

Investing for a lifetime



The importance
of maintaining
perspective

Our focus

At UBS Global Asset Management, we are driven by a single-minded focus on our clients. This focus requires us to develop investment solutions that aim to consistently generate competitive risk-adjusted returns over full market cycles. It compels us to maintain a long-term global perspective and produce original, fundamental research to generate insights that can add value in our clients' portfolios. It also requires us to place an emphasis on risk management, because understanding and managing risk is critical to our clients' investment success. We firmly believe that successful asset management rests not on one's ability to excel solely through any one of these elements, but through their combined strength.

The views expressed are those of UBS Global Asset Management as of 12/31/08. They are subject to change at any time in response to changing circumstances in the markets, and are not intended to predict or guarantee the future performance of any individual security, asset class, the markets generally, nor are they intended to predict the future performance of any UBS Global Asset Management account, portfolio or fund. Diversification does not assure a profit or protect against loss in a declining market. The information contained herein does not constitute a distribution, an offer to sell or the solicitation of an offer to buy securities or funds.



Bear markets are a fact of life

Fact¹

The average investor should expect to experience **8 bear markets over a 40-year lifetime of investing.**

Fact¹

The average investor should expect to experience **6 bear markets over the course of a 30-year retirement.**

For better or for worse, bear markets are a fact of life. But that doesn't mean they have to derail your best-laid investment plans. Patience, maintaining a long-term view and following a few key strategies can help see you through to the other side.

¹ Source: UBS Global Asset Management, using historical analysis of the frequency of bear markets.

Bear markets in perspective



When you're living through a bear market, it's easy to think when all is said and done, that it will hold a unique spot in market history. The truth is, over the course of time, bear markets have occurred with frequency and regularity.

As the table below illustrates, stock prices have suffered double-digit declines about once every five years. Not including the current downturn, there have been 10 bear markets since the end of World War II, lasting an average of 15 months and generating an average decline of 28%.

A history of bear markets²

S&P 500 Index bear market cumulative returns since World War II³

Date of market trough (bottom)	Market peak (high) to trough performance	Duration of bear market
June 13, 1949	-18.0%	36.5 months
June 26, 1962	-27.0	6.5
October 7, 1966	-20.0	8.0
May 26, 1970	-33.0	18.0
October 3, 1974	-45.0	20.5
August 12, 1982	-19.0	20.5
December 4, 1987	-33.0	3.5
October 11, 1990	-19.0	3.0
August 31, 1998	-19.0	1.5
October 9, 2002	-45.0	30.5
Current bear market	?	?

These bear markets may seem like ancient history, but, like today's bear market, they weren't easy to endure at the time.

Average bear market decline: 28%

Average bear market duration: 15 months

² A bear market is viewed as a substantial drop in the prices of the majority of stocks over a defined period of time. A stock market bottom, or a trough, is a trend reversal—the end of a market downturn and the beginning of an upward-moving trend.

³ Source: Ned Davis. The **S&P 500 Total Return Index** is a weighted index comprising 500 widely held common stocks varying in composition. The Index is unmanaged, does not reflect the deduction of any fees or expenses, and is not available for direct investment. Dividends and distributions are reinvested. **Past performance does not guarantee future results.**

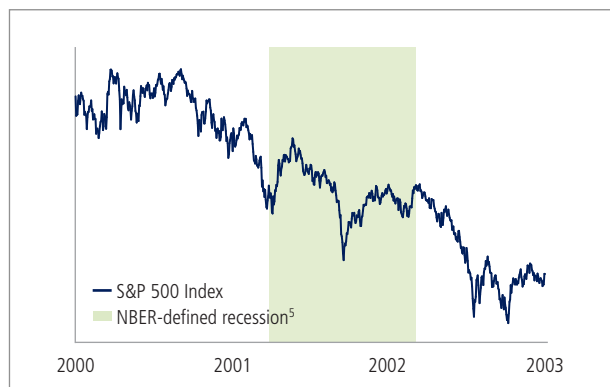
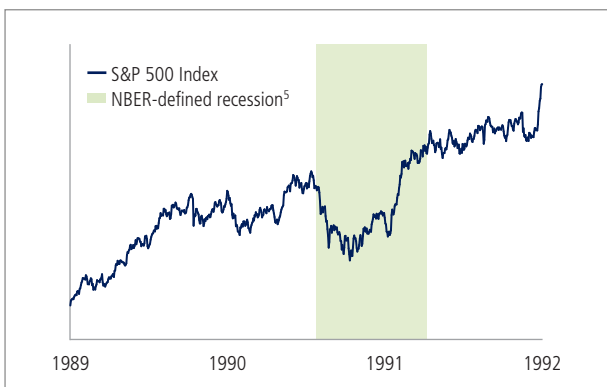
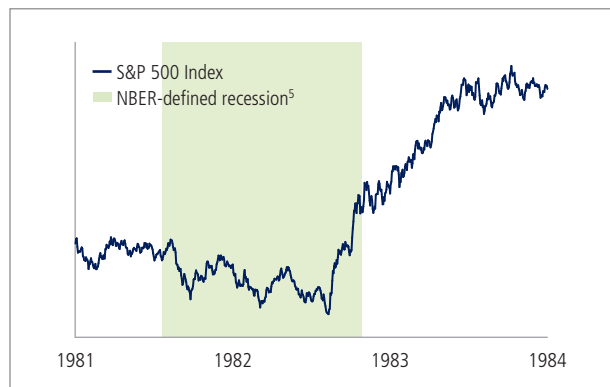
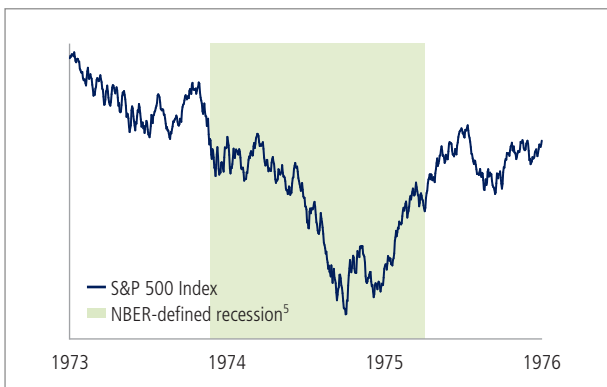
A look back at market history shows that waiting to invest until a recession ends can do more harm to your portfolio than good.

Compounding the investor experience is the fact that the current bear market is taking place at the same time that the US economy has fallen into a deep recession.

What's important to remember is that this, too, is a familiar scenario in market history. Since World War II, eight out of 11 bear markets have been accompanied by recessions.⁴

Bear markets historically recover before recessions end

In the four recessions preceding the current one, the stock market, as measured by the S&P 500 Index, recovered, on average, five to six months before the economy did. This underscores the fact that waiting to get back into the market until the current recession ends may be harmful to your long-term investment plans. (We discuss the impact of market timing and what it means to your portfolio in more detail on pages 8 and 9 of this brochure.)



⁴ Source: UBS Global Asset Management.

⁵ Source: Ned Davis. The National Bureau of Economic Research (NBER) defines economic recession as: "a significant decline in [the] economic activity spread across the economy, lasting more than a few months, normally visible in real GDP growth, real personal income, employment (non-farm payrolls), industrial production and wholesale-retail sales."

Strategies

for rising above a bear market

Even armed with the knowledge of the past, a bear market can be difficult to endure. But a historical perspective can help investors realize that declines are temporary, and a recovery nearly certain. In fact, since

World War II, the average 12-month cumulative return for the S&P 500 Index in the year following a bear market trough has been 42.3%.⁶

It is easy to lose sight of the resiliency of the markets when your investments are doing poorly.

Long-term investment success, however, depends far more on **investor behavior** than it does on **investment performance**. Remembering a few key rules may put you in a better position to be one of the investors who beats the averages.

⁶ Source: Ned Davis. **Past performance does not guarantee future results.**

As difficult as today's environment may be, there is one thing investors can control: how they behave.

Don't let your emotions sway you

The majority of investors tend to buy during bull markets, when stock prices are rising, and sell during bear markets, when stocks prices are falling. The problem with this rear-view mirror approach to investing, however, is that they may also just as quickly find themselves holding an investment that is out of favor, while the one they abandoned a few months prior is now in favor.

Over time, the swings between euphoria and panic can cause an investor to abandon an investment based on its past performance—rather than on its future potential. These emotional reactions can have a profound impact on the long-term performance of an investor's portfolio.

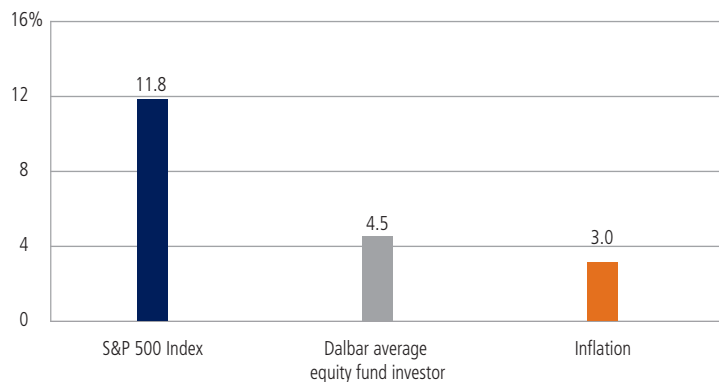
As illustrated in the chart, over the last two decades, the average equity fund investor has earned an average annual return of 4.5% on his or her investment—less than half the 11.8% return generated by the S&P 500 Index over the same time period.

Investors who allow their emotions to take charge may be unintentionally sabotaging their portfolio's full return potential. Keeping an eye on the long term can give you the focus you need to see yourself through the inevitable downturn—putting you in a better position to ultimately achieve your financial goals.



The myth of the success of the average investor

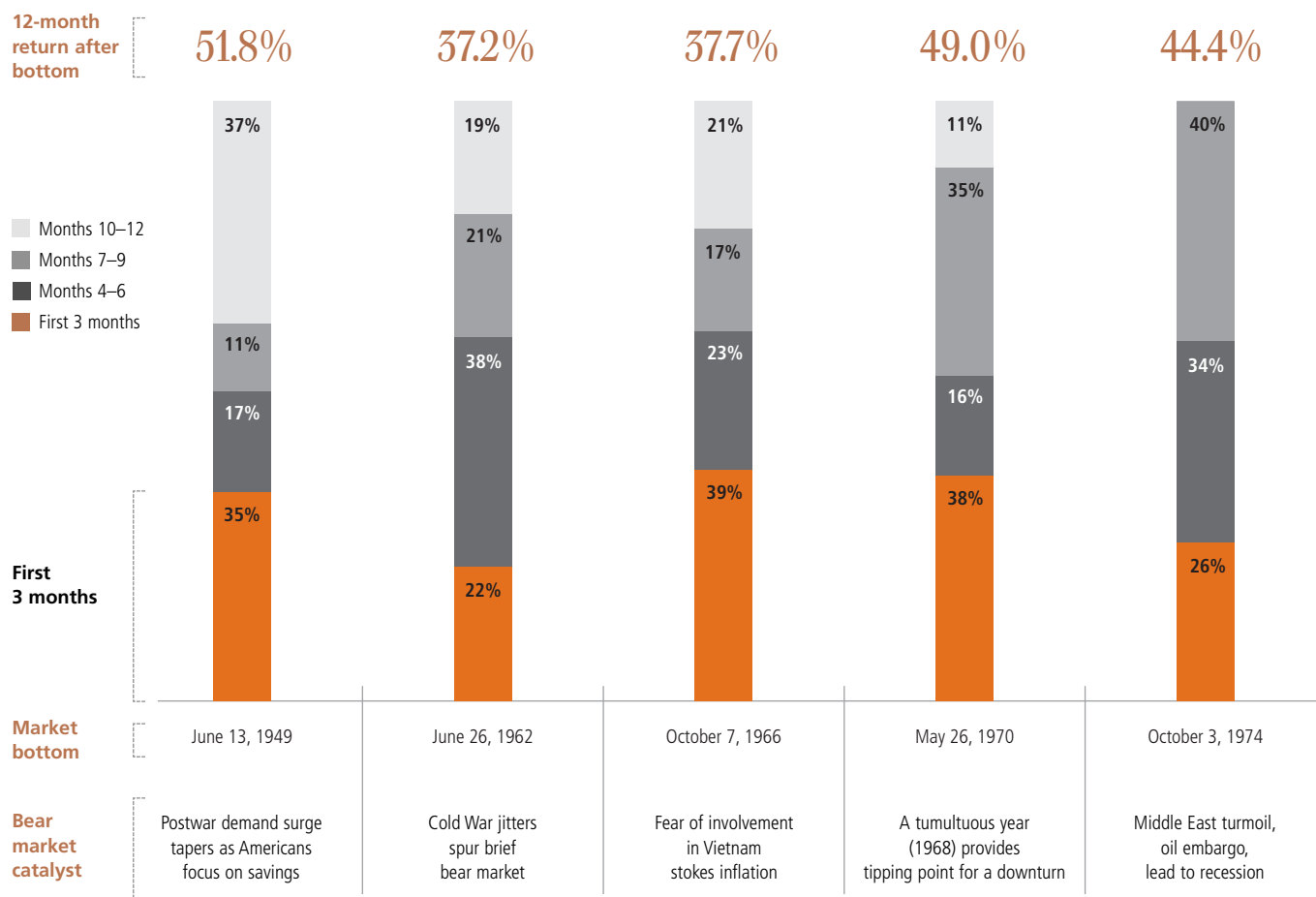
How can investments do so well and the average investor do so poorly?
Average annual total returns: 1988–2007



Source: Lipper, Inc. and Dalbar; used with permission. **For illustrative purposes only. Past performance does not guarantee future results.** Performance calculated assuming reinvestment of all dividends and capital gains. The **Dalbar Average Equity Fund Investor** reflects the rate of return investors earned, based on the length of time they actually remain invested in equity mutual funds. For more information on the methodology used to arrive at the return, see page 11. Indexes are unmanaged, do not reflect the deduction of any fees or expenses, and are not available for direct investment.

Historically, about 41% of the one-year return after a bear market bottom occurs in the first three months

A study of bear market recoveries:
Portion of S&P 500 Index one-year return in three-month intervals⁷



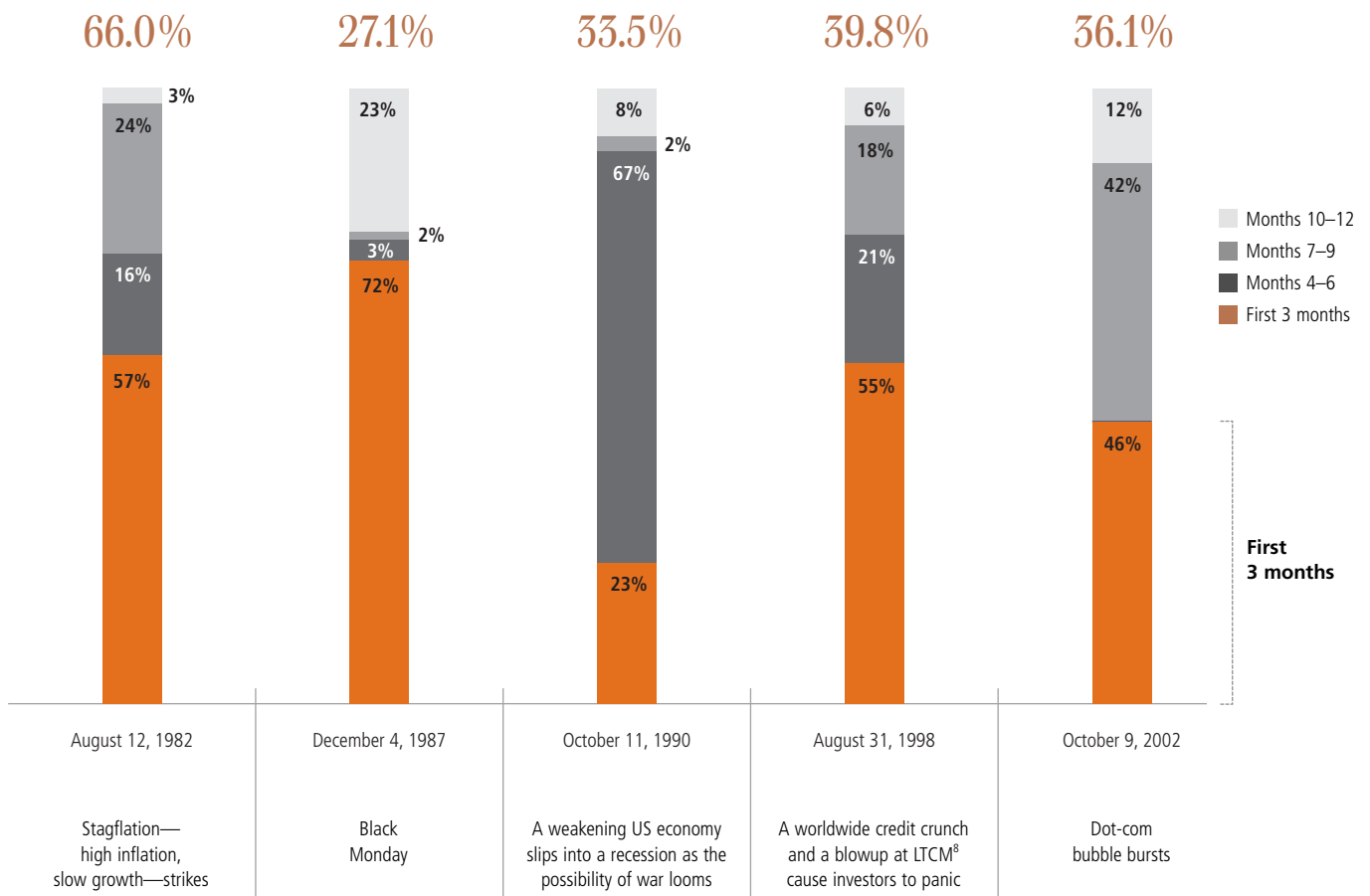
⁷ Source: Ned Davis. Returns reflect reinvestment of dividends. Bar segments, representing a given three-month period as noted, reflect the portion of each 12-month total return generated following a bear market bottom. For example, as illustrated in the first bar, the orange segment shows that 35% of the 51.8% total 12-month return occurred in the first three months following the bear market bottom of June 13, 1949. Positive returns only are represented. **Past performance does not guarantee future results.**

Waiting on the sidelines means you might be less likely to benefit fully from a market recovery.

Many investors react to downturns by pulling out of the market altogether, with the intention of getting back in to benefit from market recoveries. In fact, stock market trends can turn on a dime, making investors' attempts to time the market virtually certain to fail.

Average portion of return generated in first year after a bear market hits bottom:⁷

- 41% in first three months
- 24% in months 4 to 6
- 21% in months 7 to 9
- 14% in months 10 to 12



⁸ Long-Term Capital Management (LTCM) was a US hedge fund that failed in the late 1990s, leading to a massive bailout by other major banks and investment houses.

Maintaining a long-term perspective is never more important than during times of uncertainty.

Follow a consistent strategy

whatever market you're in

Investors face a constant barrage testing the strength of their discipline, including the negative views expressed by market prognosticators and financial news channels.

But history has tended to reward those with the fortitude to remain invested through a crisis, while those who have made emotional decisions based on short-term volatility have paid the price.

Successful long-term investors tend to follow several time-tested principles, which help them achieve their goals:

- **They invest in an actively managed, globally diversified portfolio of assets** that seeks to limit losses and provides smoother returns by adjusting asset allocations in response to changing market conditions.⁹
- **They look beyond the rear-view mirror, to make a long-term plan** that's in line with their time horizon and risk tolerance. They then stay the course, resisting the temptation to shift assets based on the market's twists and turns.
- **They review their portfolios regularly, and rebalance** when their asset mix falls out of line with their goals.
- **They work with a Financial Advisor** who focuses on risk management to help them **build and preserve their wealth**.

⁹ Diversification and asset allocation do not ensure gains or guarantee against loss.

Disclosures

Definitions

The **Dalbar Average Equity Fund Investor** reflects the rate of return investors earned, based on the length of time shareholders actually remain invested in equity mutual funds. Over the time period 1988–2007, equity mutual fund shareholders held their mutual funds for an average of 3.1 years. Mutual fund sales, redemptions, exchanges, reinvested dividends and assets under management are based on monthly data provided by the Investment Company Institute. The average annual return of the Dalbar Average Equity Investor is based on all equity funds, represented by the Dalbar Equity Index, which was comprised of the S&P 500 Index and the Ibbotson Small Company Stock Index.

Special considerations

Investors in portfolios should be able to withstand short-term fluctuations in the equity markets and fixed income markets in return for potentially higher returns over the long term. The value of portfolios changes every day and can be affected by changes in interest rates, general market conditions and other political, social and economic developments, as well as specific matters relating to the issuers and companies in whose securities the portfolios invest. Shares of portfolios are not deposits or obligations of any bank or government agency, are not guaranteed by the FDIC or any other agency, and involve investment risks such as the possible loss of the principal invested amount.

Mutual funds offered are sold by prospectus. Investors should carefully read and consider a mutual fund's investment objectives, risks, charges, and expenses carefully before investing. The prospectus contains this and other information about a mutual fund. To obtain a free prospectus, please call your Financial Advisor or write to: UBS Global Asset Management, 51 West 52nd Street, New York, NY 10019. You can also contact UBS Global Asset Management at 888-793 8637 or visit www.ubs.com/globalam-us for a current prospectus.

What sets UBS Global Asset Management apart

We have a global perspective.

Because capital markets are global and interrelated, even investing in securities from a single country requires a broad and comprehensive understanding of companies, industries, economies and markets around the world. At UBS Global Asset Management, we take a global view of everything we do.

We adhere to a time-tested philosophy.

This has led to consistent and repeatable results, which we believe is in the best interests of our clients.

We are a leading institutional asset manager.

UBS Global Asset Management, a business group of UBS, is one of the world's largest asset managers, with \$539 billion under management worldwide.¹⁰ Our financial strength, the stability of our organization and the talent of our people provide us with the depth of resources to craft intelligent investment solutions that can help our clients preserve and build their wealth.

¹⁰ As of December 31, 2008. UBS Global Asset Management (Americas) Inc. is a member of UBS Global Asset Management, and has \$144 billion in assets under management as of December 31, 2008.



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