



Investment Strategies for New Market Realities

After a powerful market rally from last year's lows, a shift in investor sentiment from extreme optimism about the recovery to heightened fear of a double-dip recession has decisively moved the market into a correction. Investors have abandoned stocks and sought safe havens in more defensive investments, such as Treasuries and gold. Our preference for high quality U.S. assets, strategies that capitalize on both falling and rising markets, and a modest allocation to riskier asset classes reflects our expectations for a slow growth, volatile market. Since we expect this environment to present fewer opportunities, our ability to act nimbly in identifying and responding to emerging trends will continue to be important during this uneven recovery.

The Return of Volatility

Second quarter results certainly illustrate an increase in market volatility — equity markets declined by 10%; the VIX, a closely watched gauge of investor fear, spiked; and Treasury yields, as measured by the 10-year note, fell below 3%. Global markets have become increasingly interconnected; what happens in one part of the world can have an immediate impact on other markets. As we have recently seen, for example, reactions to headlines about Greece's debt troubles, fiscal tightening in Europe and China's overheated economy have caused extreme market volatility. As illustrated in Exhibit E, the VIX recently jumped to its highest level since March 2009, when the equity market hit its low.

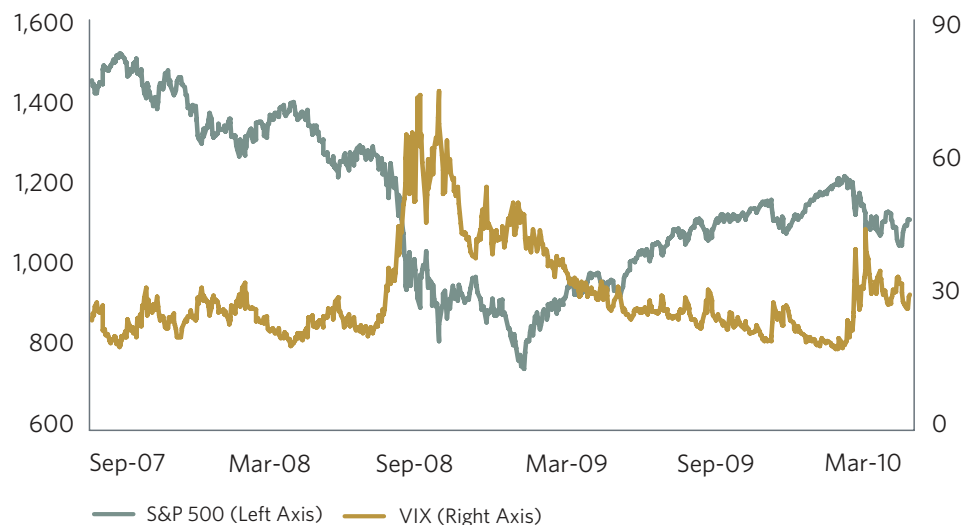
Fixed Income

Diversification and Due Diligence

The importance of diversification across fixed income sectors was recently demonstrated when concern over the Eurozone debt crisis caused investors to abandon riskier assets in favor of U.S. government debt. Treasury yields fell to their lowest levels since October 2009, with the 30-year bond and 10-year note yields just below 4% and 3%, respectively (See Exhibit F). Spreads on investment grade and high yield debt also widened, although not to the extremes seen in 2008.

Exhibit E

Return of Volatility
S&P 500 Performance vs. VIX Index Since 10/9/07 Market High



As of 7/15/10. Source: Bloomberg LP.

Given these recent rate movements, Treasuries currently provide less opportunity for return, making short- and intermediate-term investment grade bonds more attractive. For those investors who are increasingly concerned about the threat of higher inflation, Treasury Inflation Protection Securities (TIPS), with an implied 10-year forward inflation rate of 1.85%, still provide inexpensive insurance against rising inflation. We expect Treasury rates, as measured by the 10-year Treasury note, to trend higher but more slowly than previously forecast.

Due to the budget deficits faced by many state and local municipalities, the municipal bond market has its own share of challenges. While municipal bonds still provide value to investors in this environment, the situation reinforces the importance of employing an active due diligence process that incorporates bottom-up credit

research. On the surface, supply is high, but the true supply of tax-exempt securities has decreased dramatically due to the Build America Bonds program (taxable debt issued by municipalities). We believe demand for tax-exempt bonds will remain strong, especially in light of higher taxes, and that this will favor a diversified portfolio of short-to-intermediate bonds, with broad geographies that are backed by reliable revenue sources.

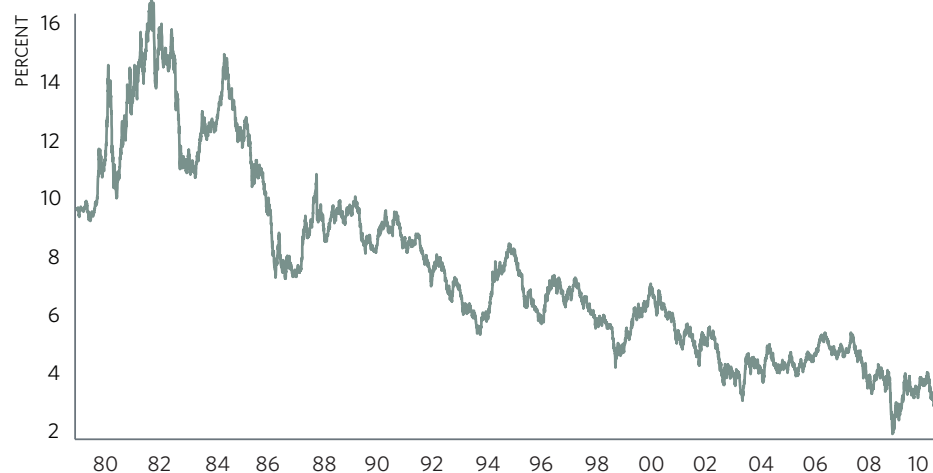
Finding Equity Opportunities in a Volatile Market

The long list of macroeconomic concerns resulted in an exodus from riskier assets and a much anticipated correction. While it will take time to resolve these concerns, uncertainty should begin to subside and eventually move stocks higher.

U.S. corporate earnings went from an all-time high during the second quarter of 2007 to a loss during the financial crisis. Initially driven by previous cost cutting, inventory drawdowns and reduced capital spending, profits now are being boosted by sales once again. Although many analysts are reducing earnings estimates for the second half of 2010 and 2011, valuations appear relatively attractive. Earnings likely will continue to improve as consumers become more comfortable with spending and corporations deploy record levels of cash on their balance sheets. We estimate year-over-year earnings growth for the S&P 500 will be roughly 28% in 2010 and 17% in 2011, led by cyclical sectors such as industrials, financials and consumer discretionary, as illustrated in Exhibit G.

Exhibit F

Treasury Yields Near Historic Lows 10-Year Constant Maturity Treasury Note Yields



As of 7/19/10. Source: Ned Davis.

Exhibit G

Earnings Growth Projections S&P 500 Sectors (year-over-year percentage change)

| Sector | 2010 | 2011 |
|------------------------|------|------|
| Consumer Discretionary | 39% | 16% |
| Consumer Staples | 6% | 7% |
| Energy | 48% | 24% |
| Financials | 74% | 35% |
| Health Care | 7% | 9% |
| Industrials | 12% | 20% |
| Information Technology | 37% | 13% |
| Materials | 70% | 26% |
| Telecommunications | -7% | 12% |
| Utilities | 2% | 4% |
| S&P 500 | 28% | 17% |

As of 6/29/10. Source: Thomson Reuters.

Unlike last year's rally of lower quality stocks, when investors were rewarded for taking risk, skillful stock selection will be rewarded in this environment. At BNY Mellon, for instance, we have positioned portfolios with an overweight exposure to high quality large cap companies that have strong balance sheets. Although we are cautious about our non-dollar exposure, we continue to have a positive long-term view of emerging markets in light of their strong growth prospects and emerging middle classes.

Opportunities in Alternative Investments

This environment of increased volatility highlights the importance of alternative investments within a diversified portfolio. Multi-directional strategies, managed futures and opportunistic debt strategies, in particular, can add value during this type of environment. The current disparity between stocks that are doing well and those that are not provides long/short managers with an opportunity to take advantage of these anomalies by taking short positions. We also have introduced a managed futures solution to provide diversification and protection from downside risk.

In private equity, as is common before and during economic recoveries, early buyouts with limited access to capital offer attractive valuations. Thus, we continue to advocate a fund-of-funds approach that provides access to top-tier managers. We also see attractive risk/reward opportunities within the distressed and mezzanine debt spaces, where the continued absence of funding for private investments is resulting in historically high yields with the potential for equity participation.

Our dynamic approach to asset allocation can help us take advantage of the right opportunities in this challenging market.

Opportunities in real estate are still bifurcated between the public REIT market and private real estate. Public REITs have had strong returns over the last 12 months, propelled by access to credit and investor demand for yield. Dividends from REITs appear attractive, but this is somewhat offset by the improvement already seen in REIT prices. Private real estate still is somewhat challenged, although we expect interesting opportunities will begin to emerge in the near term as access to funding improves.

Investment Strategy

In summary, a few high level views guide our investment strategy for the remainder of 2010.

We believe that:

- The economic recovery is sustainable, although global economic and policy issues will deliver uneven growth
- Unemployment has reached a bottom but will remain elevated near term and only improve slowly
- Inflation will remain contained
- Consumer fundamentals are strained but slowly improving
- Interest rates should remain low into 2011
- Treasury yields again have been pushed to unattractive levels due to the recent flight to safety and near-term deflation fears

Our investment strategy for the next 12-18 months, as illustrated in Exhibit H, is balanced between protecting principal and positioning portfolios to benefit from the continued recovery. We understand it can be easy to lose sight of long-term goals when markets are as volatile as they have been recently. However, at some point, strong corporate profits, contained inflation, low interest rates and significant cash on the sidelines should allow the stock market to resume its upward trend.

Exhibit H

Investment Strategy

| ASSET CLASS | CURRENT THINKING |
|-------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Treasury Bonds | The treasury market is increasingly volatile as investors seek safety. Less return opportunity exists, given low rates. We recommend less exposure to Treasuries in favor of certain spread products. |
| Corporate Bonds | A defensive positioning of high quality, short-to-intermediate corporate bonds will protect portfolios against any significant interest rate movement. |
| High Yield Bonds | Yields on high yield bonds can add income to portfolios for those comfortable with the associated risk. However, less opportunity for appreciation exists. |
| Municipal Bonds | Municipal bonds are attractive relative to Treasuries and continue to offer long-term value for tax-sensitive portfolios. Bottom-up credit analysis will be critical, however, given the fiscal challenges many states and municipalities are facing. |
| Treasury Inflation Protection Securities | Although inflation should remain contained near term, TIPS provide relatively inexpensive insurance for those concerned about inflationary pressures. |
| Domestic Equity | Within equity allocations, higher quality, large cap companies with global exposure should be favored. Careful stock selection within a broadly diversified portfolio will be essential. |
| International Equity | Global diversification remains important. Emerging markets should drive global growth; thus we favor these markets versus developed markets. |
| Commodities | Commodities may provide some protection against future inflation and should benefit from the global recovery. We expect continued price weakness near term but do not advocate a further increase at this time. |
| Real Estate | Recent REIT market strength and the rebound in private real estate benchmarks are clear evidence of a bottom. Public REITs with strong balance sheets have been well positioned to take advantage of discounts; private real estate may still encounter difficulties due to limited credit access. |
| Hedge Funds | We continue to stress the important role that lower correlated strategies can play in diversifying portfolios, as illustrated by our recent addition of a managed futures strategy. |
| Private Equity | We believe in diversified exposure across sectors, strategies, stages and vintage years. This environment, however, has created unique opportunities within mezzanine and distressed debt that can provide the potential for enhanced returns over the long term. |

As of 7/19/10. Source: BNY Mellon Wealth Management.

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