

Index of Investor Optimism

A UBS/Gallup Poll of Investor Attitudes

INVESTOR OPTIMISM SURGES TO HIGHEST LEVEL IN 10 MONTHS, NOW AT 79

Increase Occurs Across the Board

Lower Gas Prices Expected to Hold For At Least Six Months

Virtually No Investors Expect Sudden Burst of Housing Bubble

NEW YORK, December 27, 2005 – For the fifth straight year, the *UBS/Gallup Index of Investor Optimism* shows an increase in December over November, although this year the increase is particularly large. Now at 79, the Index is up 29 points from last month, and 45 points since last September. The last time the Index was this high was in February of this year, when it reached 82.

In six of the past seven years, the Index has been higher in December than November, suggesting a seasonal tendency for optimism to increase during the holiday season. The increase for each of the past three years has been either 10 or 11 points, and in 2001 the increase was only four points. In 2000, the Index actually fell 24 points from November to December, at a time when the stock market began its long-term decline. The previous year showed a 26-point jump in December.

The current poll of investors finds increases in investor optimism across all seven of the questions that constitute the Index. The personal dimension – consisting of three questions about investors' long- and short-term goals and personal income – is at 62, up 10 points from November. The economic dimension – consisting of four questions about economic growth, the unemployment rate, the stock market and inflation – is now at 17, up 19 points from November.

"We continue to see a strengthening period of economic recovery with investors more positive both about their short-term investment targets and economic growth," said Mike Ryan, Head of UBS Wealth Management Research.

The poll finds other positive signs for the investment climate. Sixty-four percent of investors say now is a good time to invest in the financial markets, up eight points from last month, and the highest since December of last year. Also, 50 percent of investors characterize the economy as being in a sustained expansion or recovery, up from 40 percent who expressed that view last month. Another 49 percent say the economy is in either a slowdown or a recession, down from 59 percent who said that in November.

The more positive views about the economy could be related to declining gas and energy prices. The average price of a gallon of gas cited by investors this month is \$2.18, down 75 cents from the average price cited in September and identical to the average price estimated last May. Furthermore, expectations for price increases are moderate, with investors expecting an average price of \$2.30 per gallon in the next three months.

When asked more generally about gas prices, just 11 percent of investors say they expect prices to rise "a great deal" in the next six months, while 31 percent expect only a moderate rise, and 21 percent

expect a decline. A quarter of investors say that it is "very likely" that at some point in 2006 gas prices may reach \$3.00 a gallon again, but 39 percent think it is not likely, and 36 percent say it is just "somewhat" likely to happen.

Almost eight in ten investors expect higher heating costs this year, including 42 percent who say costs will be "much higher" and 37 percent who say "somewhat higher." Still, only 12 percent of that group expect the higher heating prices to be a major hardship, while 23 percent say it will be a minor hardship, and the rest say the increased prices won't be a hardship at all.

As investors look to the future, they see little chance of a major decline in the housing market. Among the 86 percent of investors who have heard of the housing "bubble" cited by many economists, 51 percent expect it to continue for several more months, while 46 percent say it is over now or almost over. But only one percent of all investors expect housing prices next year to exhibit a rapid decline, which usually happens when a housing bubble "bursts." Another 21 percent expect housing prices to fall, but at a moderate rate. By contrast, forty-three percent of investors expect housing prices to rise, with 38 percent saying the rise will be moderate, and just five percent expecting a rapid rise.

With the successful completion of voting in Iraq last week, many political experts are predicting a gradual withdrawal of U.S. troops from that country. Thirty-nine percent of investors share that view, but 52 percent expect no change in the number of U.S. troops in Iraq in the coming year, and seven percent predict an increase.

Still, most investors think it would be good for the investment climate if U.S. troops were reduced in Iraq. Fifty-four percent say a reduction would help the investment climate, while just 11 percent say it would hurt, with 32 percent saying there would be no effect.

Asked differently, 47 percent of investors say that if the federal government keeps U.S. troops in Iraq at the same level they are now, that would hurt the U.S. investment climate, while just nine percent say it would help, and 41 percent say it would have no effect one way or the other.

These findings are part of the 93rd *Index of Investor Optimism*, which was conducted December 1 to December 15. 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 803 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.

UBS is one of the world's leading financial firms, serving a discerning global client base. As an organization, it combines financial strength with an international culture that embraces change. As an integrated firm, UBS creates added value for clients by drawing on the combined resources and expertise of all its businesses.

UBS is the world's largest wealth manager, a top tier investment banking and securities firm, and one of the largest global asset managers. In Switzerland, UBS is the market leader in retail and commercial banking.

UBS is present in all major financial centers worldwide. It has offices in 50 countries, with 39% of its employees working in the Americas, 38% in Switzerland, 16% in Europe and 7% in the Asia Pacific time zone. UBS's financial businesses employ more than 68,000 people around the world.

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

UBS *Index of Investor Optimism* overall trend

| | <i>Overall Index</i> |
|--------------|-----------------------------|
| 05 December | 79 |
| 05 November | 50 |
| 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 |



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|--------------|-----|
| 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 |

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|--------------|-----|
| 97 September | 151 |
| 97 June | 152 |
| 97 February | 128 |
| 96 November | 125 |
| 96 October | 124 |

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