

Index of Investor Optimism

A UBS/Gallup Poll of Investor Attitudes

INVESTOR OPTIMISM REBOUNDS ONE MONTH AFTER STORMS

Moderation of Gas Prices Fuels Rebound but Remains Major Factor Affecting Investment Climate

Majority of Investors Believe US Economy in Slowdown or Recession

NEW YORK, October 24, 2005 – Investor sentiment rebounded this month following the drastic drop it took in the wake of Hurricanes Katrina and Rita. With the moderation of gas and oil prices over the past month, investor sentiment is now at 47, up from 34 in September, but still not making a full recovery to the 61-point reading in August. Concerns about the investment climate are reflected in the perceptions by most investors (66 percent) that the US economy is either in a slowdown (52 percent) or a recession (14 percent). Two thirds of these investors predict that economic recovery will not come for at least two years.

These economic assessments are significantly higher than they were at the beginning of the year, when 57 percent of investors felt the economy was in a recovery or sustained expansion, and only 42 percent judged the economy to be in a slowdown (31 percent) or recession (11 percent).

“Following last month’s drastic decline in investor optimism, the question was whether or not the dip was permanent or merely a short-term reaction to the storms,” said UBS Associate Strategist Robin Miranda. “The recovery is not complete and may indicate a downward trend in investor sentiment.”

Modest gains in investor optimism were stimulated by slightly lower energy prices, but investors continue to identify this area of the economy as the most harmful. Eighty percent say energy costs are hurting the investment climate “a lot,” up from 71 percent who said that last July, well before the damage wrought by Hurricanes Katrina and Rita.

While optimism recovered, investor concerns about the federal budget deficit, interest rates and the stock market have grown since the summer. Inflation fears have subsided somewhat since the summer in part because gas and oil prices have fallen in recent weeks.

Fifty-eight percent of investors say the federal budget deficit is hurting the investment climate a lot, up from 51 percent in July. This increase is undoubtedly impacted by the government’s rebuilding costs following Hurricanes Katrina and Rita.

Forty-five percent say interest rates are hurting the investment climate versus 36 percent in July. Investors seem torn in their evaluation of the Federal Reserve policy on interest rates. Half approve of the recent interest rate increases while 43 percent disapprove. When asked what the Fed should do in the future, most investors opt for keeping interest rates at their current level, while 24 percent of investors would like to see rates reduced and 16 percent would like to see an increase.

Investors are slightly less optimistic about the performance of the stock market over the next 12 months. Thirty-nine percent of investors are optimistic versus 42 percent last month and 45 percent in August.

Average expected rate of return on investor portfolios over the next twelve months is 9.7 percent (down from 11.1 in September). Fifty-one percent of investors say now is a good time to invest in the financial markets. This is unchanged since last month but significantly lower than readings this summer (59 percent in August, 60 percent in July, 58 percent in June).

Other areas that investors judge to be hurting the investment climate a lot include outsourcing of jobs to foreign countries (mentioned by 64 percent of investors) and the war with Iraq (mentioned by 46 percent). The economic impact of Hurricanes Katrina and Rita also remains on investor's minds, with 55 percent rating the storms as having a severe impact on the investment climate.

These findings are part of the 91st *Index of Investor Optimism*, which was conducted October 1 to October 16. To track and measure Index changes on an ongoing basis, new samplings are taken monthly. Dennis J. Jacobe, research director for Gallup, said the sampling included 804 investors randomly selected from across the country. For this study, the American investor is defined as any person who is head of a household or a spouse in any household with total savings and investments of \$10,000 or more. Nearly 40 percent of American households have at least this amount in savings and investments. The sampling error in the results is plus or minus four percentage points.

For more than 60 years, the Gallup Organization has been a recognized leader in the measurement and analysis of people's attitudes, opinions and behavior. While best known for the Gallup Poll, founded in 1935, Gallup's current activities consist largely of providing marketing and management research, advisory services and education to the world's largest corporations and institutions.

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Additional information about the *Index of Investor Optimism* can be found at www.ubs.com/investoroptimism

UBS *Index of Investor Optimism* overall trend

	OVERALL INDEX
05 October	47
05 September	34
05 August	61
05 July	58
05 June	54
05 May	50
05 April	52
05 March	74
05 February	82

05 January	76
04 December	79
04 November	69
04 October	62
04 September	74
04 August	77
04 July	88
04 June	95
04 May	71
04 April	73
04 March	85
04 February	97
04 January	108
03 December	104
03 November	93
03 October	69
03 September	54
03 August	61
03 July	54
03 June	77
03 May	42
03 April	66
03 March	5
03 February	9
03 January	38
02 December	52
02 November	41
02 October	29
02 September	60
02 August	52
02 July	46
02 June	72
02 May	90
02 April	89
02 March	121
02 February	92
02 January	115
01 December	88
01 November	84
01 October	86
01 September	50
01 August	76
01 July	74
01 June	85
01 May	90
01 April	81
01 March	82
01 February	77
01 January	96
00 December	106
00 November	130

00 October	132
00 September	147
00 August	160
00 July	143
00 June	149
00 May	155
00 April	140
00 March	150
00 February	168
00 January	178
99 December	174
99 November	148
99 October	139
99 September	160
99 August	149
99 July	166
99 June	146
99 May	163
99 April	168
99 March	151
99 February	167
98 December	141
98 September	147
98 June	160
98 March	161
97 December	151
97 September	151
97 June	152
97 February	128
96 November	125
96 October	124

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