

**July 22, 2009**

**Midyear Market Update**

*Where are the markets and the economy headed?*

**Transcript**

**Title Slide Appears:**



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**CHAPTER 1:  
Economic outlook and  
government stimulus**



Hi, I'm Ted Truscott, Chief Investment Officer for Ameriprise Financial. As second quarter earnings season draws closer to its end, we wanted to provide a mid-year update on the markets and the economy that will attempt to capture the first six months of the year, stare into an uncertain future and discuss reasons to be optimistic in the face of the challenges that remain ahead.

As I prepared for this update, I couldn't help but reflect upon the extraordinary journey we have taken in financial markets of late. Add in the instability of the international political scene and we may in retrospect consider the last six months as one of the most interesting and frightening periods in modern history.

Let's start with a look at the big picture which can be demonstrated with the following visual that I use in the many presentations I make to clients and advisors across the country.



The twin icebergs of deflation and inflation depict today's economy, which is mildly deflationary. To combat the threat of deflation (defined here as the destructive phenomenon of falling prices) the government has resorted to an extraordinary combination of fiscal and monetary stimulus that in turn, runs the risk of igniting higher inflation in the next one to two years.



Some of the foremost policy makers and economists around the world are debating whether this stimulus is appropriate. One camp openly frets about higher inflation or even hyper-inflation, while the other camp believes the response is entirely necessary given the real threat of deflation.



The dollar sign on the distant iceberg is a reminder that the United States is a debtor nation. This fiscal year's budget deficit may exceed \$1 trillion and our country will need to borrow significant amounts of money to finance that deficit.



We are not the only country that has increased its debt in the face of the financial crisis. Many governments have borrowed so much so quickly that it is certain the debt surge will not end quickly. The rapid increase in debt in the developed world is the result of stimulus packages and social safety nets kicking into high gear in order to combat the severe and rapid downturn in the world's economy. The question we need to ask is, was this necessary?

Jim Grant, editor and author of *Grant's Interest Rate Observer*, captured the size and scope of the policy response to the credit crisis in a chart that we simplified for your review.

	Length (months)	Decline/ GDP	Monetary Stimulus	Fiscal Stimulus	% of GDP
Great Depression	43	27%	3.4%	4.9%	8.3%
Avg. of 10 downturns between	10.6	2.14%	.24%	2.59%	2.73%
Current Downturn	?	?	18.0%*	11.9%*	29.9%*

Source: Grant's Interest Rate Observer: April 3, 2009. Fiscal stimulus measured as budget deficit as % of GDP. Monetary stimulus measured as cumulative change in the Federal Reserve's balance sheet. \* = estimated by Grant's.

The chart depicts the cumulative monetary and fiscal stimulus used to combat the Great Depression, the subsequent ten recessions, and the current downturn.

The current stimulus as measured by *Grant's* is 3.6 times larger than used to combat the Great Depression. It is nearly 11 times larger than the average response to previous downturns. This includes the deficit resulting from a \$787 billion stimulus package and the expansion of the Federal Reserve's balance sheet to over \$2 trillion.

There are two ways to think about this chart. Either a) the authorities have completely over-reacted to a downturn that is similar in severity to that 1981-1982 or the authorities knew that the credit crisis had the potential to cause a downturn as bad as or worse than the Great Depression. I believe the latter is true.



The good news is that I also believe the plan has worked so far. Central Bank head, Ben Bernanke and the U.S. Treasury put a highly creative and occasionally spontaneous plan together to unfreeze the credit markets — a necessary prerequisite for a resumption of economic growth.

Ameriprise Financial economist, Russell Price, expects economic growth to return in the third quarter of 2009 at an annualized rate of 0.7%. Fourth quarter annualized growth is expected to be stronger at around 2%, followed by growth of 2.4% for 2010. This would be welcome news. However, we note

the upturn in growth is sub-par relative to what we have seen after past recessions, which is why many economists are forecasting a jobless recovery in 2010.



## CHAPTER 2: Market Commentary



The last six months have been among the most volatile that we have witnessed in close to 80 years. The bond market was deeply concerned about a depression in late 2008 and early 2009 and prices reflected this concern. Record wide spreads for the compensation investors received for taking on extra risks in the corporate, high yield, mortgage, loan and municipal bond sectors were testimony to this dire forecast.

Spreads have narrowed considerably as Bernanke's rescue plan took hold and investors gained confidence. Corporate, high yield and other spread products now provide, at best, an adequate return to compensate for the risk of default in a tough recession.

They no longer provide the huge opportunity we have discussed in previous market updates and for those who followed our guidance in the late fall and early winter, some profit taking is likely warranted. But even though bonds may not offer as much opportunity as they used to they are still likely to provide a competitive return versus stocks.

The S&P 500, a broad index that measures the stock market,



collapsed during the first part of this year and reached a low of 666.79 on March 6. The market has since rebounded and closed at 940.38 on July 17, an increase of some 36.5%.



The improved sentiment reflects investor willingness to assume risk, optimism that the economy will grow in the second half of the year and hope for improved earnings in the second quarter and beyond.

Much of this rally, however, occurred in the 45 days after March 6. To the buy and hold investor, the relief was welcome. To those who had abandoned the stock market, the rally was a cruel reminder that predicting market behavior is next to impossible. As the saying goes, *everyone is wrong at the turn.*

What else can investors do to configure a portfolio for the risks that exist going forward?

For those that worry about deflation winning the day, the technology sector offers interesting benefits. This sector is used to falling prices. Most technology companies have little debt (a real plus in a deflationary environment) and healthy levels of cash.

For those worried about inflation, TIPS can be a good hedge. Stocks can be a hedge against inflation as well. My investment experience in Latin America suggests that stocks can maintain value even if they do not provide high *real* returns. Some companies even thrive in high-inflation environments.



## CHAPTER 3: The future



In these tough times the media has helped feed investor pessimism through negative articles about the future. We wonder how we will emerge from this crisis and what will provide the new sources of economic growth? Here are a few thoughts about potential future growth engines.

Not all ideas represent great investments and there may not even be a way to invest in some of these ideas today. However, keep in mind that only a few understood the widespread potential of the railroads, the internet, and other radical innovations that brought prosperity to our economy. Some ideas may be just as transformative tomorrow.



✓ **Alternative Energy**

✓ **Infrastructure**

✓ **Emerging Markets**

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- **Alternative energy** – We believe alternative energy such as wind, solar, and geothermal is a nascent industry and is similar in its infancy to the internet in the early 1990s. I am optimistic about this growing area of the economy.
- **Infrastructure** – Warren Spitz, Portfolio Manager for RiverSource Investments believes that infrastructure development is a secular trend that will occur in both emerging and developed

economies. Based on that view, we are very optimistic about infrastructure as a future source of growth.

- **Emerging markets** – This highly volatile part of the world equity market has long been seen as a key to the future. We may now finally be at the point where emerging markets develop a sustainable path to growth. More than ever, we need emerging markets to succeed. We are reasonably confident that the stage may finally be set for this to happen.



## CHAPTER 4: Reasons for optimism and actions you can take



As I was finishing a presentation to clients two weeks ago, a gentleman raised his hand and asked if he could offer his thoughts. It was Dean Richard Ward, Chancellor Dean Emeritus and former Dean of the College of Business at the University of Massachusetts – Dartmouth. He is also a World War II veteran. I thought you might benefit from hearing just a few of his powerful words, which reflect both a sense of history and economic knowledge. Here's what Dean Ward said, and I quote:

### Dean Richard Ward

Chancellor Dean Emeritus and former  
Dean of the College of Business at the  
University of Massachusetts - Dartmouth



*"For at least two important reasons, I have a high degree of confidence that we are attacking the current economic crisis effectively. One is the quality and competence of the economic team the President has put in charge of creating the strategies and policies needed to win the battle.  
Christine Romer is Chairwoman of the Council*

'For at least two important reasons, I have a high degree of confidence that we are attacking the current economic crisis effectively. One is the quality and competence of the economic team the President has put in charge of creating the strategies and policies needed to win the battle.

Christine Romer is Chairwoman of the Council of Economic Advisors; you often see her on TV sitting beside President Obama at meetings. She is a scholar on the Great Depression and knows which actions taken were effective and which were wrong.

Also included on the team is Ben Bernanke, Chairman of the Federal Reserve Bank and another expert on the Depression; Larry Summers, former President of Harvard University and a brilliant economist and Tim Geithner, Secretary of the Treasury who has been doing an admirable job of calmly dealing with the barrage of questions from Congress.

I have listened to and watched these experts in their appearances and have been impressed with them. I take encouragement from this high-level brain trust available to the President, the Congress and the people of the United States.

I am also encouraged by our experience after World War II. During that war the whole country was being run by the government. Most of the payrolls of many thousands of factories and businesses of all sizes were operating off of government contracts. Millions of Americans were being paid through government spending for the war.

Yet, when the war was over, the rush back to the private sector production was massive, and over the subsequent decades, despite ups and downs in the economic cycle, our economy experienced the greatest and longest upward progress in all aspects of life in our history.

These are my reasons for feeling optimistic about our collective ability despite likely serious potholes in the road that will ultimately bring our country rolling back toward prosperity.'



Dean provides a powerful reminder that we have had far darker chapters in our economic history. And that optimism, resilience and confidence are key ingredients to our future. That is probably why Dean Ward is a member of Tom Brokaw's "Greatest Generation" and his words offer much comfort and reassurance to all of us.

I want to end this update with a call to action for each of you. It's important to utilize proven investment strategies that can help bring you success in any economic environment:



- ✓ ***Have a financial plan***
- ✓ ***Stay invested***
- ✓ ***Allocate across assets and products***
- ✓ ***Make sound decisions***
- ✓ ***Adjust as needed***
- ✓ ***Don't get emotional***

- Have a long-term plan in place to help you reach your financial goals and objectives.
- Stay invested in the markets – market timing is too difficult and simply does not work over time.
- Utilize allocation and diversification across both asset and product classes.
- Make sound decisions today without compromising your future plans — contact with your financial advisor is more critical than ever.
- Talk to your advisor about your portfolio and whether it needs any adjusting based on the unprecedented volatility we have seen over the past two years.
- Keep a long-term perspective on the economy and resist the urge to react emotionally to the ongoing challenges in the markets.



Having a strategy in place, making sound decisions for the future and sticking to your long-term investment approach will allow you to share the hope, optimism and confidence that Dean Ward outlined so eloquently with his words.

It is also important to have confidence in the companies that help you manage your money. I am pleased to share that Ameriprise Financial continues to remain solid and strong. We have a strong balance sheet, a diverse business model and the flexibility to move the company forward with

purpose and conviction. We have always taken a conservative approach to how we manage risk and remain steadfast in our commitment to serve and stand by our clients.

Though we will likely face additional tough times ahead, I am confident that the economy and our company will emerge from this downturn stronger than ever.

Thank you for watching our mid-year market update.

### **Disclosures (slides appear)**

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Diversification helps you spread risk throughout your portfolio, so that investments that do poorly may be balanced by others that do relatively better. Diversification is not a guarantee of overall portfolio profit or protection against loss. Asset allocation does not assure a profit or protect against loss in declining markets.

There are risks associated with fixed income investments, including credit risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer-term securities.

Non-investment grade securities, commonly called "high-yield" or "junk" bonds, have more volatile prices and carry more risk to principal and income than investment grade securities.

International investing involves increased risk and volatility due to potential political and economic instability, currency fluctuations, and differences in financial reporting and accounting standards and oversight. Risks are particularly significant in emerging markets due to the dramatic pace of economic, social, and political change.

TIPS are appropriate for customers concerned about mid- to long-term future inflation and not appropriate for short term investments. TIPS yields are calculated on the average historical three month Consumer Price Index. Yields are estimated and it is possible to lose money in a TIP investment in a deflationary environment. Taxes must be paid annually on the interest received; you'll also pay tax each year on any increases to the principal, even though you won't receive the inflation-adjusted principal until the bond matures. For this reason, it's best to hold TIPS in a tax-deferred

account or a Roth IRA. Because of the inflation protection, TIPS typically offer a lower rate of interest than other 10-year Treasury securities that don't have the feature. TIPS are subject to federal income tax, but not state or local taxes.

The S&P 500 is an index containing the stocks of 500 Large-Cap corporations, most of which are American. The index is the most notable of the many indices owned and maintained by Standard & Poor's, a division of McGraw-Hill. You may not invest directly in an index.

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