A time for action

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Please see slides 28 and 29 for important disclaimers.
What does uncertainty mean for the economy?
You have questions

What will Congress do about the fiscal cliff?

What will drive economic growth?

What about inflation?

Is the economy really improving?

The tax compromise is only part I. January and February should bring more messy negotiations over spending and debt.

Consumer spending will remain the primary driver.

Inflation of about 2.5%.

Yes, people are adjusting (see chart on next slide)
Household Finances Are Improving Rapidly

Household Total Debt, as a Share of National Income*

Sources: Bloomberg and Wells Fargo Advisors
*National Income is measured as gross domestic product
You have questions

Where is the stock market likely headed?

Will small-cap stocks perform better than large cap?

What sectors look the most attractive?

We believe the S&P 500 will end 2013 higher.

We favor large-cap versus smaller-cap stocks.

Cyclically sensitive sectors should perform well in the coming months.
Economic outlook

Federal debt appears sustainable – for now

Source: Office of Management and Budget/Haver Analytics

Past performance is no guarantee of future results.
Where does the stock market go from here?
U.S. equities outlook

Economic indicators are positive

Estimates are not guaranteed and are subject to change.

Source: Conference Board, Wells Fargo Advisors
**U.S. equities outlook**

Operating earnings should move higher

![Graph showing S&P 500 Index Operating Earnings](source: Haver Analytics, Wells Fargo Advisors)

*Past performance is no guarantee of future results. Estimates are not guaranteed and are subject to change.*
### U.S. equities outlook

Cyclically sensitive stocks should outperform

#### Equity sectors – recommended portfolio weightings

*As of Nov. 26, 2012*

<table>
<thead>
<tr>
<th>Sector</th>
<th>Overweight</th>
<th>% of S&amp;P 500</th>
<th>Guidance</th>
<th>Evenweight</th>
<th>% of S&amp;P 500</th>
<th>Guidance</th>
<th>Underweight</th>
<th>% of S&amp;P 500</th>
<th>Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Discret.</td>
<td>11.4%</td>
<td>13.3%</td>
<td>Consumer Staples</td>
<td>11.0%</td>
<td>11.0%</td>
<td>Energy</td>
<td>11.0%</td>
<td>10.2%</td>
<td></td>
</tr>
<tr>
<td>Info. Tech.</td>
<td>19.2%</td>
<td>23.5%</td>
<td>Industrials</td>
<td>10.1%</td>
<td>10.5%</td>
<td>Financials</td>
<td>15.0%</td>
<td>12.7%</td>
<td></td>
</tr>
<tr>
<td>Materials</td>
<td>3.5%</td>
<td>5.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Health Care</td>
<td>12.2%</td>
<td>9.8%</td>
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<tr>
<td>Telecom.</td>
<td>3.1%</td>
<td>4.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Utilities</td>
<td>3.4%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Note: Weightings may not add to 100% due to rounding.

*Source: Bloomberg, Wells Fargo Advisors*
Are higher interest rates around the corner?
You have questions

Will interest rates rise?

We believe interest rates will remain historically low in coming months.

What will the Federal Reserve do?

The Fed will continue with its open-ended quantitative easing.

Where are the opportunities in fixed income?

We recommend credit-sensitive sectors for longer-term investors.
Fixed income outlook

Interest rates should remain low

Past performance is no guarantee of future results.
# Fixed income outlook

## Recommended portfolio weightings

*As of Nov. 30, 2012*

### Fixed income

<table>
<thead>
<tr>
<th>Overweight</th>
<th>Slight overweight</th>
<th>Evenweight</th>
<th>Slight underweight</th>
<th>Underweight</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate bonds</td>
<td>Mortgage-backed securities</td>
<td>Treasury Inflation-Protected Securities</td>
<td>International developed-market debt</td>
<td>Slightly short*</td>
<td></td>
</tr>
<tr>
<td>High-yield securities</td>
<td>U.S. Treasuries</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Agency securities</td>
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<tr>
<td>Preferred securities</td>
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<tr>
<td>Emerging-market debt</td>
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<tr>
<td>Municipal bonds</td>
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</table>

*We recommend a duration of approximately 4.25 years in taxable portfolios and 6.75 years for tax-exempt portfolios. Duration, stated in years, can be used to estimate the percentage change in a bond’s value that results from a 1% change in interest rates. The longer (higher) the duration, the more prices will fluctuate as interest rates rise and fall.*
What lies ahead for international investments?
You have questions

Will global economic activity improve in 2013?

Does the euro zone still face breakup risk?

Why does geopolitical turbulence keep building?

Global reacceleration likely; inventories have worked down

Yes, but financial measures have subdued the risk – probably until 2014

We think the effects of the Cold War’s end have yet to work through completely.
You have questions

Is U.S. dollar the losing its status as the world’s premier reserve currency?

Can the dollar gain in 2013?

What about against the emerging-market currencies?

There are more reserve currencies today, but none is likely to replace the greenback anytime soon.

We think the dollar gains on the euro, yen, & pound.

The dollar should slide against dollar-block and emerging-market currencies.
International outlook

The international outlook is improving

Source: Bloomberg and Wells Fargo Advisors
International outlook

Keys we see to international investing

- International tensions from 2012 could spill over into 2013
- In this environment, we think investors should:
  - Diversify
  - Keep a long-term focus
  - Be selective
Opportunities in international investments

• We like emerging-market equities and sovereign debt.
• Emerging-market currencies should perform well.
• The dollar is likely to:
  • Underperform emerging-market and commodity-based currencies
  • Outperform the euro, yen and, to a lesser extent, British pound
• Metals and petroleum should benefit from improved global economic growth.
• Industrial commodities may outperform other commodities.
• Gold prices may increase.
What does it all mean?
2013 economic and financial market review

- The slow economic recovery should continue.
- Inflation should remain in check.
- Unemployment is likely to improve slightly.
- The stock market should move ahead.
- Interest rates should remain low.

**Forecasts**

<table>
<thead>
<tr>
<th>Year-end 2013</th>
<th>2.5%</th>
<th>2.5%</th>
<th>7.5%</th>
<th>1,525-1,575</th>
<th>2.50%</th>
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<tbody>
<tr>
<td>Real GDP</td>
<td></td>
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<tr>
<td>CPI inflation</td>
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<tr>
<td>Unemployment</td>
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<tr>
<td>S&amp;P 500</td>
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<tr>
<td>10-year Treasury yield</td>
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</table>
2013 commodity market review

- Improving global growth should boost commodity demand...

- ...but high inventories may slow price gains early in the year.

- In energy, modest crude and product price gains...

- But natural gas price may finally begin to stabilize later in the year.

- Gold price should gain further, while central banks pump up money supplies

**Forecasts**

<table>
<thead>
<tr>
<th>Year-end 2013</th>
<th>Copper (price per pound)</th>
<th>$3.98</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil (per barrel) (West Texas / Brent)</td>
<td>$100 / $118</td>
<td></td>
</tr>
<tr>
<td>Nat. gas (per million BTU)</td>
<td>$3.00</td>
<td></td>
</tr>
<tr>
<td>Gold (per troy ounce)</td>
<td>$1,875</td>
<td></td>
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</tbody>
</table>
What should you do?
Why Do Anything?

• Many people are very intolerant of risk

• Prefer to sit in cash, wait out volatility, make it up later

• But here are three reasons to balance growth and risk
  • Uncertainty is ever-present – maybe more so in the future
  • Policy so far has been short-term and temporary (so more permanent policy changes may be necessary later)
  • Sitting in cash will not get you to your long-term goals
Focus on asset allocation

Strategic moderate growth and income model

- Cash alternatives: 2%
- Fixed income: 3%
- Alternative income: 18%
- Equities: 31%
- Equities: 46%
- Commodities: 0%
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Working toward your goals

The Envision process uses Monte Carlo simulations, which are based on historical and hypothetical information; there is no guarantee that investments will perform in accordance with the simulated trials.

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Please Print

Name: ___________________________ City: ___________________________

Address: _________________________ State: __________ Zip: __________

Presentation Content:

☑ Excellent ☐ Good ☐ Poor

Speaker's Presentation:

☑ Excellent ☐ Good ☐ Poor

Overall Length of Presentation:

☑ Just Right ☐ Too Long ☐ Too Short

Other Comments: ____________________________________________________

How can we help you?

☐ I would like to meet with you for a complimentary consultation.

Daytime phone: ____________________________

Evening phone: ____________________________

Best time to call: __________________________

E-mail: __________________________

Occupation: __________________________

Company: __________________________

☐ I would like more information on the following:

☐ I am interested in having you speak to my club/group/association.

☐ Educational topics such as Fundamentals of Investing, Saving for Retirement:

☐ Other: __________________________________________________________

☐ I am interested in learning about the following:

☐ Retirement planning:

☐ College planning:

☐ Other: __________________________________________________________
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