

New Decade,
New Choices
It's Your Move



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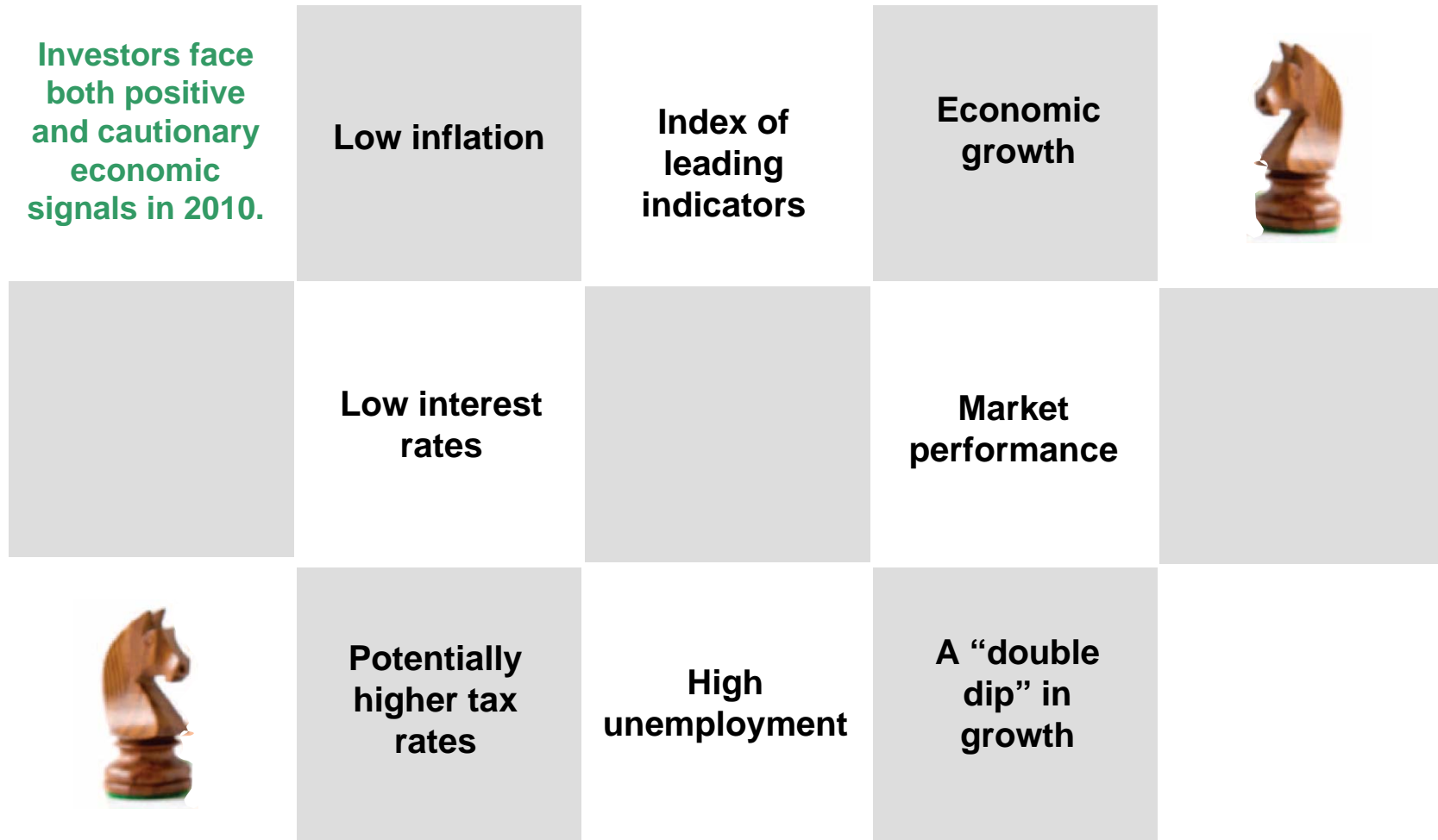
The game of chess has lessons for investors

To win this centuries-old game, players must:

- Anticipate potential risks and rewards
- Consider how each move fits into your master strategy
- Be ready to shift gears based on their opponent's moves



Today's "economic chessboard"



Today's "economic chessboard"

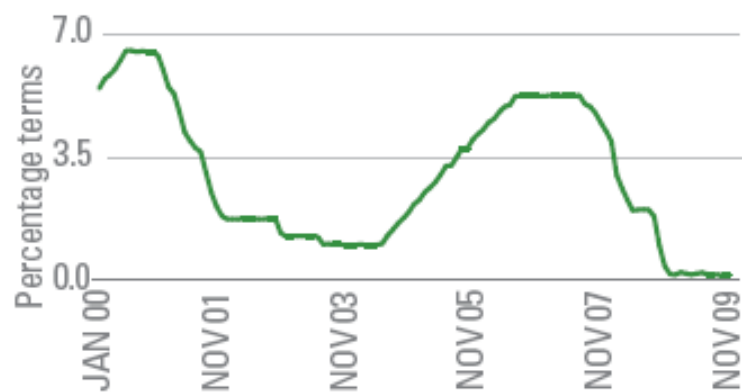
Low interest rates

- Fed is "on hold" for an extended period

Low inflation

- Good for stocks and bonds, as long as it lasts

Effective federal funds rate



Source: Federal Reserve, as of November 30, 2009.

Today's "economic chessboard"

Leading indicators

- Rising since April

Economic growth

- IMF projects U.S. gross domestic product to rise 1.5% in 2010

The Conference Board Leading Economic Index™ (LEI)



Source: The Conference Board, via Bloomberg, as of October 2009.

The Conference Board Leading Economic Index (LEI) is composed of 10 components: average weekly hours, manufacturing; average weekly initial claims for unemployment insurance; index of supplier deliveries — vendor performance; manufacturers' new orders, nondefense capital goods; building permits, new private housing units; stock prices, 500 common stocks; money supply, M2; interest rate spread, 10-year U.S. Treasury bonds less federal funds; and an index of consumer expectations. The Conference Board Leading Economic Index™ (LEI) is a trademark of The Conference Board Inc.

Today's "economic chessboard"

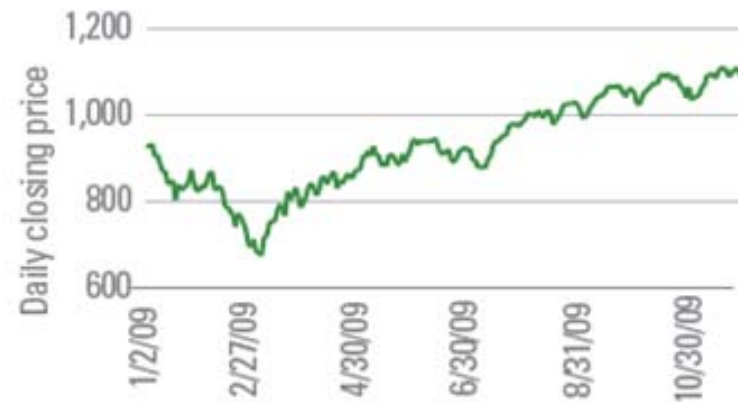
Market gains

- The Dow, S&P 500 and Nasdaq have all rebounded

The potential for a "double dip"

- ...if the economic stimulus is withdrawn too soon

S&P 500: 2009 daily closing price



Source: Standard & Poor's, via Bloomberg, as of November 30, 2009.

The S&P 500 Index is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S. The Dow Jones Industrial Average (DJIA) is a widely followed measurement of the stock market. The average is composed of 30 stocks that represent leading companies in major industries. These stocks, widely held by individual and institutional investors, are considered to be all blue-chip companies. The Nasdaq Composite Index is a market value-weighted index that measures all securities listed on the NASDAQ stock market.

Today's "economic chessboard"

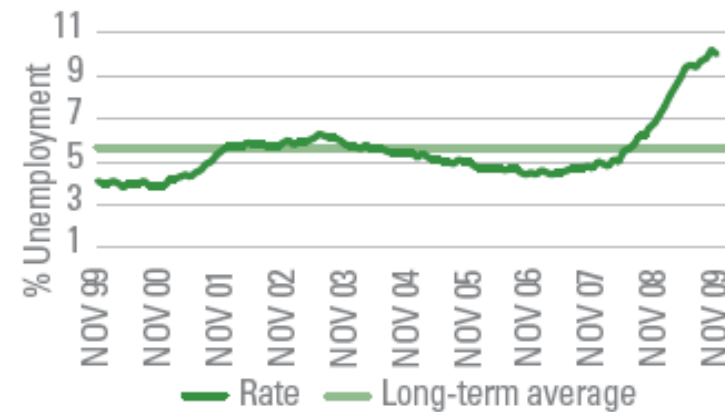
High unemployment

- A damper on consumer spending

Potentially higher tax rates

- To pay for increased government spending

Unemployment rate



Source: U.S. Bureau of Labor Statistics, via Bloomberg, as of November 2009.

What moves make sense for investors now?

In chess, your opening moves are the most critical...

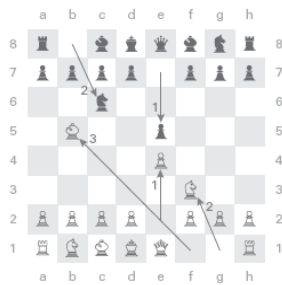
- “The Ruy Lopez”
- “The King’s Gambit”
- “The Sicilian Defense”



Three key “opening moves” for investors

THINK YIELD

Diversify your income portfolio



“The Ruy Lopez”

One of the most versatile openings, with dozens of variations

GET ACTIVE

Be selective about quality



“The King’s Gambit”

A bold opening that can lead to both risk and reward.

MANAGE RISK

Expect the unexpected



“The Sicilian Defense”

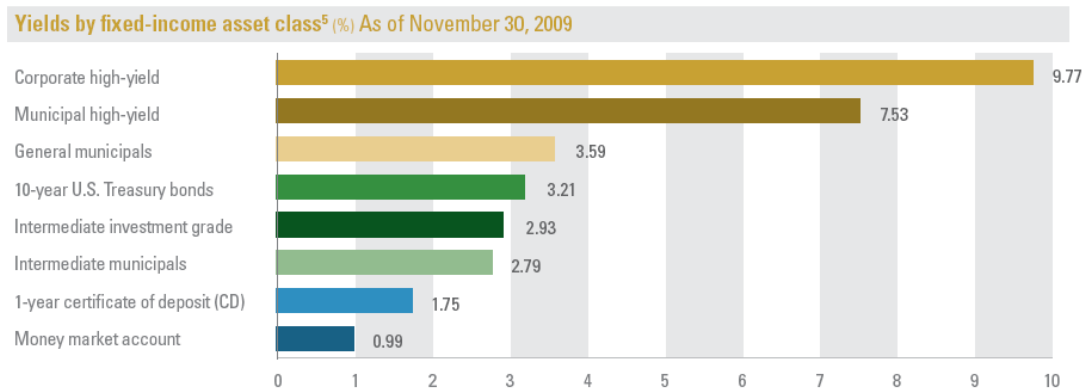
A defensive move that allows for a future counterattack.

Key move: think yield

Diversify your income portfolio

Raise your game and explore the fixed-income spectrum

- Returns on cash are historically low
- It makes sense to explore the whole spectrum of fixed income opportunities
 - Corporate bonds, mortgage backed, high-yield and municipals



Sources: Bloomberg, Bankrate.com, U.S. Treasury. The chart provided is for illustrative purposes only and does not represent the performance of any specific investment. Please note that an investor cannot invest directly in an index. Corporate high-yield is represented by the Barclays Capital U.S. Corporate High Yield Index, an unmanaged index that covers the universe of corporate fixed-rate, noninvestment-grade debt. Municipal high-yield is represented by the Barclays Capital High Yield Muni Index, an unmanaged index made up of bonds that are non-investment grade, unrated, or rated below Ba1 by Moody's Investors Service with a remaining maturity of at least one year. Intermediate investment grade is represented by the Intermediate component of the Barclays Capital U.S. Aggregate Index, a broad-based bond index composed of government, corporate, mortgage and asset-backed issues rated investment grade or higher and having at least one year to maturity. This component represents approximately 90% of the market value of the Index. Intermediate municipal bonds are represented by the 1-17 Year Blend component of the Barclays Capital Municipal Bond Index, a market value-weighted index of investment-grade municipal bonds with maturities of one year or more. This component includes bonds of maturities of 1-17 years and represents approximately 66% of the market value of the Index. 10-Year Treasury bonds are represented by U.S. Treasury Yield Curve Rates, with the yield interpolated by the U.S. Treasury from the Daily Yield Curve, as reported on <http://www.ustreas.gov>. General municipals are represented by the Barclays Capital Municipal Bond Index, a market value-weighted index of investment-grade municipal bonds with maturities of one year or more. 1-Year Certificate of Deposits (CDs) and Money Market accounts are represented by Bankrate.com's overnight averages, based on Bankrate's proprietary surveys of selected banking institutions.

Key move: think yield

Diversify your income portfolio

Make a dividend play

- Over the last 15 years, dividend-paying stocks have been a significant component of total returns
- Consider companies that have consistently paid dividends and historically demonstrated an ability to generate cash flow*

Annual return and contribution by dividends (%) 1995-2009				
Year	Price return	Dividend return	Total return	Dividend contribution to total return
1995	34.11	3.32	37.43	8.87
1996	20.26	2.81	23.07	12.18
1997	31.01	2.35	33.36	7.04
1998	26.67	1.90	28.57	6.65
1999	19.53	1.52	21.05	7.22
2000	-10.14	1.03	-9.11	N/A
2001	-13.04	1.16	-11.88	N/A
2002	-23.37	1.27	-22.1	N/A
2003	26.38	2.31	28.69	8.05
2004	8.99	1.89	10.88	17.37
2005	3.00	1.91	4.91	38.9
2006	13.62	2.17	15.79	13.74
2007	3.53	1.96	5.49	35.7
2008	-38.49	1.49	-37.00	N/A
2009	21.03	3.04	24.07	12.63

Sources: Lipper (total returns, dividend returns), Bloomberg (price returns), as of November 30, 2009. For 2009, the figure represents period 1/1/2009-11/30/2009. The chart provided is for illustrative purposes only and does not represent the performance of any specific investment. Please note that an investor cannot invest directly in an index. All statistics have been obtained from sources believed to be reliable, but the accuracy and completeness of the information cannot be guaranteed. The S&P 500 Index is an unmanaged index of 500 stocks that is generally representative of the performance of the larger companies in the U.S. There is no assurance that a company will pay a dividend, or that current dividend rates will be maintained.

*Note: Dividends are not guaranteed, and a company may reduce or eliminate its dividend at any time.

“Think yield” - strategies to consider

Diversified fixed income

- A broad mix of holdings with the goal of capturing yield while managing risk
 - Corporate bonds
 - Mortgage-backed bonds/securities
 - High-yield bonds
 - Municipal bonds

Dividend-paying stocks

- Providing income as well as potential appreciation

Key move: get active

Be selective about quality

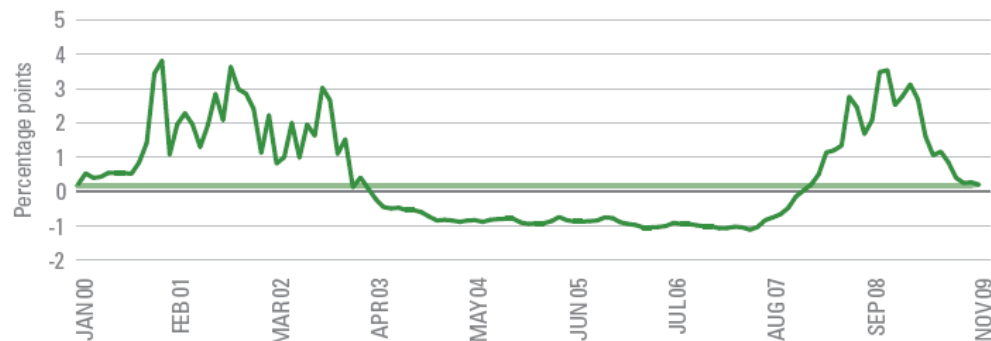
A shift of the board: the rally of 2009

- There's reason to believe that going forward, quality may be king

The “quality gambit”: Not all stocks are created equal

• Today, valuation spreads have compressed to average levels. With spreads now relatively “normal,” the ability to analyze companies, to select companies that will deliver appreciation over time, becomes crucial. And that's where “get active” – with active management — comes in.

**Stock valuation spread;
Lowest quintile vs. average**



Source: Empirical Research Partners, as of November 30, 2009. Subject to change. Based on an analysis of 1,000 U.S. stocks.

Key move: **get active**

Be selective about quality

Gaining control of the board: The power of active management

- Active managers have the expertise to help identify quality companies...
- ...by analyzing relevant statistics about companies and industries...
- ...and weighing current opportunities against knowledge of historical conditions, market cycles and industry or sector-specific trends and developments

“In our opinion, it is not necessary for all managers to beat the market in order for active management to be validated as an approach.”

Chuck Royce, President, Co-Chief Investment Officer and Portfolio Manager, Royce & Associates

“Get active” strategies to consider

High-quality equities

- ...with “quality” based on business fundamentals such as revenue growth, free cash flow and debt service

Key move: manage risk

Expect the unexpected

Diversification Risk*

- It's clear now that there are benefits to diversifying broadly, with a global perspective...
- ...recognizing that other parts of the world may experience stronger growth than the U.S. economy at different times



Strategies to consider:

- **Global tactical allocation** – with a mandate to shift dollars between asset classes based on changing conditions
- **Multinationals** – with exposure to opportunities outside the U.S.
- **Emerging markets equities** – from developing countries such as India and China

*While investing outside of the U.S. has risks based on currency fluctuations and social, economic, and political uncertainties, over the last decade, many other countries have greatly improved their economic position relative to the U.S.

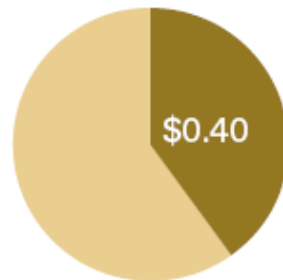
Key move: manage risk

Taxation Risk

- With government spending at record levels, there's a good chance that tax rates may rise...especially for the affluent

Income tax and the national debt

Debt service on current \$2 trillion debt now represents 40 cents of every income tax dollar.



Strategies to consider:

- **Municipal bonds** – based on Federal income tax exemption
- **Roth IRA conversion** – which may allow investors to pay taxes now in advance of potentially higher tax rates later on

Source: U.S. Office of Management and Budget, September 2009.

Key move: manage risk

Longevity Risk

- Taking too conservative an approach to investing may make sense in the short run, but not in the long run
- Incorporating managers with a track record of generating alpha* in a portfolio allocation may enable investors to reach more long-term goals

"What is easy to do is usually the wrong thing to do. What is hard to do often works out better."

Harry "Hersh" Cohen, Managing Director, Senior Portfolio Manager, Chief Investment Officer,
ClearBridge Advisors

Strategies to consider:

- **Equities** – companies that professional managers feel may be trading at a discount – or where potential for appreciation exists based on a firm's financial profile and/or competitive position

*Alpha is a measure of performance versus a benchmark (index) on a risk-adjusted basis.

Whatever move you choose...

...the important thing is having a game plan



At Legg Mason, we've assembled a collection of experienced investment management firms and empowered each of them with the tools, the resources and, most importantly, the independence to pursue the strategies they know best.

- Each was purposefully chosen for their commitment to investment excellence.
- Each is focused on specific investment styles and asset classes.
- Each exhibits thought leadership in their chosen area of focus.
- Together, we've built a powerful portfolio of solutions for financial professionals and their clients.

And it has made us a world leader in money management.*

All investments involve risk including possible loss of principal.

*Ranked eleventh-largest money manager in the world, according to *Pensions & Investments*, May 18, 2009, based on 12/31/08 worldwide assets under management.

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