

The Case for Equity Investing

DECEMBER 2011 RESEARCH

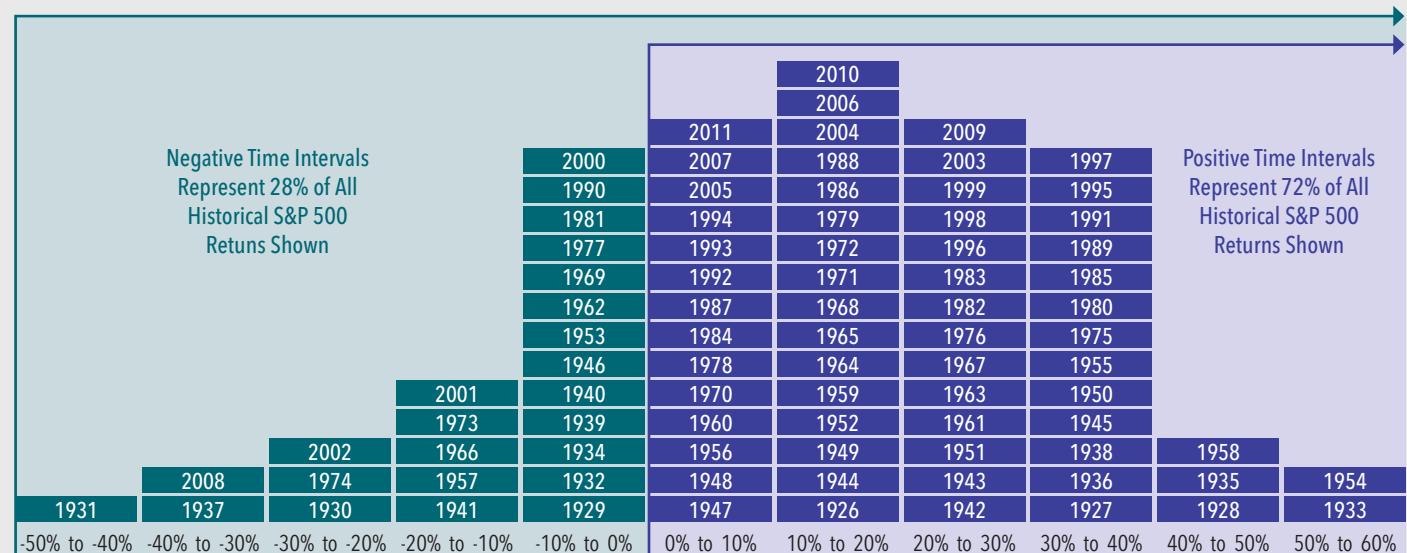
"The Great Recession" or economic downturn that began in December 2007 and ended when the market troughed on March 9, 2009 (although the National Bureau of Economic Research didn't officially declare the end of the recession until June 2009) was considered by many economists to be the worst economic decline since the Great Depression. The emotional impact of the recession, coupled with a sharp increase in unemployment and home foreclosures, caused many investors to move their investments away from equities and into other investments such as cash and bonds. But over the past three years, the U.S. economy has begun to recover from the -37.0 2008 return, with the S&P 500 Index returning 26.5% in 2009,

15.1% in 2010 and 2.1% in 2011. And history provides another perspective for a favorable outlook for equities – since 1926, the S&P 500 Index¹ has produced positive annual returns 72% of the time and negative annual returns only 28% of the time (**Exhibit 1**). The index's annualized return for this period is 9.8% through December 31, 2011. Although the U.S. economy may be on its way to a recovery, many investors are still wary about getting back into the market.

This paper provides a historical perspective on market performance from 1926 through the end of 2011. It also examines when to recognize the importance of the potential benefits of including equities within a diversified portfolio.

Exhibit 1 – S&P 500 Annual Total Return History by Performance Ranges

(January 1, 1926 – December 31, 2011)



Past performance is no guarantee of future results. Data source: Morningstar Direct, S&P 500 Index as tracked by the Ibbotson Associates Large Company Stock Index. Chart represents distribution of S&P 500 annual total returns data for January 1926 through December 2011. Returns are ranked in order of occurrence with the most recent year on top for each performance range. This time period represents the complete historical Ibbotson Associates data available, for this index, through update for December 31, 2011. Index returns include reinvestment of income but do not reflect inflation, fees, taxes or transaction costs that would reduce performance in an actual account. All indices are unmanaged and unavailable for direct investment. Other benchmarks and methods may produce different results, and different periods and market conditions may result in significantly different outcomes. This example is shown for illustrative purposes only. It is not intended to predict or represent the results of an actual investment. It is important to remember that there are risks inherent in any investment including loss of principal and there is no assurance that any asset class or index will provide positive performance over time.

See additional disclosures and source references on page 5.

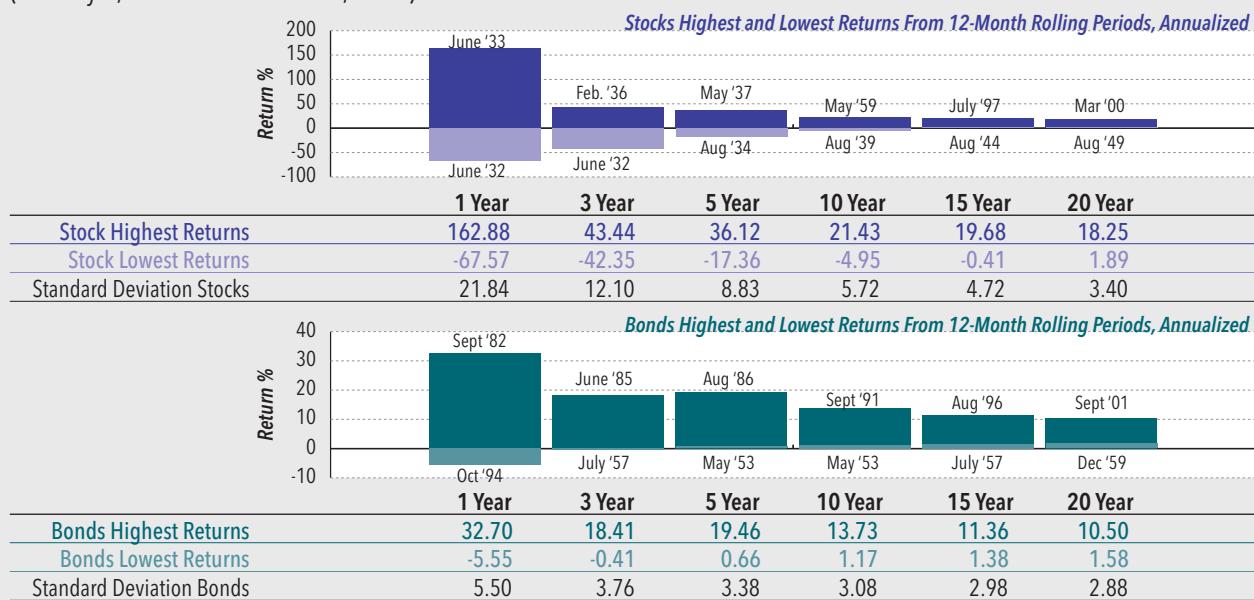
MANAGING RISK WITH EQUITIES OVER THE LONG TERM

A longer investment time horizon can help smooth out the impact of market disruptions and reduce portfolio risk. Although the volatility of “The Great Recession” has subsided, individuals who experienced a loss may be hesitant to “get back in the game,” because they are afraid they will experience a loss again. But letting emotions get in the way and continuing to stay out of the market can limit the impact of positive returns on a portfolio. For example, 6 out of the 12 months during 2011 the S&P 500 experienced a negative return, but the return for the entire 2011 calendar year was a positive 2.1%.

Although equities are typically more volatile in the short term, over longer time horizons equities have provided decreased return dispersion at a reduced risk level. As illustrated in **Exhibit 2**, from 1926 to 2011, the highest return during any 12 month period for the S&P 500 was 162.88%, and the lowest return during any 12 month period was -67.57%. This wide range of returns resulted in a higher level of risk (21.95%), as measured by standard deviation. Comparatively, 12 month returns for bonds during this same period ranged from 32.70% to -5.55%, with a risk level of only 5.53%. But as **Exhibit 2** further illustrates, as the time horizon increases, the range of returns for stocks narrows, resulting in decreased levels of volatility and risk.

Exhibit 2 – Historical Range of Returns of Stocks and Bonds for Different Holding Periods

(January 1, 1926 – December 31, 2011)



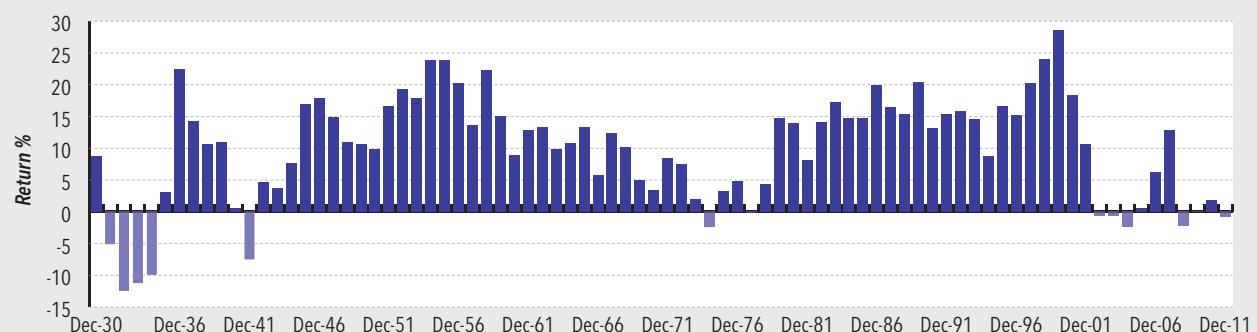
Past performance is no guarantee of future results. Data source: Morningstar Direct using Ibbotson Associates data. Periods greater than one year have been annualized. Chart represents annualized returns calculated over 12 month rolling periods. The dates shown represent the ending period for which the highest or lowest return for each holding period was achieved. Standard deviation is a measure of the dispersion of a set of data from its mean. The following proxies were selected for this example. Stocks: S&P 500 stocks as tracked by the Ibbotson Associates Large Company Stock Index; Bonds: One-bond Intermediate-Term Government Bonds portfolio. This analysis is based on rolling 12-month data for January 1926 through December 2011. This time period represents the complete historical Ibbotson Associates data available, for these indices, through December 31, 2011. Index returns include reinvestment of income but do not reflect inflation, fees, taxes or transaction costs that would reduce performance in an actual account. All indices are unmanaged and unavailable for direct investment. This information should not be relied upon as investment advice or recommendations, and is not intended to predict or depict performance of any investment. Other benchmarks and methods may produce different results, and different periods and market conditions may result in significantly different outcomes. Diversification does not ensure against market loss. This example is shown for illustrative purposes only. It is important to remember that there are risks inherent in any investment including loss of principal and there is no assurance that any asset class or index will provide positive performance over time.

INVESTORS MAY BENEFIT FROM HOLDING STOCKS FOR LONGER PERIODS

Time horizons can range from seconds, in the case of a day trader, all the way up to decades for a buy-and-hold investor. There is no “right” time frame – it depends on the investor’s individual objectives and tolerance for risk. Conventional wisdom dictates that the longer an investor has to reach their financial objective, the greater the allocation to equities should be. For example, an individual who is approaching retirement may have a smaller allocation to equities than an individual who is just entering the workforce. Allocating a portion of your portfolio to equities can provide the growth potential needed to achieve your goals over the long term. **Exhibit 3** examines five-year holding periods for each year ending 1930 through 2011. As illustrated, 84% of the time (69 out of 82 such periods) the S&P 500 Index delivered positive results with a five-year average annualized return of 9.9% between December 31, 1930 and December 31, 2011².

Exhibit 3 – S&P 500 Annualized Returns

For 5 year Periods Ending (December 31, 1930 - December 31, 2011)



Past performance is no guarantee of future results. Data source: Morningstar Direct using Ibbotson Associates data. The following proxy was selected for this example. Stocks: S&P 500 stocks as tracked by the Ibbotson Associates Large Company Stock Index. This analysis is based on five year annualized returns at the end of each year from December 1930 through December 2011. This time period represents the complete historical Ibbotson Associates data available, for these indices, through December 31, 2011. Index returns include reinvestment of income but do not reflect inflation, fees, taxes or transaction costs that would reduce performance in an actual account. All indices are unmanaged and unavailable for direct investment. This report contains no investment advice or recommendations and is provided for informational purposes only. Other benchmarks and methods may produce different results, and different periods and market conditions may result in significantly different outcomes. This example is shown for illustrative purposes only. It is not intended to predict or represent the results of an actual investment. It is important to remember that there are risks inherent in any investment including loss of principal and there is no assurance that any asset class or index will provide positive performance over time.

THE IMPORTANCE OF AN ALLOCATION TO EQUITIES

For example, according to a weekly survey of five Wall Street strategists by Bloomberg News, as of January 10, 2012 the average recommended allocation to stocks was 61.0%, while the average recommended allocation to bonds was 29.8%, and 7.0% to cash³—suggesting that equities are considered an important part of an investor’s portfolio.

BEAR MARKET RECOVERY WITH EQUITIES

As with bear markets of the past, the bear market of 2008 inspired fear and caused many investors to withdraw from the market completely, waiting for it to recover before reinvesting. No one can predict when the market will begin to recover, and trying to time the market may result in investors missing out on much of the market’s rebound. Missing the first year of returns can be significant. For example, in the prior bear markets as illustrated in **Exhibit 4**, the average one-year return of the S&P 500 for the first year after a market trough was 33%. Five years after a bear market,

stocks averaged a 15% annualized return. The impact of this in dollar terms is significant. Suppose two investors have \$100 to invest. The first investor stays out of the market the first year after the trough – he/she will still have \$100 one year later. Another investor enters the market, experiencing the recovery. Based on the one year average rate of return of the S&P 500 Index one year after the trough, this investor would have \$133. Even if both investors earn the same returns over the next four years, the first investor, who enters the market in year two and therefore missed the first year of equity returns, would have only \$154; the investor who stayed in the market would have \$201, a difference of 31%. It is important to note that past performance is no guarantee of future results. It is not possible to predict any investment outcomes. The results for individual portfolios and for different periods may vary depending on market conditions and the composition of the portfolio.

Exhibit 4 – Equities after a Bear Market

Hypothetical Example (January 1, 1926 – October 9, 2007)

Annualized Return After Trough

	1 Year	3 Year	5 Year
	<i>Stocks</i>	<i>Stocks</i>	<i>Stocks</i>
Average	33%	18%	15%
Median	31%	17%	16%
High	59%	28%	30%
Low	23%	10%	5%

Staying Out of the Market for the First Year After Trough

	1 Year	3 Year	5 Year
	<i>Stocks</i>	<i>Stocks</i>	<i>Stocks</i>
Average	0%	7%	9%
Median	0%	8%	10%
High	0%	13%	18%
Low	0%	1%	-1%

Past performance is no guarantee of future results. Data Source: Morningstar Direct using Ibbotson Associates data. This time period represents the complete historical Ibbotson Associates data available, for these indices, through the five years after the last bear market (October 10, 2002 – October 9, 2007). The following proxies were selected for this example. Stocks: S&P 500 stocks as tracked by the Ibbotson Associates Large Company Stock Index. This data is based on monthly total returns data. The calculation for the trough begins the first month of the trough + 12 months. The 2008 bear market is not included in this calculation because it has yet to generate a five year performance history for the annualized periods after a trough. The example shown is hypothetical and designed to illustrate the potentially negative effects of market timing. It is not intended to predict or represent the results of an actual investment. Different benchmarks and economic periods will produce different results. All indices are unmanaged and unavailable for direct investment. An individual investor's experience will vary and there is no assurance that an investment will provide positive performance over time.

THE VALUE OF EQUITIES IN A DIVERSIFIED PORTFOLIO

Equities within a portfolio over the long-term can be used to generate capital appreciation, while bonds or fixed income are generally used to preserve principal, generate current income, and mitigate market volatility and portfolio risk. Diversification strives to smooth out unsystematic risk events in a portfolio so that the positive performance of some investments will neutralize the negative performance of others. It has been argued that an undiversified fixed-income portfolio is actually riskier than a diversified portfolio that includes equities and alternative investments. But note, diversification alone does not guarantee a profit nor protect against loss. Investors may be well served to work with their advisor to periodically review and rebalance their portfolio, reassess their long-term objectives, and determine the appropriate allocation to equities based on their financial goals.

See additional disclosures and source references on page 5.

RISK AND OTHER IMPORTANT CONSIDERATIONS

Clients should consult their financial advisor regarding unknown financial terms and concepts.

This information is intended for use by clients with their financial advisors. Clients should consult their financial advisors before making any investment decisions. Financial advisors should consider the suitability of the manager, strategy and program for its clients on an initial and ongoing basis.

Investing entails risks and there can be no assurance that any investment or asset class will provide positive performance over any period of time. Stocks or equity securities involve market risk or the risk that stocks will decline in response to such factors as adverse company news or industry developments or a general economic decline. Bonds and other fixed-income investments involve interest rate risk, the risk that interest rates will rise, causing bond prices to fall; and credit risk, the risk that an issuer will be unable to make interest and principal payments when due.

IMPORTANT DISCLAIMERS

This analysis indicates past performance of market benchmarks over the time periods specified and in no way should be considered representative of the past performance of any actual investment product or predictive of future investment expectations and performance for these benchmarks or any actual investment products. Past performance is no guarantee of future results. Different benchmarks, methods and economic periods will produce different results. The results for individual portfolios may vary depending on market conditions and the composition of the portfolio. These index returns include reinvestment of income but do not reflect inflation, fees, taxes or transaction costs that would reduce performance in an actual account. All indices are unmanaged and unavailable for direct investment. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different outcomes.

This report is provided for informational and educational purposes only and contains no investment advice or recommendations to buy or sell any specific securities. The statements contained herein are based upon the opinions of Nuveen Investments and the data available at the time of publication. All opinions and views constitute our judgments as of the date of writing and are subject to change at any time without notice. Hypothetical examples are shown for illustrative and educational purposes only. Certain information was obtained from third party sources, which we believe is reliable, but not guaranteed for accuracy or completeness.

If used in connection with the offering of a mutual fund, this report must be preceded or accompanied by a prospectus.

ENDNOTES

S&P 500 Index: S&P 500* stock data was provided as tracked by the Ibbotson Associates Large Company Stock Index.

* The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure the performance of the broad domestic stock market. The S&P 500 Index in its present form began on March 4, 1957. Prior to the 500 Composite, from 1923-1926 S&P used as its first broad market indicator, a composite index of 233 stocks. In 1926, to disseminate market indicator information more frequently, S&P created a more manageable subset of stocks that became known as the S&P 90 Stock Composite Index. Prices for the 500 Composite were linked to the 90 Stock Composite to provide daily records back to 1928 and monthly data back to December 31, 1925.

Stocks: Stocks Total Return is based upon the S&P 500 stocks as tracked by the Ibbotson Associates Large Company Stock Index. The S&P Composite Index includes 500 of the largest stocks (in terms of stock market value) in the United States; prior to March 1957 it consisted of 90 of the largest stocks.

Bonds: Bonds Total Return consists of a one-bond Intermediate-Term Government Bonds portfolio* with an approximate maturity of five years. The bond chosen each year is the shortest noncallable bond with a maturity not less than five years, and it is held for the calendar year.

* Ibbotson Associates uses this portfolio to compare bond returns over time.

Cash: Cash Total Return consists of a one-bill U.S. Treasury Bills portfolio with an approximate maturity of 30 days. Each month a one-bill portfolio containing the shortest-term bill having not less than one month to maturity is constructed.

REFERENCES

1 Source: Morningstar Direct, S&P 500 stocks as tracked by the Ibbotson Associates Large Company Stock Index. The average annual return is based on the geometric average of monthly returns from January 1926 to December 31, 2011.

2 Source: Morningstar Direct, S&P 500 stocks as tracked by the Ibbotson Associates Large Company Stock Index. The five-year average annualized return represents the average of all of the five year annualized returns for each five year period ending 1930-2011.

3 Source: Bloomberg.com, Strategists' S&P 500 Forecasts, Allocation Guidelines (Table), Updated January 10, 2012. Some strategists may have recommended other asset classes for this analysis. Only the asset classes for stocks, bonds and cash were included in the computation of the average recommended allocation presented.