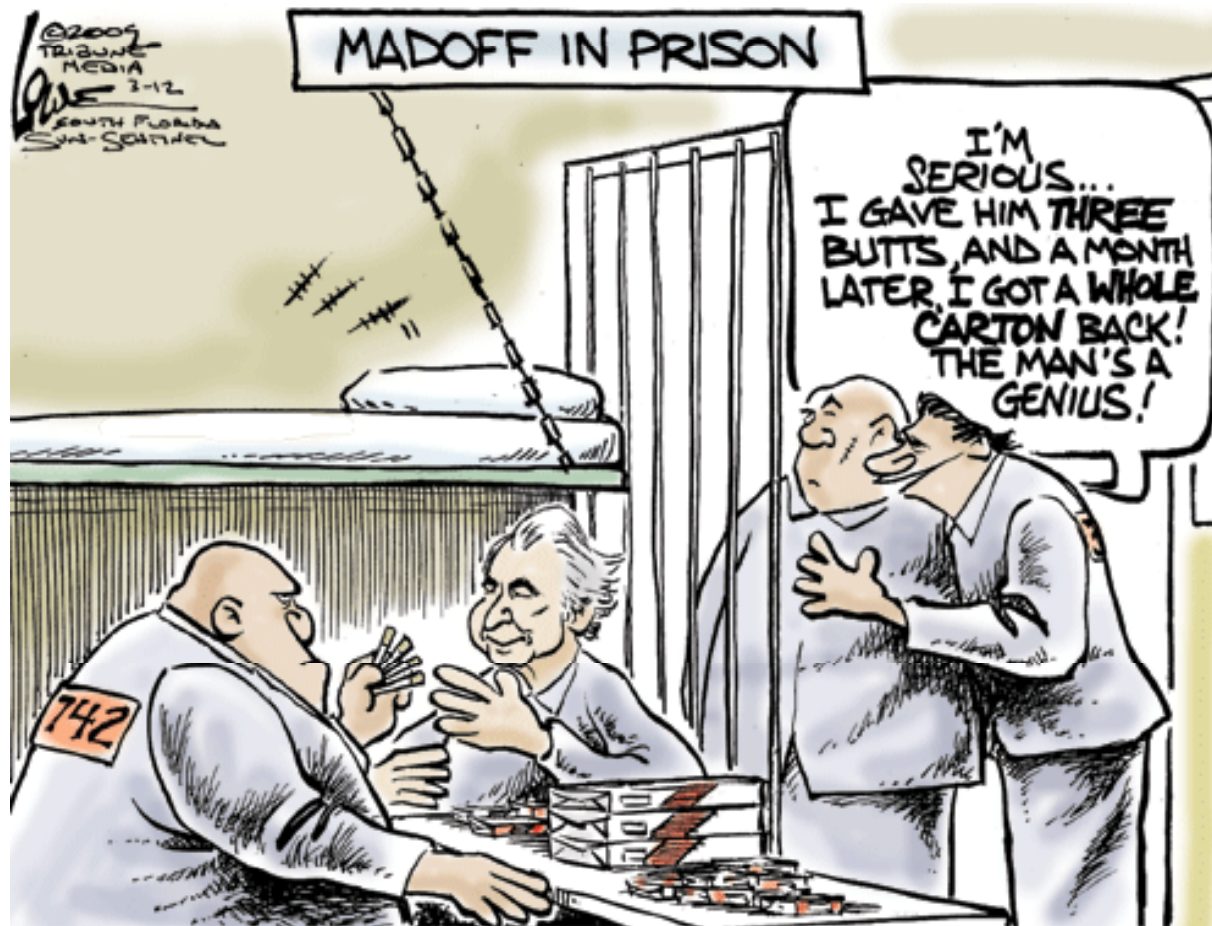


Time Diversification – staying the course



Sources: Factset, Robert Shiller, Strategas/Ibbotson, Federal Reserve, J.P. Morgan Asset Management.
 Stock returns are based on S&P 500 data from Robert Shiller's long term stock data. Bond returns are based on index data from Strategas/Ibbotson, and are based on Citigroup's Long-Term High-Grade Corporate Bond Index from 1969-2009, Solomon Brother's Index data from 1946-1969, and the S&P Monthly High-Grade Corporate Compensation yield data from 1926-1946.
 *The 20-yr. cash (T-Bill) returns were calculated using 20-yr. annualized returns from 1953-2009.

If something sounds too good to be true...



Personal Investing Tips

- Develop reasonable expectations and diversify
- It's tough to beat the market
- Stay the course, and avoid market timing
- **Seek tax advantages**

It's not what you earn, it's what you keep

- Taxes are going up!
- 401(k)s, IRAs, especially Roth IRAs!
- Municipal bonds make sense
- Seek low fees and low turnover
- Year end tax planning

Thank You

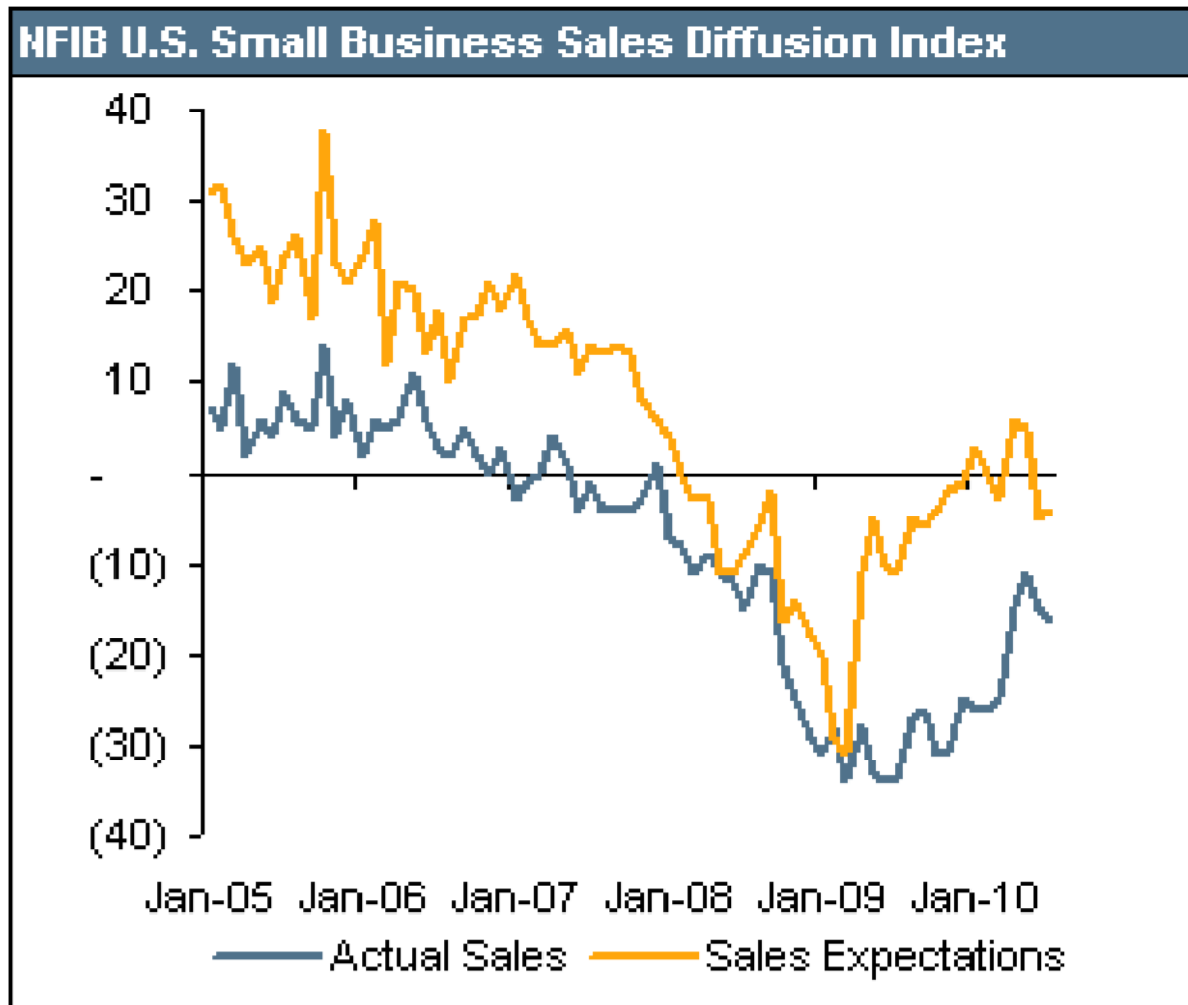


THE HIGH-QUALITY ANSWER TO CORPORATE, NON-PROFIT,
AND AFFLUENT INDIVIDUALS' INVESTMENT NEEDS.



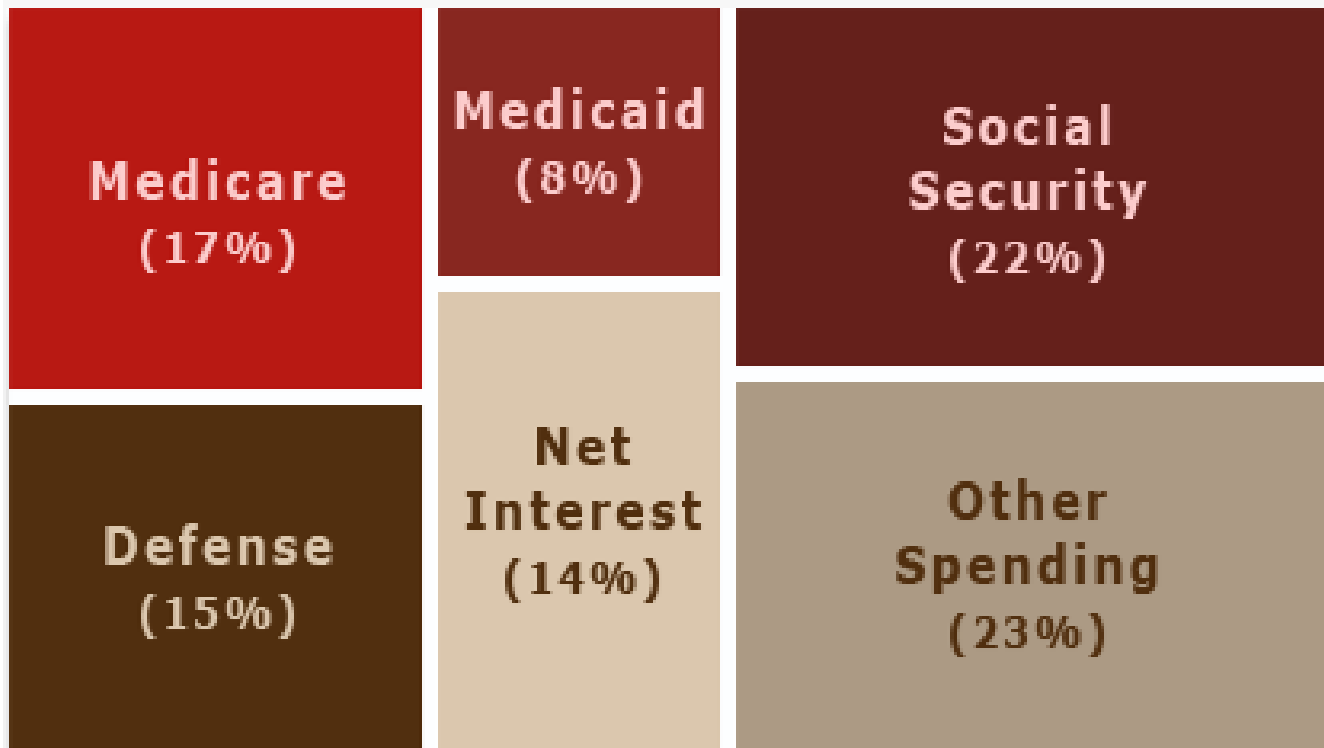
WWW.APCM.NET

Small business are doing better...



Source: CreditSights, National Federation of Independent Businesses; measures the net percent of businesses identifying better or worse condition or expectation

Projected Federal Spending in 2020



Federal Debt Held by the Public: 1790 – 2035

(Percentage of gross domestic product)

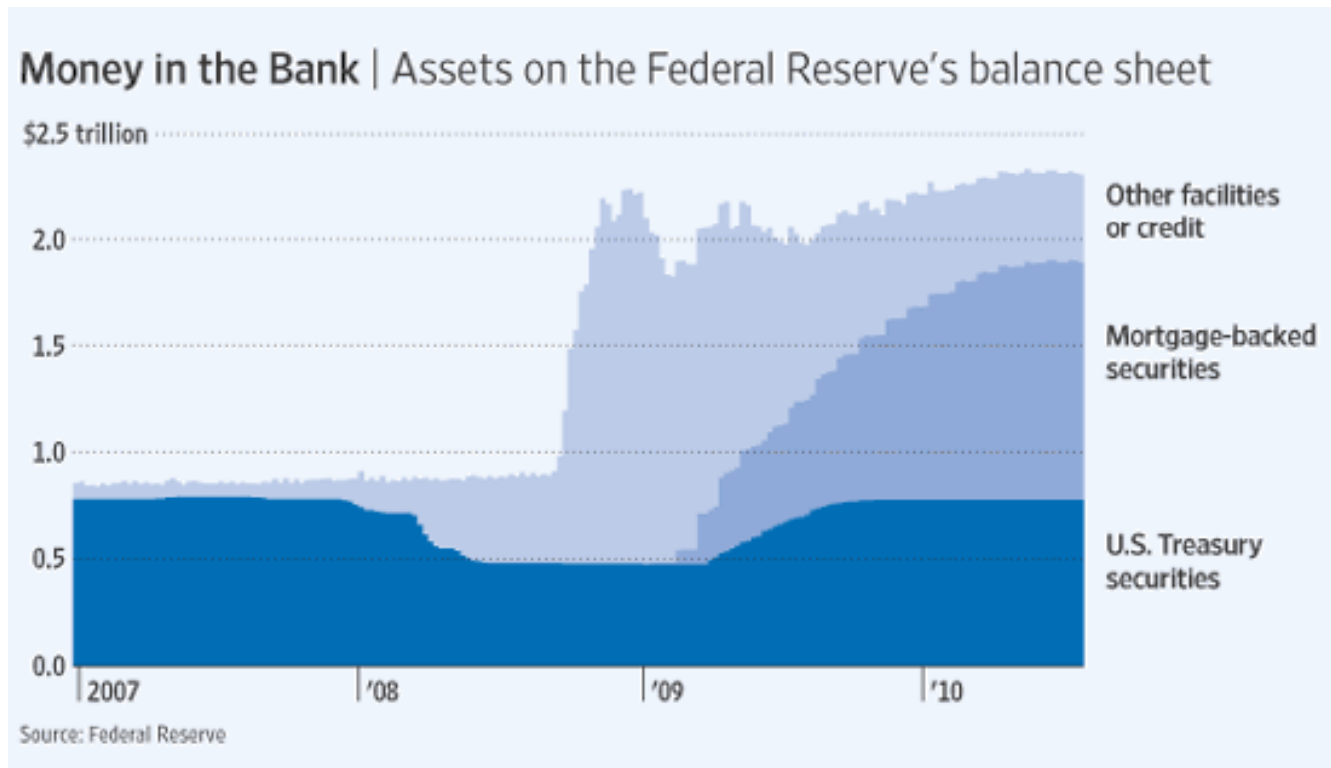


Source: Congressional Budget Office, The Long-Term Budget Outlook (June 2010); Historical Data on Federal Debt Held by the Public (July 2010).

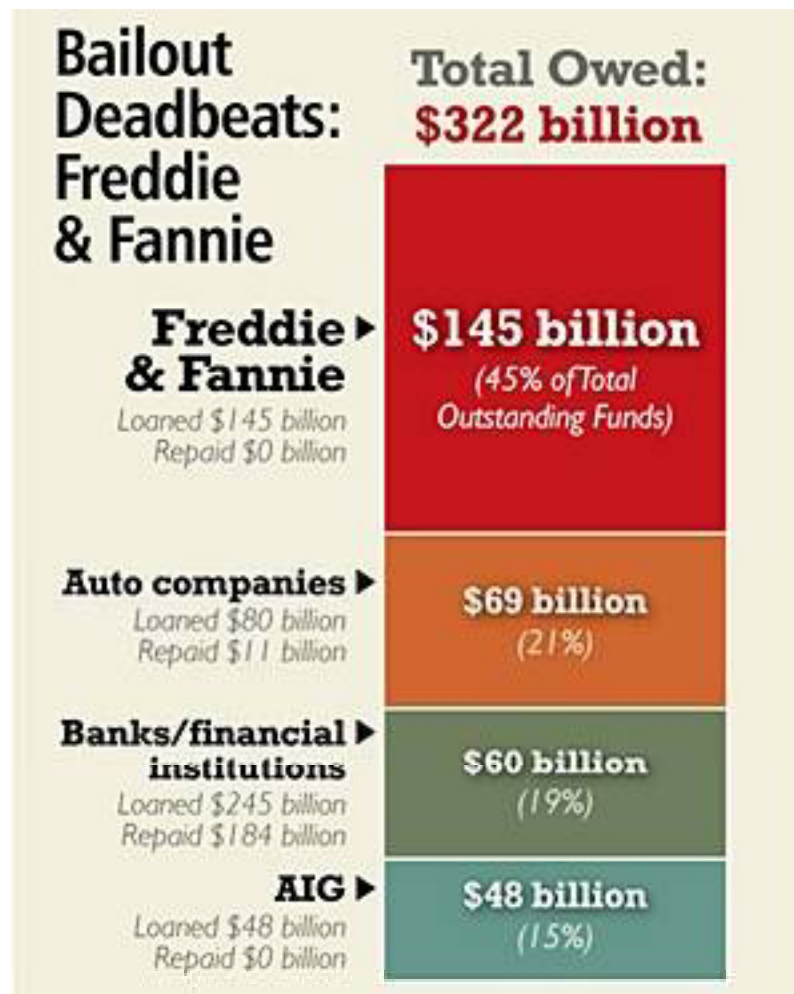


Note: The extended-baseline scenario adheres closely to current law, following CBO's 10-year baseline budget projections through 2020 (with adjustments for the recently enacted health care legislation) and then extending the baseline concept for the rest of the long-term projection period. The alternative fiscal scenario incorporates several changes to current law that are widely expected to occur or that would modify some provisions that might be difficult to sustain for a long period.

Fed's Balance Sheet



Bailout Breakdown



Source: propublica.org and The Heritage Foundation

Note: Figures as of July 19, 2009. Figures for auto companies include suppliers; figures do not include Toxic Asset Relief and Foreclosure Relief projects.





