S&P 500 Target Update

Equity Strategy

Equity and Quant Strategy | United States
15 February 2013

# The road to 1600 and beyond

Bank of America Merrill Lynch


Savita Subramanian +1 646 855 3878
Equity & Quant Strategist
MLPF&S
savita.subramanian@baml.com

Dan Suzuki, CFA +1 646 855 2827
Equity Strategist
MLPF&S
dan.suzuki@baml.com

Alex Makedon +1 646 855 5982
Quantitative Strategist
MLPF&S
alex.makedon@baml.com

Jill Carey +1 646 855 3327
Equity Strategist
MLPF&S
jill.carey@baml.com


## Pullbacks are common, so avoid panic selling if we get one

January (+5.2%) saw the best monthly S&P 500 performance since October 2011 (+10.9%) and the best January performance since 1997. This, along with February's continued rally, puts the S&P 500 12% above the November low and at a new five-year high. Our Global Equity Strategy team's short-term sentiment and flows signals have shifted to a negative tactical view on global equities, while our Technical Strategy team calls for a 3-5% correction in February. February has historically had the highest probability of negative returns (48%) and the second-lowest median return (+0.3%) after September (+0.2%). For our part, we recognize that markets do not move in straight lines and that 5%+ pullbacks have occurred an average of five times per year. But last year's lesson might be boiled down to the simple fact that trying to time pullbacks can lead to underinvestment and underperformance in an up-market.

## 2013 S&P 500 target remains 1600, driven by EPS growth

Our 2013 year-end target of 1600 implies 5% upside from current levels, entirely attributable to expected earnings growth of 6%, while the bulk of the returns so far this year have come from multiple expansion. Due to our elevated equity risk premium assumption, our BofAML Fair Value Model — the main driver of our S&P target — assumes a trailing *normalized* PE multiple of only 15x, which represents a 12% discount to the historical average of 17x, even *excluding* the Tech Bubble. As such, we see substantial long-term value and continue to recommend that investors take advantage of this by lengthening their investment time horizons and using pullbacks as buying opportunities.

## The end of the downward revision cycle may be in sight

The one input into our S&P 500 target model that remains negative on equities is our Estimate Revisions model, which is still in the Weak/Declining phase (during which historical annual returns have averaged -4%). However, we are encouraged by the fact that the one-month revision ratio is at a four-month high and that the less volatile three-month ratio is above its 2011 and 2012 lows. Moreover, the drop in 2013 bottom-up consensus estimates to $112 has nearly closed the gap with our $110 forecast, and reported revenues and EPS have begun to reaccelerate. Thus, we could soon be entering the next phase of the revision cycle as the pace of analyst estimate cuts slows. Historically, this phase has been accompanied by the strongest market returns (Chart 6).

## Sentiment has improved, but still far from bullish

Our target incorporates a diverse set of signals, with all but one (see more below) currently positive for equities. In addition to attractive valuations, depressed equity sentiment is a key driver of our bullish view on equities. Even though the S&P 500 has already risen 10% in the six months since sentiment bottomed, history suggests that rising markets can persist for years after sentiment troughs (see page 3 inside). Some have argued that our measure of sentiment, which is based on sell side strategists' equity allocation recommendations, does not adequately capture today's bullish market sentiment, as evidenced by the recent surge in equity inflows and rising stock prices. But we would also point out that sell side strategists went into the year forecasting the lowest S&P 500 returns in eight years, and despite the strong January inflows, cumulative flows into long-only equity funds over the last several years remain deeply negative vs. positive inflows for almost every other asset class.

### S&P 500 data

| | |
|---|---|
| Price | 1521 |
| 2013 Year-End Target | 1600 |
| Date Established | 14-Sep-2012 |
| 52-Week Range | 1,267 - 1,525 |
| Market Value ($tn) | 13.58 |

### S&P 500 Target Models

| Model | Category | 2013 Target |
|---|---|---|
| BofAML Fair Value Model | Fundamental/Valuation | 1,573 |
| Sell Side Indicator | Sentiment | 1,794 |
| Estimate Revisions | Fundamental/Sentiment | 1,437 |
| Long-term Valuation Model | Valuation | 1,659 |
| 12-Month Price Momentum | Technical | 1,599 |
| | Official S&P 500 Target | 1,600 |

# S&P Outlook

## Our target framework incorporates diverse signals

Fundamentals sometimes take a backseat to sentiment, technicals and macro.

Our S&P 500 target of 1600 for 2013 is principally based on our earnings forecasts, but if the last several years have taught us anything, it is that fundamentals sometimes take a backseat to sentiment, technicals and macro. As such, we have explicitly incorporated tactical, technical and sentiment signals into our market forecast.

Table 1: S&P 500 Target Models (2013)

| Model | Category | Time Horizon | 2013 Target | Expected Return (Annualized) | Current Weight in Forecast |
|---|---|---|---|---|---|
| BofAML Fair Value Model | Fundamental/Valuation | Medium Term | 1,573 | +5.4% | 40% |
| Sell Side Indicator | Sentiment | Medium Term | 1,794 | +21.8% | 20% |
| Estimate Revisions | Fundamental/Sentiment | Short-term | 1,437 | -4.4% | 20% |
| Long-term Valuation Model | Valuation | Long-term | 1,659 | +11.8% | 10% |
| 12-Month Price Momentum | Technical | Medium Term | 1,599 | +7.4% | 10% |
| | Official S&P 500 Target | | 1,600 | +7.5% | |

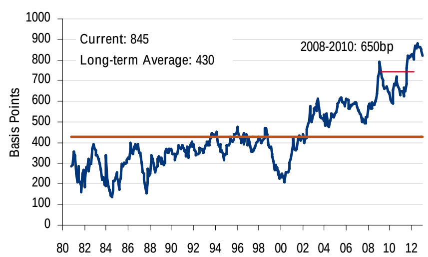
Short-term can be interpreted as one to three months, medium-term as one year, and long-term as five or more years.
Source: BofA Merrill Lynch US Equity and US Quant Strategy

## We expect the equity risk premium to gradually decline

We expect to see a gradual decline in the equity risk premium (ERP) over the next several years, as the memory of the financial crisis fades, corporate profits continue to make new highs and some of the macro risks abate. Our fair value model assumes a 600bp risk premium for the end of 2013, still well above the long-term average of about 400bp. The "wall of worry" may persist as new concerns emerge, but we expect visibility to continue to improve as the year progresses and positive trends emerge:

- With the 2012 election and resolution on the key tax expirations behind us, the major remaining US policy issues are the debt ceiling and sequestration, which are likely to be resolved sometime this spring.
- We expect a second half pick-up in GDP growth, and recent capex trends to bode well for capital spending in 2013.
- New home sales and housing starts should continue to hit new post-recovery highs.
- Earnings should continue to grow, with normalizing volatility (Chart 2).

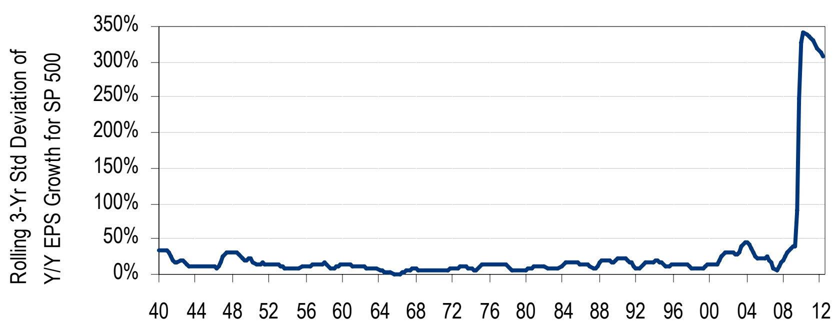
Chart 1: S&P 500 risk premium (DDM expected return less AAA corporate bond rate)




Source: BofA Merrill Lynch US Equity and US Quant Strategy

**This chart is bullish:**
Record earnings volatility that we saw in the last cycle has caused asset allocators to reduce exposure to equities. But as growth begins to trend, as it already has, a decline in earnings volatility should cause the equity risk premium to re-rate lower.

Chart 2: Rolling 3-Yr Std Deviation of SP500 12-Mth Rep EPS Gth (2Q40-3Q12)




Source: BofA ML US Equity & Quant Strategy

Table 2: 2013 year-end S&P 500 fair value model

| | | |
|---|---|---|
| | Normalized 2013 EPS | $103 |
| | Normalized EPS Growth (Nominal Ke - Div Yld) | 7.25% |
| | Normalized 2014 EPS | $110 |
| | Nominal Long-Term Risk-Free Rate | 3.0% |
| - | Assumed Long-Term Inflation | 2.0% |
| = | Real Long-Term Risk-Free Rate | 1.0% |
| + | Equity Risk Premium | 600bp |
| = | Fair Real Cost of Equity Capital (Ke) | 7.0% |
| | Fair Forward PE (1 ÷ Fair Ke) | 14.3x |
| | 2013 Year-End Target (Fair PE × Normalized 2014 EPS) | 1,573 |

Source: BofA Merrill Lynch US Equity and US Quant Strategy

Table 3: S&P 500 total return post-SSI troughs

| | 3m | 6m | 12m | 24m |
|---|---|---|---|---|
| 1989 | 12.8% | 11.9% | 10.6% | 30.0% |
| 1990 | 14.2% | 25.6% | 33.5% | 46.8% |
| 1995 | 10.1% | 21.1% | 38.7% | 75.2% |
| 1997 | 2.9% | 17.2% | 9.0% | 39.4% |
| 2004 | 9.2% | 6.9% | 12.3% | 24.4% |
| 2009 | 13.8% | 20.0% | 38.8% | 62.8% |
| 2012 | 3.0% | 9.9% | ? | ? |
| Avg | 9.4% | 16.1% | 23.8% | 46.4% |
| Min | 2.9% | 6.9% | 9.0% | 24.4% |
| Max | 14.2% | 25.6% | 38.8% | 75.2% |

Source: BofAML US Equity & Quant Strategy, S&P, Bloomberg

Table 4: Predictive power of selected indicators forecasting 12-month S&P 500 returns

| Indicator | $R^2$ |
|---|---|
| Sell Side Indicator | 27% |
| S&P 500 Dividend Yield | 14% |
| Pro Forma PE | 12% |
| 10-Yr Treasury Yield | 5% |
| M2 Growth | 4% |
| Adj. Fed Model (EPS Yield - Real 10-Yr Tsy Yld) | 3% |
| 3-Mo T-Bill Rate | 2% |
| Yield Curve (10-Yr - 3-Yr) | 1% |
| BBB to Treasury Spread | 1% |
| GAAP PE | 0% |
| Fed Model (EPS Yield - 10-Yr Treasury) | 0% |
| M1 Growth | 0% |

Source: BofA Merrill Lynch US Equity and US Quant Strategy, Bloomberg, Haver, Citigroup, Federal Reserve Board, Standard & Poor's

# #1: BofAML Fair Value Model

## Earnings are volatile over a cycle: focus on normalized EPS

- Earnings are volatile over a cycle, so we adjust earnings by this cyclicality.
- This yields normalized EPS estimates of $103 for 2013 and $110 for 2014.
- Normalized 2014 EPS of $110 combined with a 600bp ERP implies fair value of 1573 at the end of 2013.
- Due to our elevated ERP assumption, this implies a trailing *normalized* PE multiple of 15x, which is nearly a 21% discount to the historical average of 19x (17x excluding the Tech Bubble). This underscores the attractive value offered by stocks to long-term investors (see more in the Long-term valuation model section).

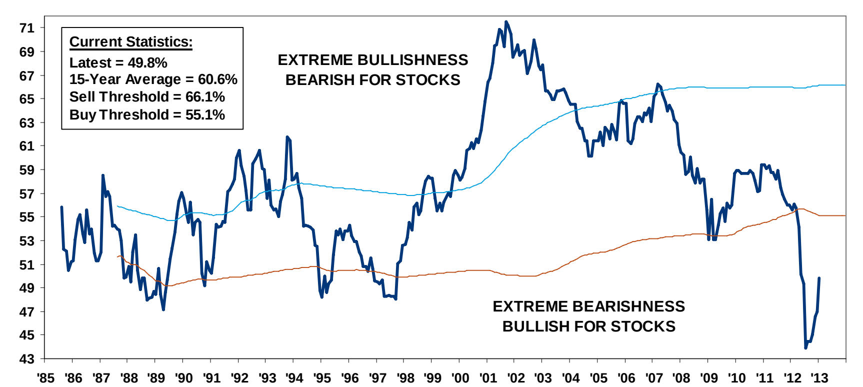
# #2: Sell Side Indicator

## Wall Street Sentiment: don't follow the crowd

- Wall Street's consensus equity allocation has been a reliable contrary indicator over time. In other words, it has been a bullish signal when Wall Street strategists were extremely bearish, and vice versa.
- Despite the rebound since hitting an all-time low of 43.9 in July (based on our data since 1985), strategists' bearishness on equities remains extremely depressed relative to history. The indicator remains firmly in "Buy" territory.
- Even though the S&P 500 has already risen 10% in the six months since sentiment bottomed, historical returns have also been very robust in the subsequent 12 and 24 months after the indicator troughed, averaging 24% and 46%, respectively (Table 3).
- Historically, when the indicator has been below 50, total returns over the subsequent 12 months have been positive 100% of the time. Current bearish sentiment suggests +22% 12-month price returns.

For further details, please see our most recent monthly Sell Side Indicator report.

Chart 3: Sell Side Consensus Indicator (as of 31 January 2013)




Source: BofA Merrill Lynch US Equity & Quant Strategy
Note: Buy and Sell signals are based on rolling 15-year +/- 1 standard deviations from the rolling 15-year mean. A reading above the blue line indicates a Sell signal and a reading below the red line indicates a Buy signal.

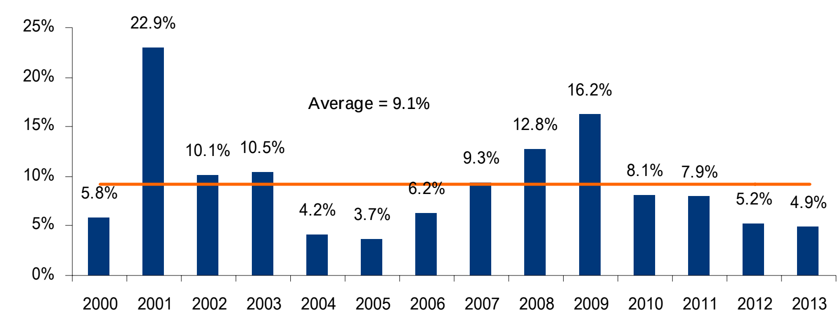
## But isn't overall sentiment bullish, and isn't that bearish?

Our Sell Side Indicator is based on the idea that returns are greatest where capital is scarce. Thus weak investor sentiment toward equities would suggest strong risk-adjusted returns relative to other asset classes. Some have argued that our measure of sentiment, which is based on sell side sell strategists' equity allocation recommendations, does not adequately capture today's bullish market sentiment, as evidenced by the recent surge in equity inflows and rising stock prices. We thus point out there is other evidence that equity sentiment remains low relative to history:

### Going into 2013, forecasted equity returns were the lowest since 2004

As another gauge of Wall Street sentiment, we took a look at sell side strategists' year-end S&P 500 targets, which still garner significant attention from investors and the general public. And while 13 of the 15 strategists contributing targets to Bloomberg's strategist poll at the start of the year were forecasting that the S&P 500 would end the year higher in 2013, the average implied upside was less than 5%, below the 50-year average price return of 7% and the lowest forecasted upside in eight years. In fact, following the market's recent rally, the forecasted upside for the rest of the year has fallen to only 1%. This corroborates the subdued sentiment reading from the Sell Side Indicator.

Chart 4: Beginning of the year S&P 500 average sell side strategist price return forecasts

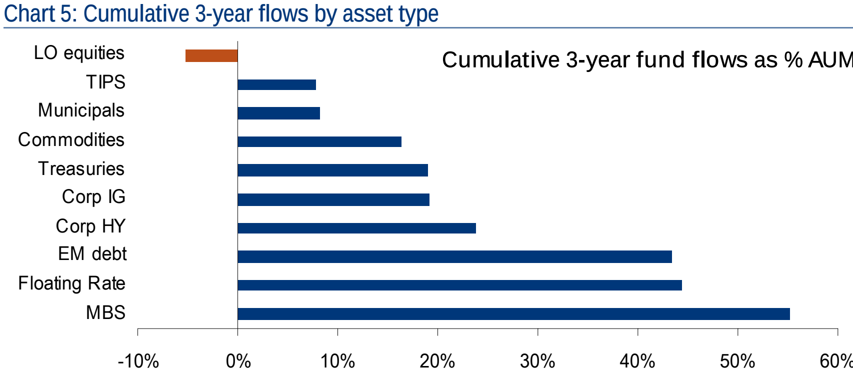



Source: BofAML US Equity & Quant Strategy, Bloomberg, S&P

### Strong January equity inflows do not offset years of outflows

These trends have also been echoed by the flow of funds. Despite record inflows into equity long-only funds this year, it has not been enough to offset capital outflows over the past several years. As a result, equity long-only funds remain one of the only asset categories to have negative cumulative inflows over the past three years.

Chart 5: Cumulative 3-year flows by asset type



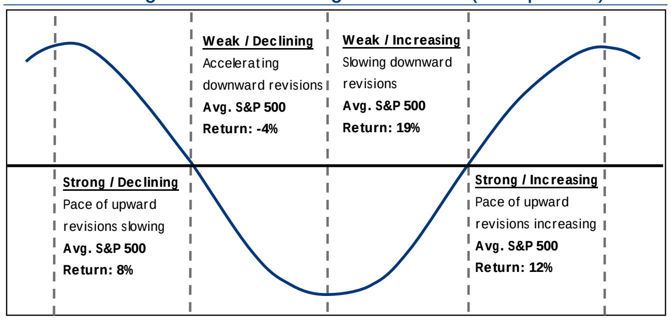

Source: BofAML Global Equity Strategy, EPFR Global

# #3: Estimate Revisions Model

## Estimate revisions: Weak and declining

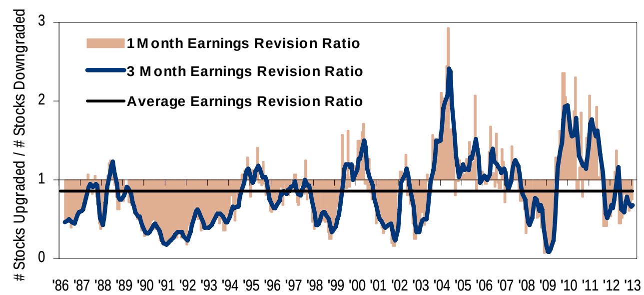
- We track the ratio of upward to downward changes to consensus earnings estimates, and for management, we track the ratio of upward to downward guidance relative to consensus expectations.
- Market returns have displayed predictable patterns based on phases of the sell side community.
- To determine expected return, we assess the current phase of the revision ratio and use the corresponding market returns displayed.
- The estimate revision ratio is weak and declining, suggesting a 4% price decline over the next 12 months.

Chart 6: Earnings revision ratio stages vs returns (1986-present)




Source: BofA Merrill Lynch US Equity & US Quant Strategy

Chart 7: S&P 500 Earnings Estimate Revision Ratio – 01/2013




Source: BofA Merrill Lynch US Quantitative Strategy, I/B/E/S

### The end of the downward revision cycle could be in sight

The choppiness of the earnings revision ratio has admittedly made it more difficult to discern what phase of the revisions cycle we are currently in, but we are encouraged by several indications that suggest that we may be close to, or in the early stages of, the next phase (slowing downward revisions), which would be very bullish for stocks. Historically, this has been the strongest phase of the revision cycle for stock returns.

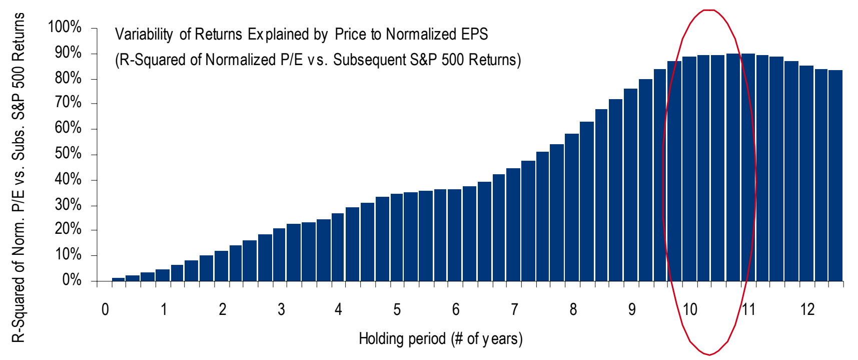
- Although the revision ratio at 0.7 is down from its interim May 2012 peak of 1.2 and below the historical average of 0.8, it is above its 2012 low of 0.6 and 2011 low of 0.5.
- Not only that, but the more volatile one-month revision ratio is at a four-month high.
- The gap between our 2013 EPS forecast and the bottom-up consensus is the smallest since we initiated our 2013 forecast back in April 2012. Back then, consensus was calling for $119. Now consensus is forecasting $112 vs. our $110.
- Sales and EPS growth have started to reaccelerate in 4Q12, after seeing zero sales growth and 1% EPS growth, respectively, in 3Q12.

# #4: Long-term valuation model

## Valuation: If you've got a while

- Price to normalized earnings has a very strong relationship to subsequent returns over the long haul.
- The strongest relationship between PE and subsequent market returns is that with a 10-year holding period. Based on a simple regression, the PE ratio explains ~90% of the variability of annualized returns for the subsequent 10 years.
- The S&P 500's current trailing normalized PE ratio of 15x suggests a 12-month price return of 12%.

Chart 8: Normalized PE's predictive power on S&P 500 returns




Source: BofA Merrill Lynch US Equity and US Quant Strategy

# #5: 12-month Price Momentum Model

## Reversion to the mean: suggests average returns

- Our technical model is based on the often cited theory that equity returns ultimately revert to some "normal" level.
- We have found that there is a higher probability of a market correction following a year of outsized equity market returns, and vice versa.
- We simply use the last 12 months' return to calculate the number of standard deviations above or below average to forecast the next 12 month's return.
- The S&P 500 trailing 12-month return was 15% as of month-end August 2012. This is 0.4 standard deviations above average, and the model thus yields a projected 12-month return of 7%.

Table 5: Past returns vs. forward returns: 12m S&P 500 returns z-scores & median subsequent returns

| | <-2 Std Dev. | -1 to -2 Std Dev | -1 to 0 Std Dev | 0 to +1 Std Dev | +1 to +2 Std Dev | +2 or More Std Dev |
|---|---|---|---|---|---|---|
| Median 12-Month Return | 23% | 14% | 10% | 7% | 9% | 5% |
| Standard Deviation of 12 Month Returns | 19% | 19% | 16% | 15% | 14% | 13% |
| Probability of Negative Returns | 16% | 26% | 29% | 30% | 24% | 50% |
| Percent of observations | 3% | 14% | 34% | 36% | 12% | 1% |

Source: BofA Merrill Lynch US Equity and US Quant Strategy

# Market overview

## S&P 500

The increased visibility and improving economic activity and profits growth should drive the S&P 500 toward our year-end target of 1600 in 2013. Valuation is a key aspect of our investment themes for 2013, and we recommend investors take advantage of attractive valuations via four flavors of growth: 1) Dividend Growth, 2) Cyclical Growth, 3) Global Growth, and 4) Stable Growth/Quality. Our sector preferences also generally reflect these themes, and we are overweight Tech, Industrials and Energy, and underweight Utilities and Telecom.

# Link to Definitions

## Macro

Click here for definitions of commonly used terms.

## Important Disclosures

Due to the nature of strategic analysis, the issuers or securities recommended or discussed in this report are not continuously followed. Accordingly, investors must regard this report as providing stand-alone analysis and should not expect continuing analysis or additional reports relating to such issuers and/or securities.

Due to the nature of quantitative analysis, the issuers or securities recommended or discussed in this report are not continuously followed. Accordingly, investors must regard this report as providing stand-alone analysis and should not expect continuing analysis or additional reports relating to such issuers and/or securities.

BofA Merrill Lynch Research personnel (including the analyst(s) responsible for this report) receive compensation based upon, among other factors, the overall profitability of Bank of America Corporation, including profits derived from investment banking revenues.

## Other Important Disclosures

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

BofA Merrill Lynch Global Research policies relating to conflicts of interest are described at http://www.ml.com/media/43347.pdf.

"BofA Merrill Lynch" includes Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") and its affiliates. Investors should contact their BofA Merrill Lynch representative or Merrill Lynch Global Wealth Management financial advisor if they have questions concerning this report.
"BofA Merrill Lynch" and "Merrill Lynch" are each global brands for BofA Merrill Lynch Global Research.

Information relating to Non-US affiliates of BofA Merrill Lynch and Distribution of Affiliate Research Reports:

MLPF&S distributes, or may in the future distribute, research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd., Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd.; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLI (UK): Merrill Lynch International; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd.; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co., Ltd.; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Securities (Taiwan) Ltd.; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): OOO Merrill Lynch Securities, Moscow; Merrill Lynch (Turkey I.B.): Merrill Lynch Yatirim Bank A.S.; Merrill Lynch (Turkey Broker): Merrill Lynch Menkul Değerler A.Ş.; Merrill Lynch (Dubai): Merrill Lynch International, Dubai Branch; MLPF&S (Zurich rep. office): MLPF&S Incorporated Zurich representative office; Merrill Lynch (Spain): Merrill Lynch Capital Markets Espana, S.A.S.V.; Merrill Lynch (Brazil): Bank of America Merrill Lynch Banco Multiplo S.A.; Merrill Lynch KSA Company, Merrill Lynch Kingdom of Saudi Arabia Company.

This research report has been approved for publication and is distributed in the United Kingdom to professional clients and eligible counterparties (as each is defined in the rules of the Financial Services Authority) by Merrill Lynch International and Banc of America Securities Limited (BASL), which are authorized and regulated by the Financial Services Authority and has been approved for publication and is distributed in the United Kingdom to retail clients (as defined in the rules of the Financial Services Authority) by Merrill Lynch International Bank Limited, London Branch, which is authorized by the Central Bank of Ireland and is subject to limited regulation by the Financial Services Authority – details about the extent of its regulation by the Financial Services Authority are available from it on request; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co., Ltd., a registered securities dealer under the Financial Instruments and Exchange Act in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC and the Hong Kong Monetary Authority; is issued and distributed in Taiwan by Merrill Lynch Securities (Taiwan) Ltd.; is issued and distributed in India by DSP Merrill Lynch Limited; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. (Company Registration No.'s F 06872E and 198602883D respectively) and Bank of America Singapore Limited (Merchant Bank). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Bank of America N.A., Australian Branch (ARBN 064 874 531), AFS License 412901 (BANA Australia) and Merrill Lynch Equities (Australia) Limited (ABN 65 006 276 795), AFS License 235132 (MLEA) distributes this report in Australia only to 'Wholesale' clients as defined by s.761G of the Corporations Act 2001. With the exception of BANA Australia, neither MLEA nor any of its affiliates involved in preparing this research report is an Authorised Deposit-Taking Institution under the Banking Act 1959 nor regulated by the Australian Prudential Regulation Authority. No approval is required for publication or distribution of this report in Brazil and its local distribution is made by Bank of America Merrill Lynch Banco Múltiplo S.A. in accordance with applicable regulations. Merrill Lynch (Dubai) is authorized and regulated by the Dubai Financial Services Authority (DFSA). Research reports prepared and issued by Merrill Lynch (Dubai) are prepared and issued in accordance with the requirements of the DFSA conduct of business rules.

Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (Frankfurt) is regulated by BaFin.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-US affiliates. MLPF&S is the distributor of this research report in the US and accepts full responsibility for research reports of its non-US affiliates distributed to MLPF&S clients in the US. Any US person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

General Investment Related Disclosures:

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instrument or any derivative related to such securities or instruments (e.g., options, futures, warrants, and contracts for differences). This report is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this report.

Securities and other financial instruments discussed in this report, or recommended, offered or sold by Merrill Lynch, are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution (including, Bank of America, N.A.). Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

This report may contain a short-term trading idea or recommendation, which highlights a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Short-term trading ideas and recommendations are different from and do not affect a stock's fundamental equity rating, which reflects both a longer term total return expectation and attractiveness for investment relative to other stocks within its Coverage Cluster. Short-term trading ideas and recommendations may be more or less positive than a stock's fundamental equity rating.

BofA Merrill Lynch is aware that the implementation of the ideas expressed in this report may depend upon an investor's ability to "short" securities or other financial instruments and that such action may be limited by regulations prohibiting or restricting "shortselling" in many jurisdictions. Investors are urged to seek advice regarding the applicability of such regulations prior to executing any short idea contained in this report.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned in this report. Investors in such securities and instruments, including ADRs, effectively assume currency risk.

UK Readers: The protections provided by the U.K. regulatory regime, including the Financial Services Scheme, do not apply in general to business coordinated by BofA Merrill Lynch entities located outside of the United Kingdom. BofA Merrill Lynch Global Research policies relating to conflicts of interest are described at http://www.ml.com/media/43347.pdf.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

MLPF&S or one of its affiliates is a regular issuer of traded financial instruments linked to securities that may have been recommended in this report. MLPF&S or one of its affiliates may, at any time, hold a trading position (long or short) in the securities and financial instruments discussed in this report.

BofA Merrill Lynch, through business units other than BofA Merrill Lynch Global Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented in this report. Such ideas or recommendations reflect the different time frames, assumptions, views and analytical methods of the persons who prepared them, and BofA Merrill Lynch is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this report.

In the event that the recipient received this report pursuant to a contract between the recipient and MLPF&S for the provision of research services for a separate fee, and in connection therewith MLPF&S may be deemed to be acting as an investment adviser, such status relates, if at all, solely to the person with whom MLPF&S has contracted directly and does not extend beyond the delivery of this report (unless otherwise agreed specifically in writing by MLPF&S). MLPF&S is and continues to act solely as a broker-dealer in connection with the execution of any transactions, including transactions in any securities mentioned in this report.

Copyright and General Information regarding Research Reports:



Materials prepared by BofA Merrill Lynch Global Research personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of BofA Merrill Lynch, including investment banking personnel. BofA Merrill Lynch has established information barriers between BofA Merrill Lynch Global Research and certain business groups. As a result, BofA Merrill Lynch does not disclose certain client relationships with, or compensation received from, such companies in research reports. To the extent this report discusses any legal proceeding or issues, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Investors should consult their own legal advisers as to issues of law relating to the subject matter of this report. BofA Merrill Lynch Global Research personnel's knowledge of legal proceedings in which any BofA Merrill Lynch entity and/or its directors, officers and employees may be plaintiffs, defendants, co-defendants or co-plaintiffs with or involving companies mentioned in this report is based on public information. Facts and views presented in this material that relate to any such proceedings have not been reviewed by, discussed with, and may not reflect information known to, professionals in other business areas of BofA Merrill Lynch in connection with the legal proceedings or matters relevant to such proceedings.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. None of MLPF&S, any of its affiliates or their research analysts has any authority whatsoever to make any representation or warranty on behalf of the issuer(s). BofA Merrill Lynch Global Research policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

The information herein (other than disclosure information relating to BofA Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. This report may contain links to third-party websites. BofA Merrill Lynch is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this report and is not incorporated by reference into this report. The inclusion of a link in this report does not imply any endorsement by or any affiliation with BofA Merrill Lynch. Access to any third-party website is at your own risk, and you should always review the terms and privacy policies at third-party websites before submitting any personal information to them. BofA Merrill Lynch is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

Certain outstanding reports may contain discussions and/or investment opinions relating to securities, financial instruments and/or issuers that are no longer current. Always refer to the most recent research report relating to a company or issuer prior to making an investment decision.

In some cases, a company or issuer may be classified as Restricted or may be Under Review or Extended Review. In each case, investors should consider any investment opinion relating to such company or issuer (or its security and/or financial instruments) to be suspended or withdrawn and should not rely on the analyses and investment opinion(s) pertaining to such issuer (or its securities and/or financial instruments) nor should the analyses or opinion(s) be considered a solicitation of any kind. Sales persons and financial advisors affiliated with MLPF&S or any of its affiliates may not solicit purchases of securities or financial instruments that are Restricted or Under Review and may only solicit securities under Extended Review in accordance with firm policies.

Neither BofA Merrill Lynch nor any officer or employee of BofA Merrill Lynch accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents.