BANK OF AMERICA MERRILL LYNCH
GLOBAL WEALTH & INVESTMENT MANAGEMENT

Merrill Lynch Outlook 2013
Lisa Shalett

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What portfolio changes could investors consider in 2013?

Lisa Shalett
Chief Investment Officer
Merrill Lynch Global Wealth Management

As we think about 2013, the overall theme is becoming more activist in your portfolios. We recognize that the last several years have been fraught with fear and controversy. Many clients over the last several years have felt that cash has been their safest place to be. We believe as the global economy begins to grow again that inflation becomes a threat. In that environment, cash actually loses real purchasing power.

As we enter a new year, it's really time for us to start being tax-aware with our portfolios, as well as really moving into the market with those cash positions toward more of a weight towards equities.

Why We Favor Equities

- **Are a good source of income (via dividends & share buybacks)**
- **Are attractively valued vs. bonds**
- **Provide potential for capital appreciation**

The reason for our preference for equities is several-fold. Equities today are a good source of income, vis-à-vis dividends and buybacks. Equities are attractively valued especially versus bonds and have the added attraction of providing the potential for capital appreciation.

Potential Risks for Bonds

- **Could be nearing end of a 30-year bull market**
- **Long duration and credit (corporate bonds) could be at risk**
- **Rising interest rates could impact principal**

Bonds on the other hand, we believe are at the end of a thirty-year bull market. Investors should begin to re-evaluate the risks that may exist in their bond portfolios, particularly from long-duration or from credit. Increasingly, bonds may be vulnerable to rising interest rates, a risk that could threaten principal in the short term.

“Globalize” Your Portfolio

- **Europe**
- **Japan**
- **Emerging Markets**
- **Frontier Markets**

A third area of advice continues to be the desire to globalize your portfolio including investments from Europe, Japan, and emerging markets. Given our view that global growth will in fact increase in 2013, even higher risk, frontier markets may provide an important source of growth.

A last and final piece of advice really has to do with thinking through what other risks may exist in your portfolio. The risk of inflation, for example, can potentially be mitigated by adding some exposure to gold.

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