



**John Carey**  
Executive Vice President,  
Portfolio Manager, Pioneer Investments

*The type of market activity we have seen over the past few months is typical of many new bull markets in their early stages.*

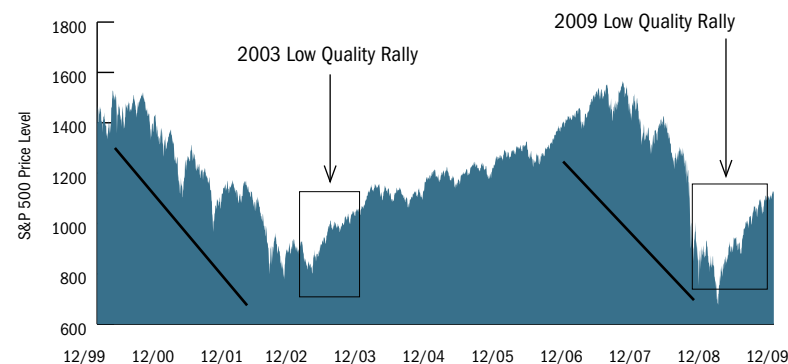
The views expressed in this memorandum regarding market and economic trends are those of Pioneer Investments, and are subject to change at any time. These views should not be relied upon as investment advice, as securities recommendations, or as an indication of trading intent on behalf of any Pioneer investment product. There is no guarantee that market forecasts discussed will be realized. There is no guarantee that these trends will continue. No forecast is a guarantee.

*It's had a lot of names. "Risk Rally," "Speculator's Rally," "Skeptic's Rally," "Dash for Trash." The rally in the American stock market that began in early March 2009 has been one of the sharpest on record, but focused mainly on riskier assets.*

### Typical Early Stage Bull Market

It is important to note that the type of market activity we have seen since March of 2009 is typical of many new bull markets in their early stages. In 2003, after the internet debacle of 2000-2002, we saw the same trend to bid back up the prices of the stocks that had fallen the most. At that time, investors ignored the tried-and-true, solid blue-chip values. But the market came back to quality later in 2003 and in 2004 and subsequent years. This time, too, we believe a return to quality is on the horizon. Indeed, the relative valuations are already compelling.

### 2003 and 2009: Low Quality Rallies that Followed Steep Market Declines



Source: Bloomberg. Last data point 12/31/09. The S&P 500 Index is a measure of the performance of U.S. large-cap stocks. Indices are unmanaged and their returns assume reinvestment of dividends and do not reflect any fees or expenses. It is not possible to invest in an Index. Past performance is no guarantee of future results.

### Low Quality Outperformed in 2009

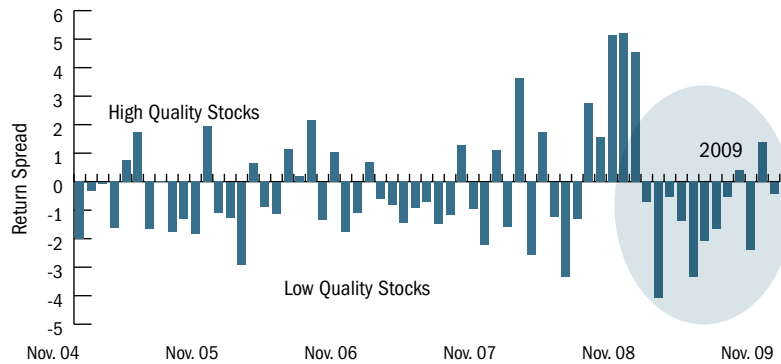
Low-quality stocks outperformed in every month of the 2009 rally until only recently, but it is a basic tenet of statistics that all trends have tended to "revert to the mean." In other words, low quality may have outperformed for a time, but that dominance has historically belonged to higher quality stocks over the long term. We can see by the bar chart on the following page that such a shift may have already begun.

*Low quality stocks outperformed in every month of the 2009 rally until only recently, but it is a basic tenet of statistics that all trends have tended to “revert to the mean.”*

*Historically, low quality rallies have been relatively brief and infrequent, tending to last around 10 months. This is the 8th low quality leadership rally since 1980.*

### The Shift to High Quality May Have Begun

#### High Quality vs. Low Quality Return Spread



Source: Ned Davis Resources (NDR). NDR High Quality Index Monthly Price Return minus NDR Low Quality Index Monthly Price Return (based on the S&P 500 Index) through 11/30/09. Indices are unmanaged and their returns assume reinvestment of dividends and do not reflect any fees or expenses. It is not possible to invest in an Index. Past performance is no guarantee of future results.

### Blue Chips as Contrarian?

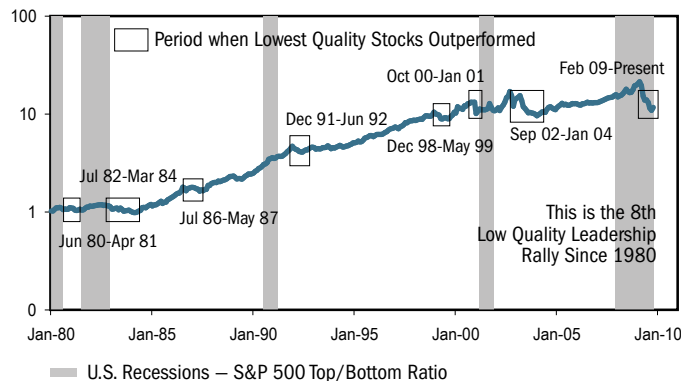
We are especially intrigued right now by the bargains available in the premier category of stocks. It is odd when an interest in blue chip stocks can be regarded as contrarian, but that is the case today. Some of the defensive, higher quality names in consumer staples, health care and utilities, which held up comparatively well during the bear market of October 2007 – March 2009 are now, in some cases, quite cheap. The market has bid up the prices of many cyclical stocks—in materials, consumer cyclicals, industrials, energy, financial services, and information technology—and has neglected the aforementioned stocks.

### Historically, Low Quality Rallies have Been Short-Lived

Low quality rallies can be intense, as we have seen. After extended periods of market declines, investor hopes often replace anxiety as a sort of release valve. (The S&P 500® returned 68% from its low on March 9, 2009 through December 31, 2009.) But low quality rallies have been relatively brief and infrequent in history. The chart below shows us that, historically, low quality rallies have tended to last around 10 months before shifting back to higher quality for much longer periods. We believe prudent investors should expect a shift to more historic trends.

#### Lowest Quality Stocks have Rallied Briefly and Sporadically

##### S&P 500 Ratings-based Returns, Highest vs. Lowest Rated Stocks



Source: Royal Bank of Canada (RBC) Capital Markets Quantitative Research. Last data point 11/30/09. The S&P 500 Index is a measure of the performance of U.S. large-cap stocks. Indices are unmanaged and their returns assume reinvestment of dividends and do not reflect any fees or expenses. It is not possible to invest in an Index. Past performance is no guarantee of future results.

*We believe returns on assets, returns on equity, returns on invested capital and many other additional valuation metrics are critical to the consistency of returns.*

*Dividend-paying companies in the S&P 500 have significantly outperformed the non-dividend payers.*

*Over extended periods, the dividend component has been generally between 33% and 45% of the total return on the S&P 500.*

## Quality of Earnings as an Indication of Strength

In actuality, there are no such things as quality stocks, just quality companies. Why should one focus on quality, and what does quality mean in the context of the stock market? S&P assigns stocks a quantitatively-derived letter grade from A+ to D based on their 10-year earnings and dividend history, with grades given based on the growth rate and stability of earnings and dividends.

However, we believe returns on assets, returns on equity, returns on invested capital and many other additional valuation metrics are critical to the consistency of returns. It is also important to consider the underlying character of the numbers. Are the earnings reported on the basis of conservative, steady accounting; are the earnings reasonable and repeatable; and are the results due to the company's own efforts or instead attributable to windfalls from one-time events? Can the earnings be understood in the context of the company's industry, or is there something that just does not add up?

In regard to one's return as a shareholder, key questions to ask include: Are the gains linked to the business performance of the company and build-up of value at the company? Are the gains understandable and dependable or is the stock moving because of rumor-mongering and other speculative activity in which investors could leave the market as quickly as they entered? In addition, attention to more "reputational" issues can keep the investor out of a lot of trouble: governance practices, relations between management and workers, brand image, and, as it relates to sustainability, whether the company uses its resources, both human and material, wisely.

## Dividends are a Bellwether of Sustainability

At the end of the day, few indicators of quality have been more reliable than a long record of dividend payments. We believe companies that can pay dividends over many years, and raise the dividend regularly as the business grows and prospers, are generally above-average with respect to earnings and cash-flow development. Over longer periods, the dividend-paying companies in the S&P 500 have significantly outperformed the non-dividend payers, and the best performance of all has come from the companies showing growth in their dividends over time. It also takes discipline to set aside money for a dividend every quarter and every year. Paying the dividend shows dedication to shareholders. Dividends have also been long known to be good buffers against market volatility during difficult times, because they have the potential to provide some cash return when capital gains are lacking.

Over extended periods, the dividend component of the S&P's total return has generally been between 33% and 45%. During the internet-dotcom years of the 1990s, that percentage declined to a mere 14% as the market broke loose from its moorings. But that was a sign of trouble ahead, and when the market predictably tumbled from its stratospheric heights in the ensuing bear market of 2000-2002, a big contributor to the debacle was the very small amount of dividend support for stocks.

## Longer-term Advantages of Dividend Paying Stocks Over Bonds

Here is something else fascinating about dividends: over time, a portfolio made up exclusively of good, solid, dividend-paying stocks may have produced more income than a portfolio of higher quality bonds (i.e. AAA-rated corporate or US government bonds) or money market instruments. While the stock portfolio may have yielded less than the portfolio of fixed-income

*Bond coupons are fixed for the entire maturity of the security and their price will only fluctuate around their face value.*

The views expressed in this memorandum regarding market and economic trends are those of Pioneer Investments, and are subject to change at any time. These views should not be relied upon as investment advice, as securities recommendations, or as an indication of trading intent on behalf of any Pioneer investment product. There is no guarantee that market forecasts discussed will be realized. There is no guarantee that these trends will continue. No forecast is a guarantee.

Investments in the equity asset class are more volatile and carry more risks than other forms of investments. At times, investments in equities may represent industries or industry sectors that are interrelated or have common risks, making them more susceptible to any economic, political, or regulatory developments or other risks affecting those industries and sectors.

Investors should consider risk tolerance and time horizons prior to making investment decisions.

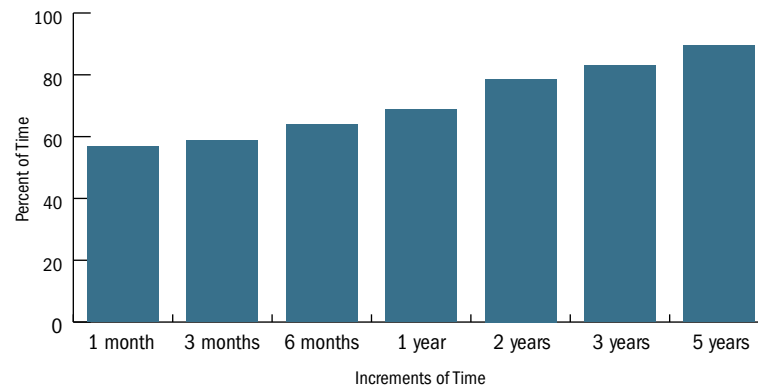
This material is not intended to replace the advice of a qualified attorney, tax adviser, investment professional or insurance agent. Before making any financial commitment regarding any issue discussed here, consult with the appropriate professional advisor.

securities initially, the income stream on one's initial investment has had the potential to increase steadily as companies raise dividends over the years. Money market instruments may experience volatility of income from one year to the next as short-term rates go up and down. Medium- and longer-term bonds have coupons that are fixed for the entire maturity of the security, assuming there is no default. We believe stocks, which may experience more volatility than bonds or money market instruments, offer investors the opportunity for continual growth in the income yield on their initial investment amount, until it eventually may far exceed what the debt portfolio provides.

Then there is the real kicker: stocks have also offered appreciation potential, whereas money markets aim to maintain a constant value and bonds fluctuate around their face value of \$1,000. And for investors who can accept more volatility, the dividend income on stocks can grow—a double-barreled potential source of return.

### Longer Term, Dividend-payers have Outperformed More Often

#### Percent of Time S&P 500 Dividend Payers Outperformed Non-Payers since 1972



Source: Ned Davis Research. Data through November 30, 2009.

The S&P 500 Index is a measure of the performance of U.S. large-cap stocks. Indices are unmanaged and their returns assume reinvestment of dividends and do not reflect any fees or expenses. It is not possible to invest in an Index. Past performance is no guarantee of future results.

With the advantages that dividend-paying stocks have had over debt securities, it stands to reason that appropriate investors may always wish to consider them as part of their long-term investment portfolios. When there is the chance to buy those stocks at discount prices, we believe one should certainly consider the opportunity. For calendar year 2009, the 363 dividend payers in the S&P 500 showed a total return of 26%, versus performance of 65% by the 137 non-dividend payers in the index, reflecting investors' taste for risk and preference for turn-around stories in the first phase of a bull market.

No one can predict when the market will recognize value, when it will come back to quality as we've defined it, or when it will re-focus on dividend income. We also cannot say that higher quality stocks would do better than lower quality stocks in a strong and sustained recovery. But if the past is any guide, we believe the likelihood of market returns shifting from low quality to higher quality stocks is probable.

## Important Disclosure:

Breiter Capital Management Inc. may, from time to time, provide research or educational materials from third parties for use by our clients. All third party materials are the responsibility of their respective authors, creators, and/or owners. The information reflects the opinion of its authors, creators, and/or owners at the time of its issuance, which opinions and information are subject to change at any time without notice and without obligation of notification.

These materials were obtained from sources believed to be reliable and presented in good faith. Nevertheless, Breiter Capital Management, Inc. has not independently verified the information contained herein, and does not guarantee its accuracy or completeness. The information has no regard to the specific investment objectives, financial situation, or particular needs of any specific recipient, and is intended for informational purposes only and does not constitute a recommendation, tax, legal or investment advice. We recommend that you procure financial and/or tax advice as to the implications (including tax) of investing in any of the strategies, methods or specific securities mentioned.