

2020 VISION

The Case for Equities
in the Decade Ahead



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INVESTMENTS

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**BULL MARKETS are born on pessimism,
grow on skepticism, mature on optimism
and die on euphoria.**

—Sir John Templeton, Templeton Funds Founder and Former Chairman

Five Reasons You Should Consider Equities for the Next Decade

Hindsight is 20/20. The technology bubble that popped beginning in 2000, the liquidity crisis that began in 2007 and 2008/2009's deep recession have provided dramatic illustration over the last 10 years that markets hold risk. With the benefit of hindsight, some investors might have chosen to avoid equities during the last decade. But many investors are turning their backs on equities now—*after* one of the worst decades the stock market has ever seen. So it begs the question—are they likely to see a repeat of the decade that just ended?

The following pages seek to offer 2020 insight—illuminating five reasons why equities may have a favorable outlook for the decade ending in the year 2020.

1] History Favors a Return to the Mean

Investors often assume the worst (or best) will continue—it's important to consider long-term market history.

2] The World is Getting Smaller (and More Prosperous)

The world is not only shrinking, but developing nations are experiencing growth of the middle class and consuming products and services at a rising rate.

3] Innovation Will Surprise Us...Again

While we should expect change (but never fully do), the real surprise might be the pace at which it occurs.

4] Quality Companies Are Not Short-Sighted

The market is continually growing and changing. While some companies don't survive this evolutionary process, the strongest benefit from it.

5] Equities Help Protect Purchasing Power

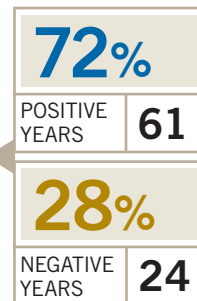
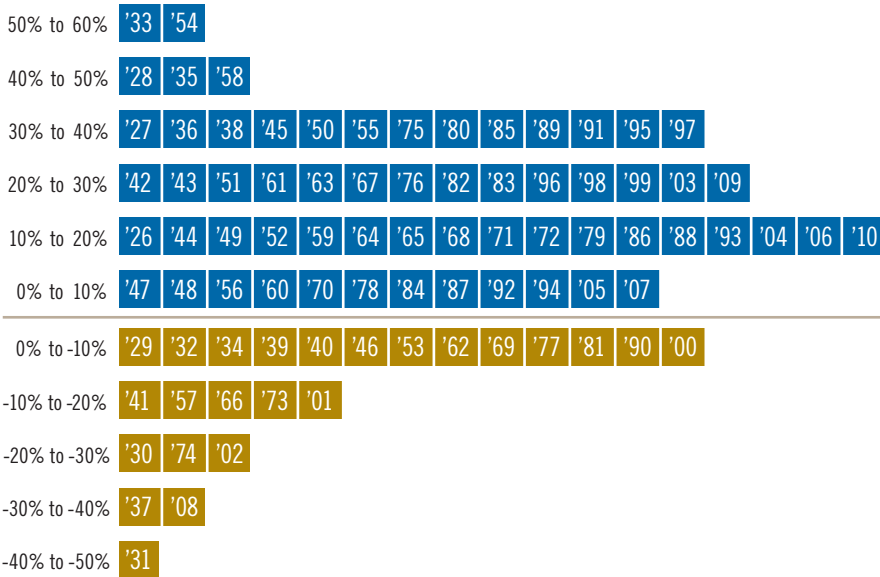
For most investors, adding equities as part of their investment mix may help reduce the potential risk of their overall portfolio.

1] History Favors a Return to the Mean

Volatility has always been a part of equity investing. As you can see below, the S&P 500 Index has produced positive annual returns approximately 70% of the time and negative returns roughly 30% of the time. But look at returns over a longer time frame. A 10-year perspective has worked in an investor's favor 95% of the time.

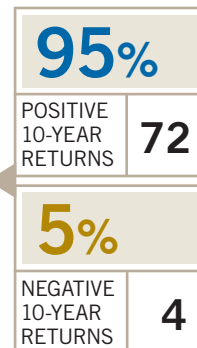
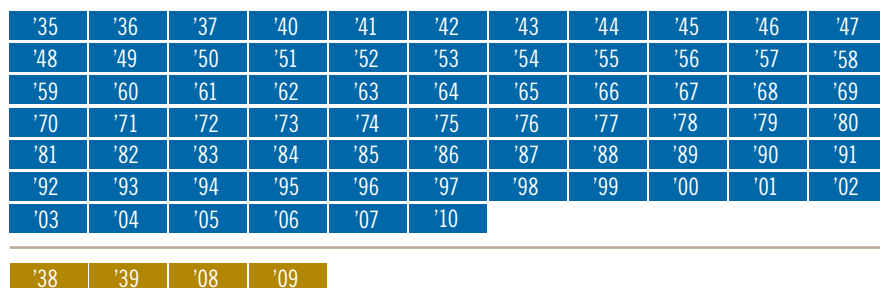
Annual Returns of the S&P 500 Index—Positive vs. Negative¹

Total Return Ranges



10-Year Returns of the S&P 500 Index—Positive vs. Negative¹

10-Year Periods Ended:



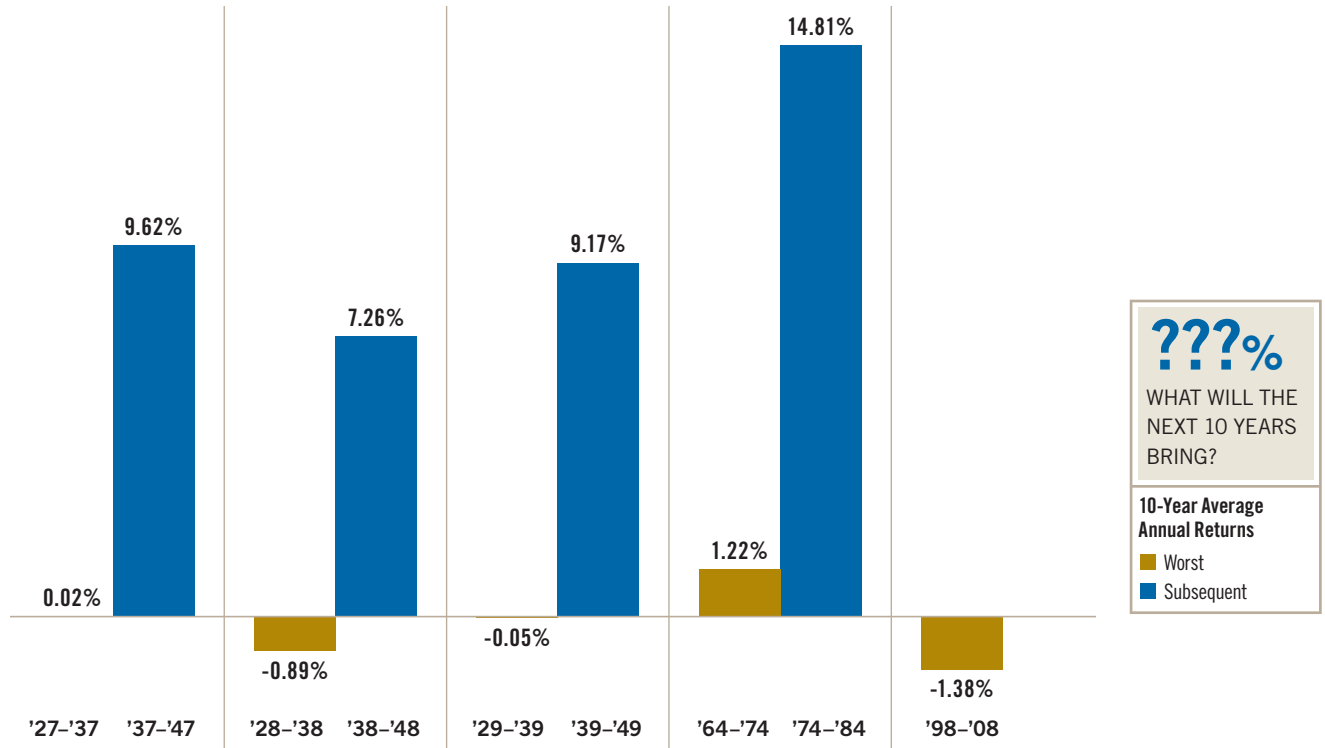
Charts are for illustrative purposes only and do not reflect the performance of any Franklin, Templeton or Mutual Series fund.

1. Source: © 2011 Morningstar. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

WHAT HAPPENED NEXT?

As you can see below, the historical 10-year average annual returns following the worst 10-year period average annual returns since 1926 have benefited those who were invested in stocks. The decade ahead remains a question mark.

S&P 500 Index Worst 10-Year Average Annual Returns with Subsequent 10-Year Average Annual Returns²



IMPORTANT POINTS TO REMEMBER

While many extrapolate the most recent trend into the future, market history tells a different story.

- Following a negative 10-year return, the subsequent historical 10-year return was positive.
- After the eight worst 10-year returns prior to 2008, the subsequent 10-year cumulative return was in excess of 100% and on average the 10-year average annual return was greater than 12%.

Chart is for illustrative purposes only and does not reflect the performance of any Franklin, Templeton or Mutual Series fund.

2. Source: © 2011 Morningstar. Indexes are unmanaged and one cannot invest directly in an index. Since no subsequent 10-year results are available for years past 2000, only 2008 was included to demonstrate that the next 10 years are still unknown. For the 10-year periods ended 2009 and 2010, the S&P 500 Index returned -0.95% and 1.41%, respectively. **Past performance does not guarantee future results.**

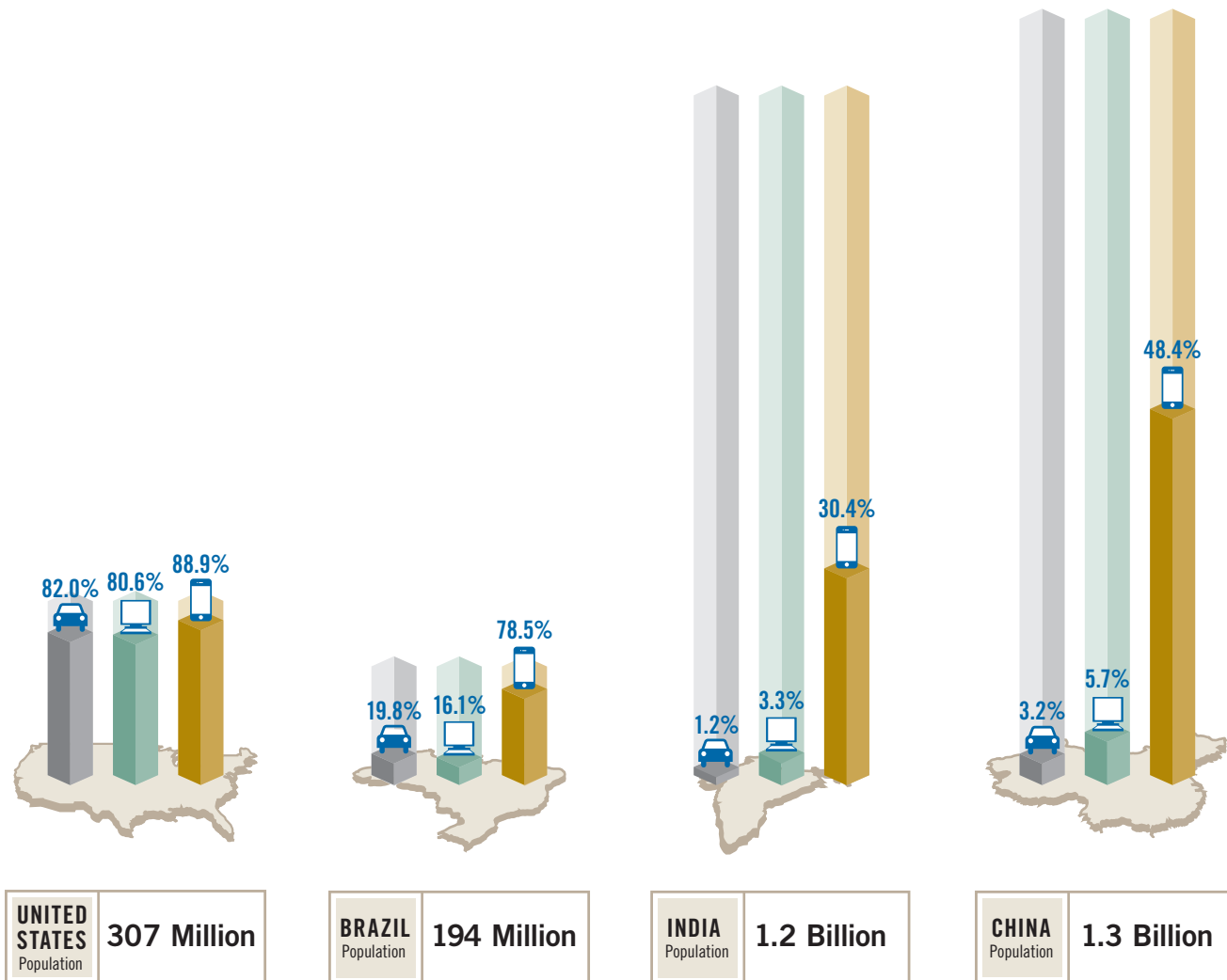
2] The World is Getting Smaller (and More Prosperous)

The world is economically integrated and becoming more so. As developing nations grow wealthier from demand for their exports, they are growing a middle class. In turn, this group collectively aspires to the goods associated with the wealth of more developed nations, which increases global consumption, drives global trade, produces investment opportunities and drives stock markets.

Potential for Increased Consumption³

Solid bars show current consumption of cars, computers and cell phones.

Shaded bars show potential based on population.



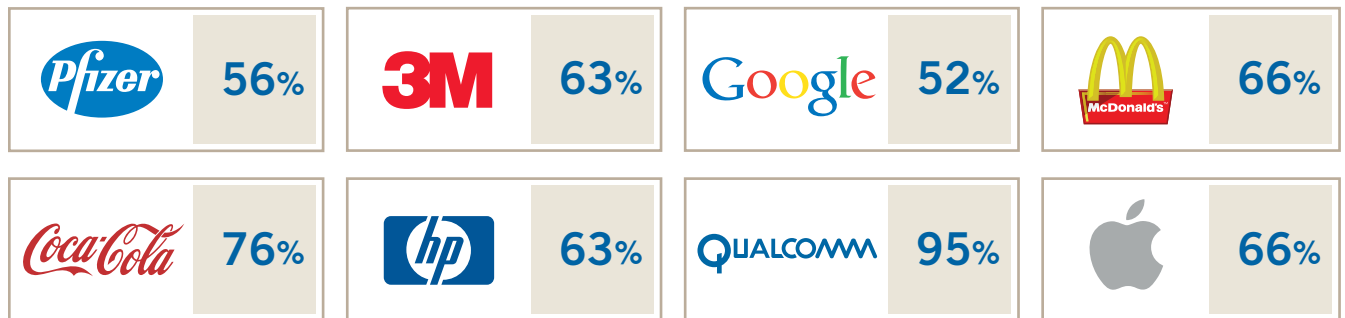
3. Sources: © 2010 World Bank (World Development Indicators), ITU (International Telecommunications Union). As of 2009, most recent data available.

BORN IN THE USA, ADOPTED GLOBALLY

In 1492, Columbus spent months reaching America. By 1942, ships were still the primary means for intercontinental travel, but sails had been eclipsed by diesel engines. Today, you can overnight packages to Europe.

The global connection of people and ideas around the world is almost instantaneous, and physical trade barriers have been significantly reduced. Local markets are global markets and global producers are often local producers.

Percentage of Revenues Generated Overseas⁴








IS “GLOBAL” CORE TO YOUR EVERYDAY LIFE?

Historically, U.S. equity investors mainly bought stocks of U.S. companies. Globalization is changing that dynamic. Trade is a two-way street, and increased trade not only creates new and growing markets for U.S.-based companies, it creates investment opportunities in foreign companies. However, how foreign are these companies? Global products are so interwoven into our everyday lives that we don’t even recognize them as foreign.

Take a quick test.

Can you spot which of the following are brands of a foreign-based company (or a majority-owned subsidiary of a foreign-based company)?⁵ (See answers at the bottom of the page.)

	U.S.	FOREIGN
	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>

Answers: All products are produced by companies that are headquartered outside the U.S.: Alka-Seltzer/Germany, Budweiser/Belgium, Bridgestone Tires/Japan, Shell Oil/UK, and Butterfinger/Switzerland.

4. Sources: Most recent data available on company websites: December 31, 2010 (Apple Inc.), September 30, 2010 (McDonald’s Corp., Coca Cola Co., Google Inc., Pfizer Inc., Qualcomm Inc.), July 31, 2010 (Hewlett-Packard Co.), December 31, 2009 (3M Co.). Foreign revenue is calculated by subtracting domestic revenue from total revenue.

5. Source: Company websites.

3] Innovation Will Surprise Us...Again

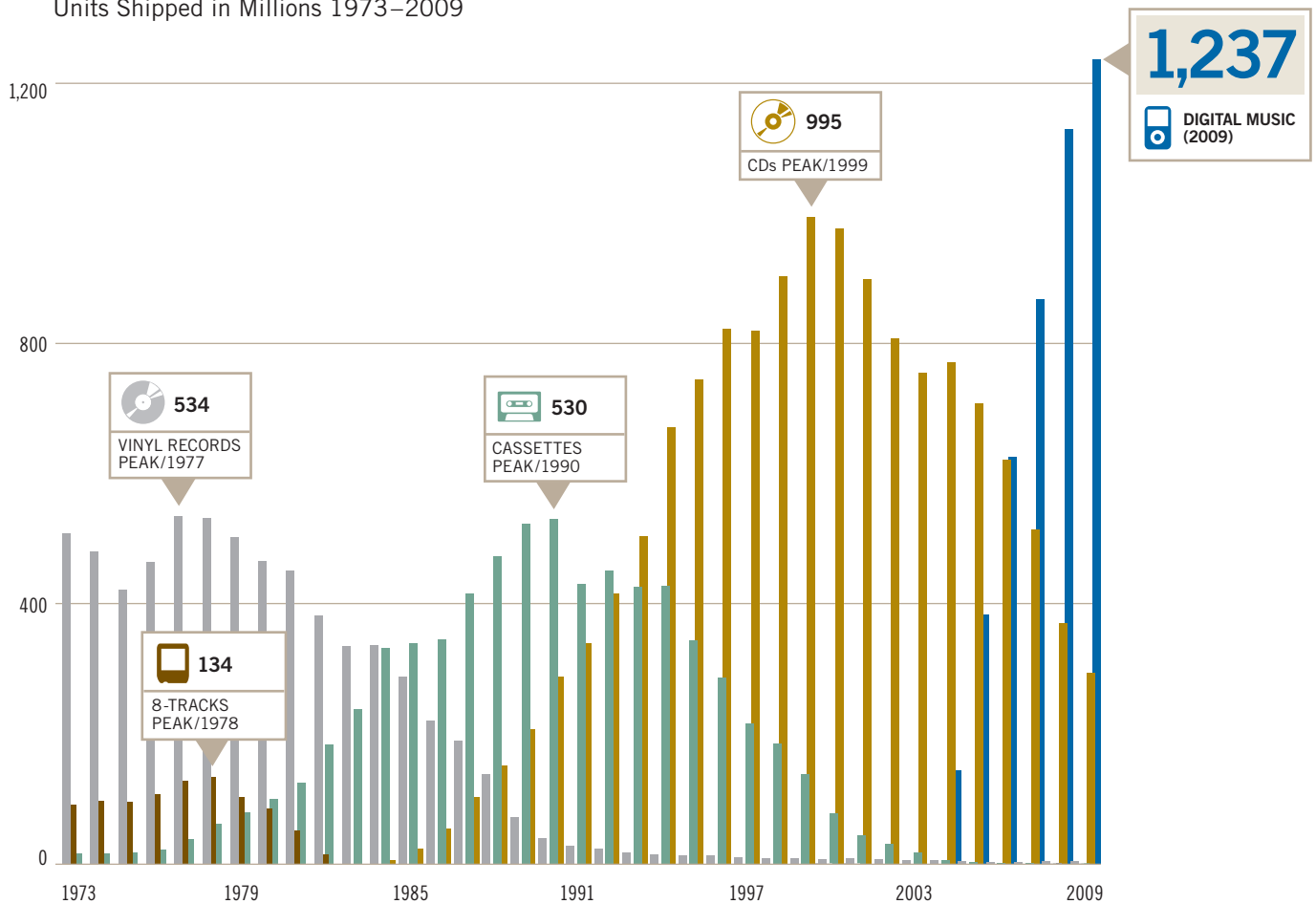
Throughout time, innovations have propelled businesses forward. Whether the innovation was a technological advancement (e.g. mobile telephony), a new business model (e.g. Netflix), a medical discovery (e.g. gene therapy) or some other transformational change (e.g. Facebook), new ideas are at the very heart of the equity markets.

TUNES OVER TIME

For example, look at the changes in music technology over the last 40 years. In the late 1960s, 8-tracks made recorded music more portable. Cassettes replaced the clunky 8-tracks and eventually became more popular than vinyl records. CDs quickly overtook cassettes and then were overtaken by MP3 downloads. In nearly every instance, consumers adopted the new technologies faster and drove demand to higher levels. The companies that drove these innovations obviously benefited too.

The Beat Goes On⁶

Units Shipped in Millions 1973–2009



“Everything that can be invented has been invented.”

— Charles H. Duell, Commissioner, U.S. Office of Patents, 1899

6. Source: Recording Industry Association of America, as of December 2009. Digital includes downloaded singles, downloaded albums, kiosks and downloaded music videos. Total vinyl records, cassettes and CDs includes singles and albums.

ENVISIONING THE FUTURE

The world is changing at a rapid pace and many visionary companies are at the forefront of those changes. The following are just a few examples of changes that may transform our lives in the next decade and present equity investors with new growth opportunities.



Green Energy

- Hybrid cars and green energy, such as solar and wind power, are already gaining momentum in the marketplace.

What's Next: Houses that will be completely energy independent, with solar built into the roof tiles.



Nanotechnology

- Nanotechnology is already evident in almost every area of our lives, from paint polymers that resist scratches to stain-repellent fabrics and razor blades.
- Tennis rackets are stronger and golf balls are flying straighter due to the use of nanotechnology. Socks that fight odors have been developed with the introduction of nano silver particles.

What's Next: What about a shirt that can be “tuned” to whatever color you’d like to wear that day or a bulletproof vest as thin as silk?



Gene Therapy and Regenerative Medicine

- Disease and medical conditions have been treated historically with drugs and surgery.

What's Next: Current research is investigating how to identify the very markers of disease at the gene level and “switch” those “bad” genes off. Researchers are also seeking to use the body’s own cells to regenerate diseased organs and slow the impact of aging.



Cloud Computing

- When people think about computers today, they think about hardware—laptops and desktops—that have their own memory capacities and are loaded with software.

What's Next: Many believe that computing power will become a commodity like electricity, centrally run by large companies. This is what has been termed “cloud computing.” With cloud computing, the computers we use will simply become the interface and the communication fronts.



Robotics

- Advances in robotics continue to challenge what was thought to be impossible—The University of Tokyo created a robotic arm so fast that it can catch a baseball thrown at 186 mph.
- Huge strides have been made using robots for manufacturing, surgery, military and law enforcement.

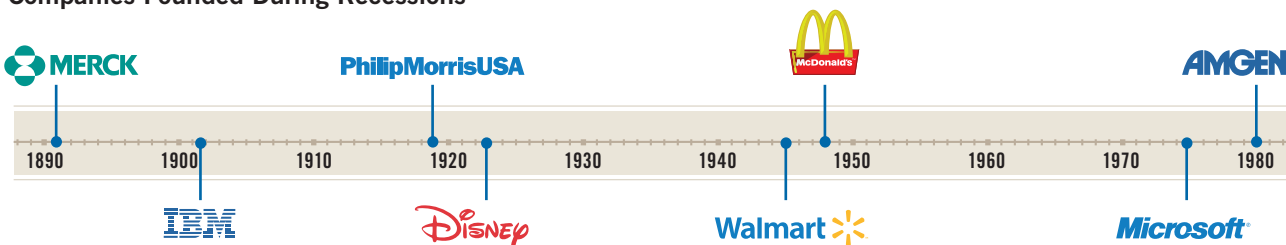
What's Next: How about a blood-cell-sized robot that can be injected into patients to conduct medical procedures?

4] Quality Companies Are Not Short-Sighted

While economic upheavals can create stock market turmoil, high-quality companies survive and, in fact, often thrive as a result. Economic downturns are Darwinian in nature—the weak and ill-equipped perish, while the strong adapt, survive and ultimately thrive.

There are many different qualities of corporate strength. As previously discussed, strength can come from new ideas, knowledge or breakthrough technology—the strength of vision. For example, look at the following companies that began during economic recessions.

Companies Founded During Recessions⁷



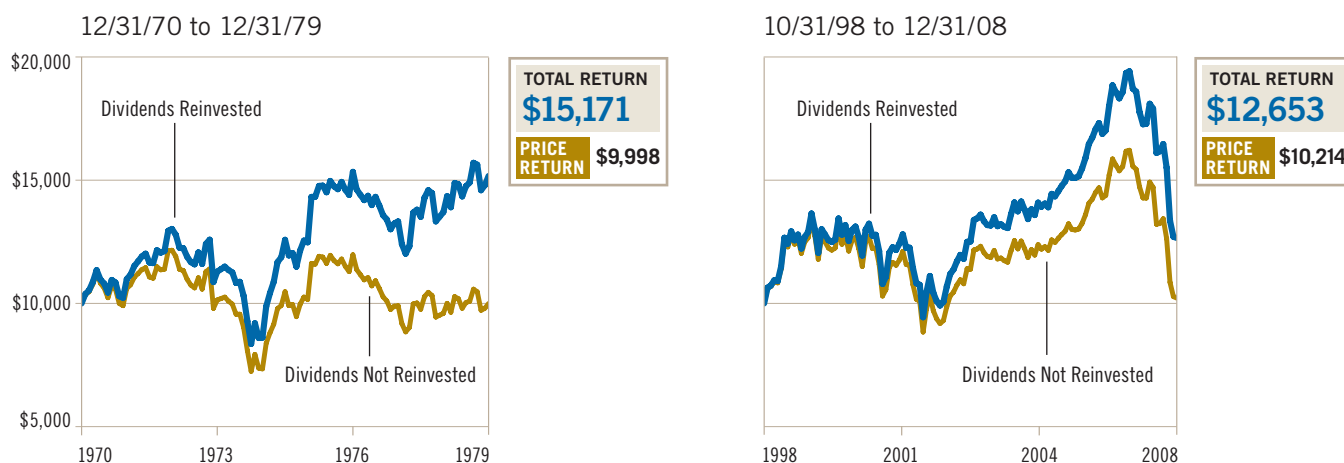
THE STRENGTH OF MONEY

A company's financial strength can be demonstrated by strong balance sheets and strong, consistent, predictable cash flows. Often, evidence of this financial strength takes the form of dividends.

The Dow Jones Industrial Average (DJIA) ended 1979 at 839—the same level at which it began 1971. Yet the index had an average annual return during that period of 4.63%. How did it manage this return? Through the compounding of dividends. Similarly, from October 1998 through the end of 2008, the DJIA was again essentially flat. However, with dividends, an investor would have seen a cumulative return of 26% across the period.

THE POWER OF DIVIDENDS

Dow Jones Industrial Average—Growth of a \$10,000 Investment⁸



These charts are for illustrative purposes only and do not reflect the performance of any Franklin, Templeton or Mutual Series fund.

7. Source: Company websites. Recessions as identified by National Bureau of Economic Research (NBER).

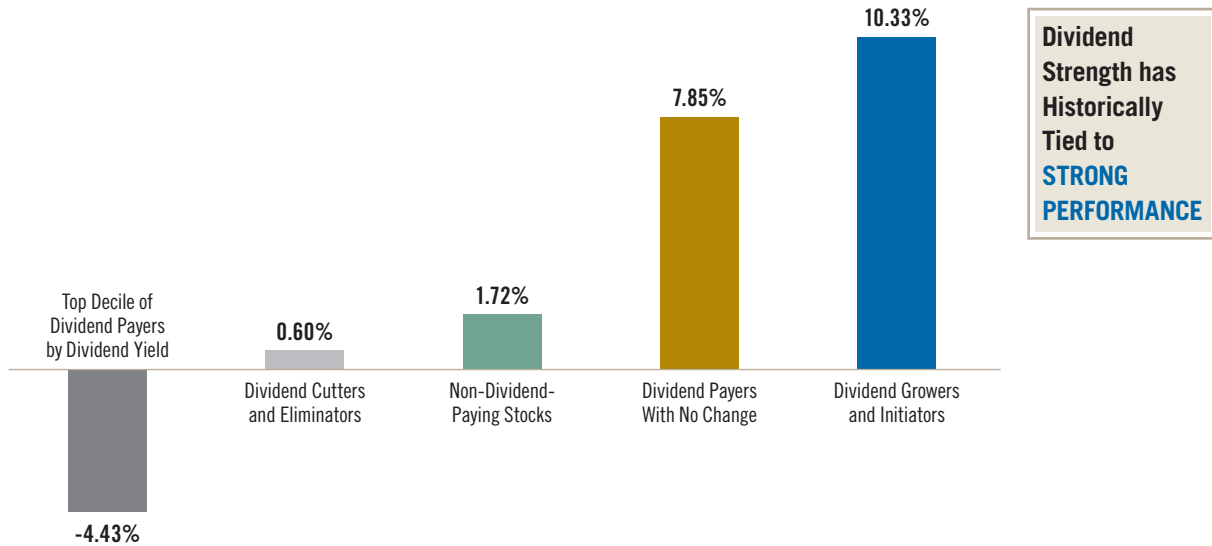
8. Source: Dow Jones & Company. Total return figures assume reinvestment of dividends. Indexes are unmanaged and one cannot invest directly in an index. **Past performance does not guarantee future results.**

DIVIDENDS AND PERFORMANCE

Historically, companies that have grown or initiated dividends have outperformed companies that have cut dividends. Of course, high dividend yields don't necessarily mean high returns. Often those with the highest dividend yields are companies whose prices have fallen, indicating stress. Instead, quality dividend payers—those paying consistent and rising dividends—have historically offered better overall results.

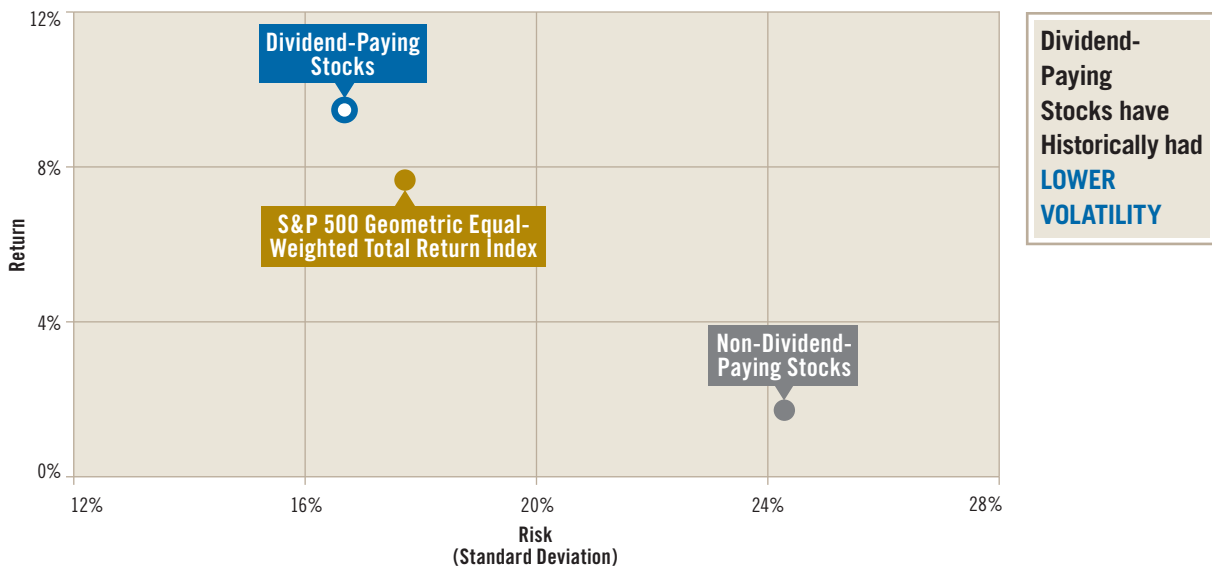
Average Annual Total Returns of S&P 500 Stocks by Dividend Policy⁹

30-Year Period Ended December 31, 2010



Risk vs. Return⁹

30-Year Period Ended December 31, 2010



Dividends can be increased, decreased or totally eliminated without notice.

9. Source: © 2011 Ned Davis Research, Inc. Indexes are unmanaged and one cannot invest directly in an index. All stocks were categorized by the following methodology for the 12-month period ended 12/31/2010: Top Decile of Dividend Payers by Dividend Yield represents the top 10% of dividend-paying stocks in the S&P 500 (ranked by dividend yield); Dividend Cutters and Eliminators represents stocks in the S&P 500 that have lowered or eliminated their dividend; Non-Dividend-Paying Stocks represents non-dividend-paying stocks of the S&P 500; Dividend Payers With No Change represents all dividend-paying stocks of the S&P 500 that maintained their existing dividend rate; and Dividend Growers and Initiators represents all dividend-paying stocks of the S&P 500 that raised their existing dividend or initiated a new dividend. **Past performance does not guarantee future results.**

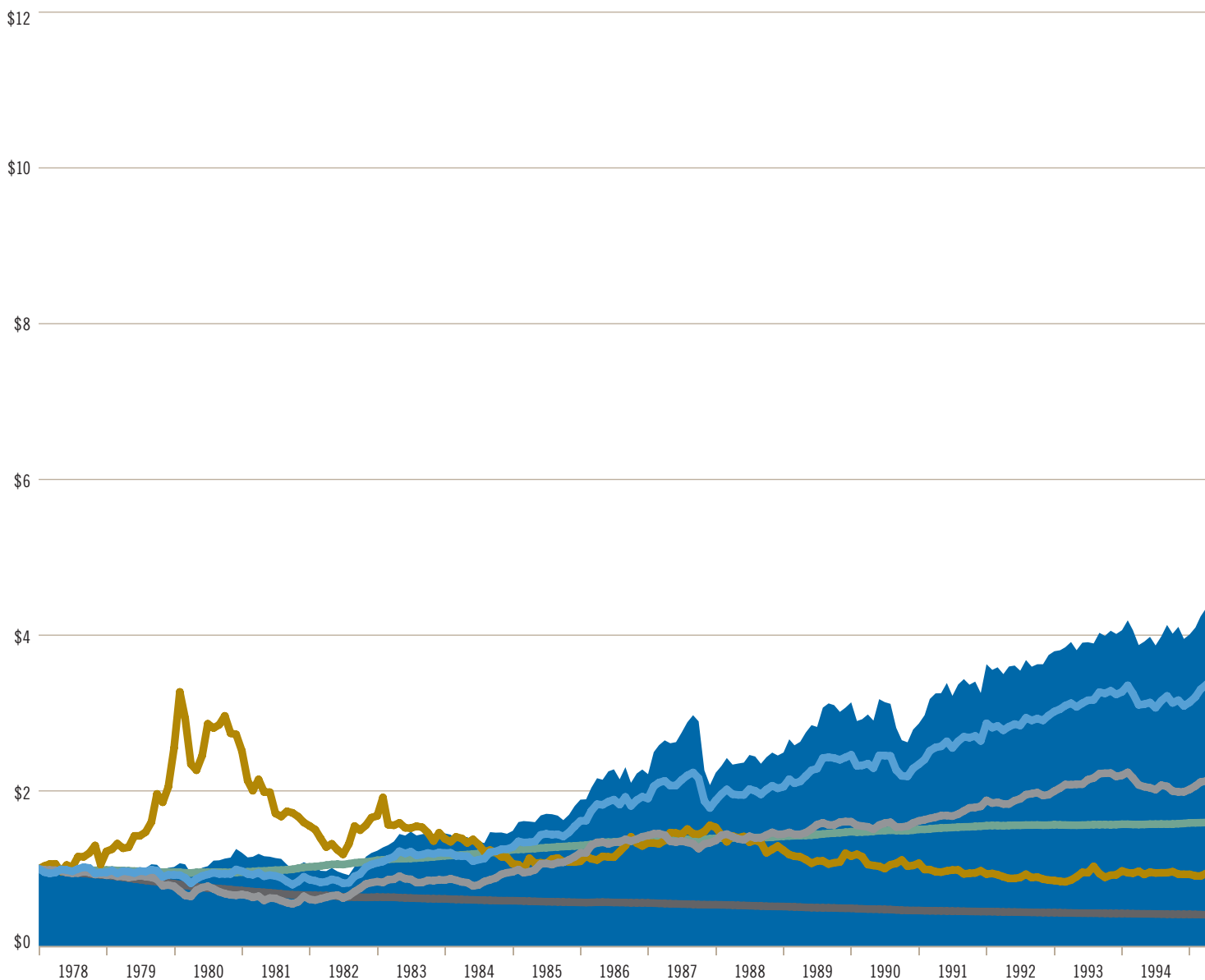
5] Equities Help Protect Purchasing Power

After the market downturns of the past several years, investors may be thinking of risk unilaterally. While it's true that stocks are volatile and can go down in value, there are other portfolio risks to consider. The impact of inflation on purchasing power is one risk that has not had a lot of attention paid to it since the early 1980s.

In theory, stocks should be able to weather inflation better than bonds. That's because while a bond's coupon is fixed, a stock can potentially grow in value if the products the company sells are rising in price at the rate of inflation.

Stocks, Bonds, Cash Equivalents and Gold vs. U.S. Dollar¹⁰

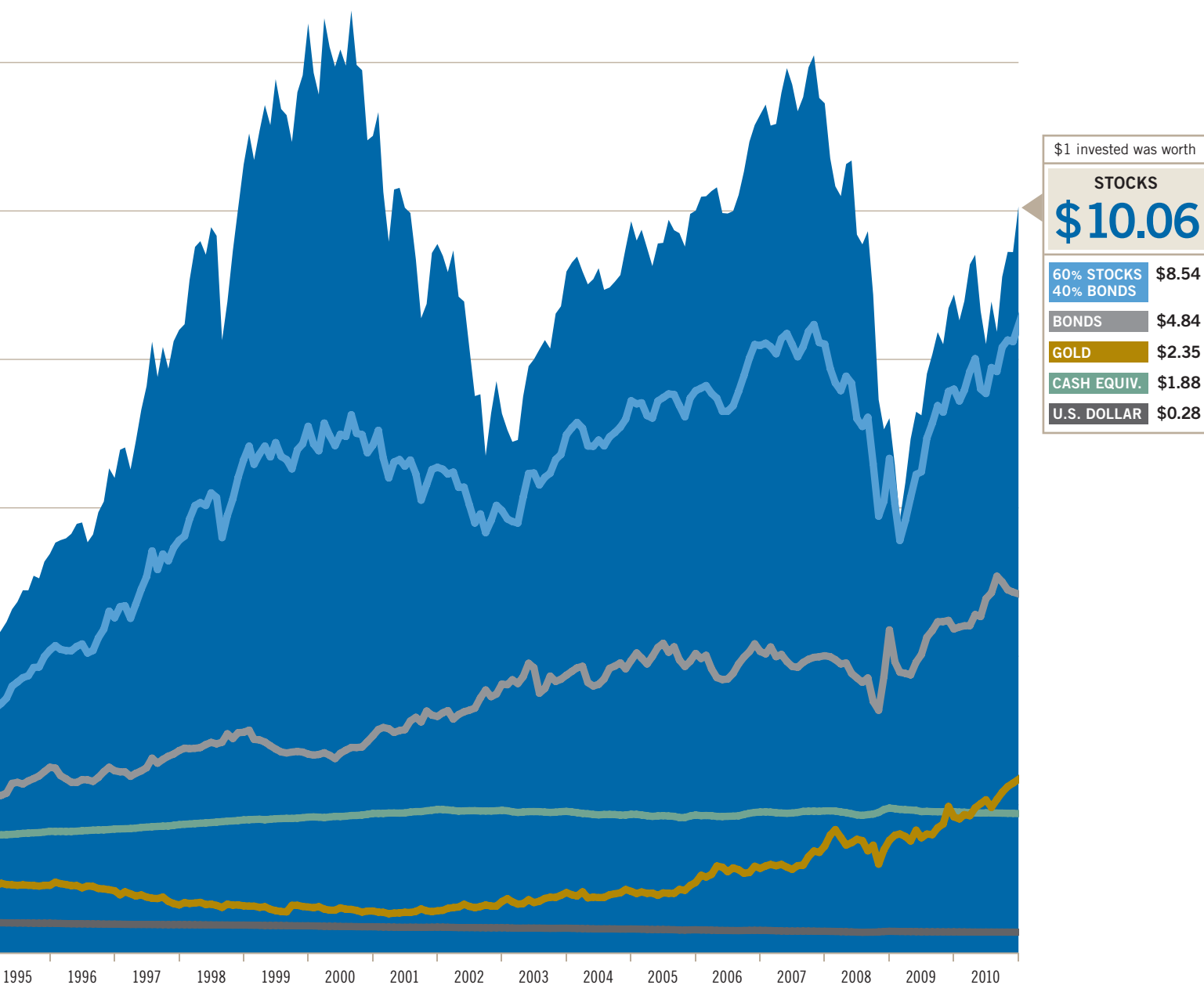
Inflation Adjusted Returns for the Period from December 31, 1977 to December 31, 2010



11. Source: © 2011 Morningstar. Stocks are represented by S&P 500 Index; Bonds are represented by Ibbotson Associates SBBI Long Term Corporate Index; Cash Equivalents are represented by the P&R 90-Day U.S. Treasury Index; Gold is represented by the S&P GSCI Gold Spot Index; U.S. Dollar is represented by the growth of the nominal dollar beginning in 1978, taking inflation into account. Inflation is calculated using the CPI. Indexes are unmanaged and one cannot invest directly in an index. **Past performance does not guarantee future results.**

Consider how different asset classes have fared on an inflation-adjusted basis over the last 33 years:

- The purchasing power of one U.S. dollar has declined to an equivalent of 28 cents.
- Stocks, despite their recent travails, have done the best job of providing returns after inflation is taken into consideration.
- Gold, despite its rise over the last few years, has provided little inflation-adjusted return over the long term.
- Bonds have been the second best asset class over time, but during the high inflation of the late '70s and early '80s, they suffered negative inflation-adjusted returns.
- Of course, it is important to remember that while stocks have historically outperformed other asset classes over the long term, they tend to fluctuate dramatically over the short term. Investors should be comfortable with fluctuation in the value of the investment.



This chart is for illustrative purposes only and does not reflect the performance of any Franklin, Templeton or Mutual Series fund.

Does Your Portfolio Have 2020 Vision?

The next decade is sure to be both exciting and intimidating as the pace of innovation grows, the world gets smaller and we continue to see unprecedented change in the world and markets around us. Is your portfolio prepared to take part? Ignoring the companies that are transforming our lives may not sink a portfolio, but it may undermine its success.

Sir John Templeton always looked forward to the future as he considered the benefits change could bring to improve the situation of mankind. And that forward-looking optimism is why he also predicted that we would reach Dow 100,000 this century.

FRANKLIN TEMPLETON HAS THE PERSPECTIVE TO HELP YOU GET THERE

Franklin Templeton's distinct multi-manager structure combines the specialized expertise of three world-class investment management groups—Franklin, Templeton and Mutual Series. Each of our portfolio management groups operates autonomously, relying on its own research and staying true to the unique investment disciplines that underlie its success.

Franklin. Founded in 1947, Franklin is a recognized leader in fixed income investing and also brings expertise in growth- and value-style U.S. equity investing.

Templeton. Founded in 1940, Templeton pioneered international investing and, in 1954, launched what has become the industry's oldest global fund. Today, Templeton offers investors the broadest global reach in the industry with offices in over 25 countries.

Mutual Series. Founded in 1949, Mutual Series is dedicated to a unique style of value investing, searching aggressively for opportunity among what it believes are undervalued stocks, as well as arbitrage situations and distressed securities.



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WHAT THESE PERCENTAGE CHANGES WOULD MEAN

Starting with a number of 10,000 over 10 years

?

?

?

?

Open flap to see answers.

WHERE WILL THE DOW JONES INDUSTRIAL AVERAGE BE IN THE YEAR 2020?

The answer, of course, is that no one knows. But it is interesting to ponder the math. For example, if you apply the following average annual percentage changes to the number 10,000 over a 10-year period, you'll see that even small percentage changes can have a big impact over time.

HYPOTHETICAL AVERAGE ANNUAL % CHANGES

(Circle one)

-4.98%

+4.14%

+7.18%

+11.62%

WHAT THESE PERCENTAGE CHANGES WOULD MEAN

Starting with a number of 10,000 over 10 years

6,000

15,000

20,000

30,000

This information is for illustrative purposes only—there is no assurance that the Dow Jones Industrial Average or individual investors will achieve the average annual percentage changes shown in this illustration. Indexes are unmanaged and one cannot invest directly in an index. Furthermore, indexes do not reflect fees and charges associated with mutual funds, which lower an investor's return.

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Talk to your
financial advisor
today to make sure
your portfolio has
2020 VISION.

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