

Market Review  
and Outlook

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We see the year ahead as offering significant opportunities for our highly selective and risk-aware approach.

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## “Hair-of-the-Dog” Economic Policies or Buying Time to Heal?

### Introduction: Good Riddance to the 2000s

We can only hope the close of the decade also marks the close of an exceedingly difficult period in the equity and real estate markets. The U.S. stock market (measured by the S&P 500 Index) posted a total cumulative return of -9.10% for the decade, while the technology-laden Nasdaq Composite Index returned -40.67%. The MSCI World Index managed to land in the black, but just barely, with a cumulative total return of 2.34% for the decade. Thanks to these dismal returns, the past 10 years are now popularly known as the “lost decade” for equity investors. And for further perspective, equities haven’t had such a dismal calendar decade since the 1820s.

Coming out of this decade, most investors have a new appreciation for risk. Many are disillusioned about investing. As we will discuss, the rules of the global economy are changing. But, the global economy is always evolving—presenting challenges, but also opportunities. This is not an environment in which one would expect all investments to rise. However, by drawing on our long-term perspective and experience, we believe we are well positioned to identify the long-term trends shaping the global economy and those investments with the most compelling potential.

Consider that over the past decade, the worst performing sector within the U.S. equity market was the technology sector; the worst performing equity category was large-cap growth. Over the next decade, we expect this to change dramatically. In our view, many large-cap growth companies today are trading at no premium to the market as a whole. There’s no premium for global distribution, no premium for global brands, no premium for global access to capital and no premium for solid balance sheets.

***At Calamos Investments, we believe that the large-cap growth sector offers excellent risk-reward prospects for investors in the coming decade. Likewise, we feel the technology sector will again take the leadership position in the 2010s.***

We expect a dynamic global business environment with deflationary pricing pressures, a strong productivity focus, and the incredible expansion of technology, the internet and emerging market consumers. We are finding many technology companies that have what we believe are great balance sheets, great products and management teams that are used to operating in tough pricing environments.

From an asset class perspective, the equity market was not significantly overpriced coming into what many now call the “Great Recession.” Therefore, despite the rally over the past few months, the upside potential remains attractive. We believe that convertible securities will continue to offer an attractive means for tailoring risk/reward characteristics, particularly as investors have become more cautious about risk.

## I. 2009 Review: Surviving the Great Recession

In 2009, investment performance lined up in almost perfect ordinal fashion, with the most risky assets leading the way (see Figure 1). It was virtually a mirror image of 2008, when holding any risk asset was bad for your financial health. The opposite was true in 2009. It was the government bond market that came up short, with the long end of the yield curve reflecting inflation fears and investors' increased appetite for risk. Meanwhile, the equity markets have survived the onslaught and have bounced back to a large extent. Whereas valuation levels nine months ago were indicative of a depression, now valuations are indicative of a recession.

At Calamos, we were positioned for successful asset reflation. We favored technology and consumer electronics, as well as cyclical areas such as industrials, commodities and energy. We also favored non-U.S. holdings over U.S. holdings and emerging economies over developed ones. While we did not invest heavily in the most speculative issues, we moved down the credit risk spectrum to what for us was an above-average exposure to low-grade credit. Our investment thesis was based on the expectation that stimulating the economy with massive Fed balance sheet expansion, banking support and fiscal deficit spending would have an impact on the financial markets and cushion the economic assault, at least in the near term (for more on this, see our January 2009 commentary, "The 'Fix Is In'—But Will It Last?"). These strategies served our clients well: Although remaining below the peak levels they achieved in 2007, our portfolios rebounded strongly in 2009.

### Productive and non-productive asset bubbles

The collapse of the credit-enhanced housing bubble has caused significantly more damage than a normal recession or the bursting of a typical financial bubble. Generally, when an unlevered asset bubble implodes, only those who hold the assets in question suffer a severe impact. In contrast, a levered bubble financed by the banking system has significant economic implications. Its tentacles reach into just about every sector of the economy. When the housing bubble burst, the initial damage to the economy, household net worth, equity and housing values, and business in general was what one would expect from the bursting of a leveraged, bank-financed bubble. As we highlighted in "The 'Fix Is In'—But Will it Last?", when such bubbles have popped in the past, the result has been multiple years of anguish, severe asset damage and bankruptcies.

Another deleterious characteristic of this most recent credit-enhanced bubble was that it was used primarily to finance the build-out of non-productive assets (housing) instead of productive assets. For an example of a "productive asset" bubble, we can look to the building of the railroads in the 1800s, which created a bubble in railroad debt and equity. When the railroad bubble burst, it left in place a productive asset that ultimately generated gains for the entire country. Likewise, the technology and telecom bubble was largely financed by Wall Street; it also left some productive assets that have since helped drive the economy. Historically, the

Figure 1. 2009 Market Performance

December 31, 2008–December 31, 2009

S&P 500 Index	26.47%	30-Year U.S. Treasury Bonds	-25.98%
Nasdaq Composite Index	45.36	10-Year U.S. Treasury Bonds	-9.71
MSCI World Index	30.79	Credit Suisse High Yield Index	54.22
MSCI Emerging Markets Index	79.02	Merrill Lynch All U.S. Convertible Index	49.13

Source: Bloomberg, LP. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees, expenses or sales charges. Investors cannot invest directly in an index.

worst consequences have resulted from the bursting of credit-induced, bank-financed bubbles in non-productive assets. As a result, we may be in for a number of more years of low growth and economic stress. *While the markets attempt to clear weak and damaged assets, our plan is to think globally, seek opportunities globally and focus on companies with minimum debt.*

## II. 2010 Outlook

We believe the economy is in recovery mode, as evidenced by recent economic data and financial market indicators. We expect further improvement in the next year, and see good potential for reasonable equity market returns. On the whole, corporate profits appear to be in good shape, balance sheets are healthy and corporate operating leverage offers the potential for dramatic improvement. (Even less-stellar businesses may have bought some time through the recent surge in corporate debt, which has provided a means for extending debt maturities.)

We believe the market won't experience a price-to-earnings expansion, but should be buoyed by strong growth in earnings. We hope to see corporate investment picking up from current levels, which are very low. Along with inventory restocking, corporate capital investment may help pave the road to near-term prosperity in the economy and equity markets for 2010.

Although we expect reasonable equity market returns, we believe it will be extremely important to approach the equity markets as "a market of stocks, not a stock market." We believe markets will rise, but in a sawtooth pattern. Given a more measured pace of economic recovery with ongoing pressures, we also expect potentially significant disparities between winners and losers. Such factors would create particularly tough headwinds for "auto pilot" indexed approaches in 2010.

Corporate profits are the cause of economic growth, not just the result of growth. This next year, we expect to see a profit-led recovery and a surge in capital spending and inventory rebuild. But, with a stretched and concerned consumer, U.S. corporations will need to reach new markets and consumers in the coming years. This would allow the U.S. to become a more balanced export economy. In effect, such a shift would also reduce the world's dependence on the U.S. consumer and

change the role of the U.S. dollar. There are caveats to 2010's potential economic and market success: the banking system still appears vulnerable, and the U.S. economy is accumulating debt at a very rapid pace. As a result, minor changes in asset values and interest rates could derail this still-fragile economy.

Those caveats aside, the near-term looks promising. However, the longer-term economic prospects are still worrisome. "Short-term bullish, long-term scared" has become our credo over the last few quarters. We believe that while we may be in the midst of a cyclical bull market, the secular seeds for prosperity are not being sown.

### Real prosperity or a false dawn?

*Alcoholics' hair-of-the-dog approach: Just one more drink to get over this hangover. Then, I am done with alcohol forever.*

*Congress' hair-of-the-dog policy: Just one more round of deficit spending to get over this debt induced economic malaise. Then, we will get our financial health in order.*

*The Fed's hair-of-the-dog monetary policy: Just one more round of monetary stimulus to get past this economic/market crisis. Then, we will stabilize the purchasing value of the dollar.*

Since the end of WWII, economic recessions have been addressed with Keynesian fiscal stimulus and an accommodative Fed. We believe these "hair-of-the-dog" economic policies at some point will do great harm to the U.S. economy. The United States has used deficit spending and loose monetary policy to offset droughts in private capital investment and consumption. This has reduced the value of the U.S. dollar by more than 90% since 1945, while contributing to stratospheric debt. The U.S. debt level approaches 245% of

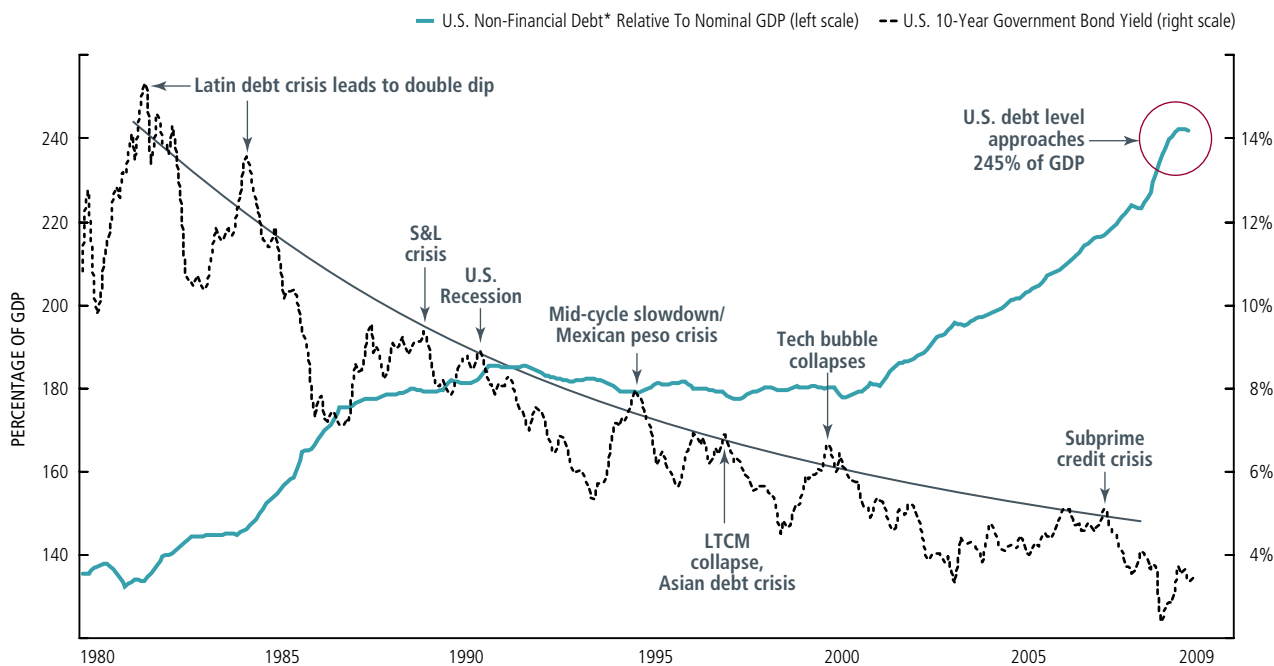
GDP—a level one would more typically expect of an emerging market! (See Figure 2.)

The U.S. has also become the buffer for global economic distress. Whenever a global crisis has occurred, we have provided a consumption engine through a large trade deficit financed by cheap capital from our trading partners. Our partners earn very low or negative returns on the dollars they receive from us, but the trade-off is still worthwhile to them. Exporting to our consumption economy provides jobs and money our partners can use to build their own modern infrastructures.

We believe this approach leaves us ill equipped for the future. Too much debt in a household or business can lead to ruin; and the same is true for too much debt in an economy. Too much currency devaluation undermines the wealth and sustainability of an economy. Too much debt results in interest payments consuming future tax revenues to pay for past excesses. Despite these problems, the levered Keynesian approach to fiscal stimulus and deficits has been accepted by most developed countries. The allure for the politicians is that they can soften the business cycle by spending other people's money, in the name of saving the population from having to reduce consumption and increase savings. Of course, at some point we must pay back this debt, but as Keynes himself said, "in the long run, we are all dead."

Leverage in the economy works the same way as leverage in your portfolio. The developed world's debt burden leaves the global economy prone to instability. A leveraged economy is more vulnerable to increased refinancing rate risk, and a minor event can cause massive damage. Even slight changes in the interest rates may create significant economic and market risk. Past cycles of debt build-up have stressed the system's

**Figure 2: A high debt level increases vulnerability to rate changes and event risk**



Sources: Non-Financial Debt from Federal Reserve Board, Flow of Funds Report, GDP data from the Bureau of Economic Analysis, government bond yields from FactSet.

ability to absorb any kind of interest rate hike (see Figure 2). Governments can carry much more debt with low interest rates, but the artificial rate game can't be played forever. The U.S. government has funded its large debt burden with an average maturity of only 4.5 years. This short-term financing offers great lower interest rate benefits now, but may present larger refinancing risks in the future. All other factors being equal, the operating deficit could be severely hampered if rates moved from 1% to 5%. The interest on government debt today consumes \$380 billion of taxpayers' money, or 40% of individual income tax receipts! Any rate hike will severely stress our payment ability.

Additionally, markets need pricing signals to operate efficiently and to avoid misallocation of resources. As a result of government support, pricing mechanisms are artificial for some credit markets. The longer these artificial price supports exist, the larger the misallocation of resources.

Long-standing practices and habits are hard to break. We have been in a "hair-of-the-dog" cycle for more than 50 years. Throughout, the hope has been that by propping up asset values and stimulating confidence, businesses and consumers

will increase transactions and drive up GDP. Then, the loans and leverage in the economy are unwound at a slow and controlled fashion. The current stage of asset deflation has been financed with more debt and money created out of thin air. Direct government purchases, monetary stimulus and fiscal spending with debt financing have indeed stopped the bleeding and reversed the plunge in asset values. The next stage is critical, as the U.S. must turn the "reflation" into real, unsupported economic growth and wealth creation. This will be a complex undertaking, and in our view will require precise timing by the Fed, policies more supportive of entrepreneurship, and less government intervention in the capital markets and business sectors.

### Cautionary notes on the banking sector and credit expansion

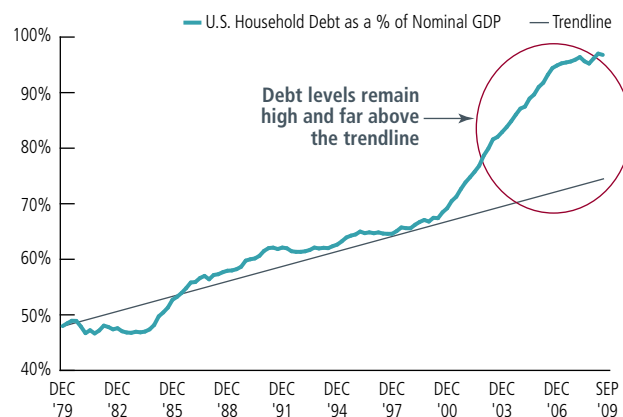
As we noted, we remain concerned about the banks. The President and Treasury claim they want banks to start lending and admonish them publicly for not doing so. This appears to us to be political double speak. Banks have been publically beaten up for not lending, but regulators are aggressively leaning on banks to increase reserves and write down loans. Moreover, by keeping interest rates very low on the front end of the curve (a near-zero deposit rate of interest) and then allowing deposits to earn the longer-term Treasury rate, the Fed is not providing incentives for banks to lend. The very large spread on leverage is a means to allow banks to rebuild their balance sheets without any additional risk. To us, this could suggest that some banks may be in worse shape than publicly acknowledged.

Today, the banks appear to be more stable than a year ago. The liquidity in the market has thawed and although credit is still tight, banks have become more willing to take on counterparty risk. However, the leverage in the banking system needs to be reduced further before any meaningful credit expansion can begin.

Similarly, households need to reduce debt to income levels before they resume credit expansion (see Figure 3). In 2009, the annual growth in private credit was negative for the first time since WWII. Some measure of the decline can be attributed to paying down loans, which is a positive. However, much of the reduction is the result of mortgage delinquencies (write offs), which is decidedly negative as the debt holder loses capital.

**Figure 3. U.S. Household Debt as a % of Nominal GDP**

1Q 1980–3Q 2009



Source: Bloomberg, LP.

**Figure 4. U.S. Business Debt as a % of Nominal GDP**

1Q 1980–3Q 2009



Source: Bloomberg, LP.

### Deficit spending: A government-sponsored ponzi scheme?

If the U.S. government cannot find more people willing to go into debt to stimulate demand, it will likely do this on its own, by way of deficit spending. The government just needs to find someone (we believe it would most likely be China) willing to finance/invest in this scheme at very low interest rates. The United States' financing needs have exploded, and at the margin China and the rest of the world are not increasing exposure to U.S. dollar. The Fed's game today is to purchase government debt (quantitative easing with newly created dollars). Thus, the government goes deeper in debt and then

prints money to purchase the debt, thereby keeping rates lower and injecting more money into the economy. This does not strike us as a sustainable course.

The assets backing the debt must appreciate to keep this game going. The current goal of the Fed and Congress is to make sure assets appreciate even if the “wealth” build is not real. Once again, the government is attempting to buy time to allow the banking system to heal and asset values to appreciate. It is said that time heals all wounds, but we are not convinced. If asset reflation does not occur, then the debt build up is an additional weight on the back of a heavily debt burdened economy. The collapse will be even more severe.

### Inflation and/or deflation: what does the future hold?

The current prescription to solve our economic crises calls for easy monetary policy and huge deficit spending. We are told that excess U.S. and global capacity and underemployment will need to be absorbed before inflation kicks in.\* But, inflation or deflation can show up in many ways. Inflation measures included in the Consumer Price Index or Producer Price Index are not the only types of inflation. We can also get inflation or deflation in asset values, financial assets, real estate and commodities.

When considering inflation, we often reference the monetarist equation developed by Irving Fischer to explain the relationship between changes in money and output.

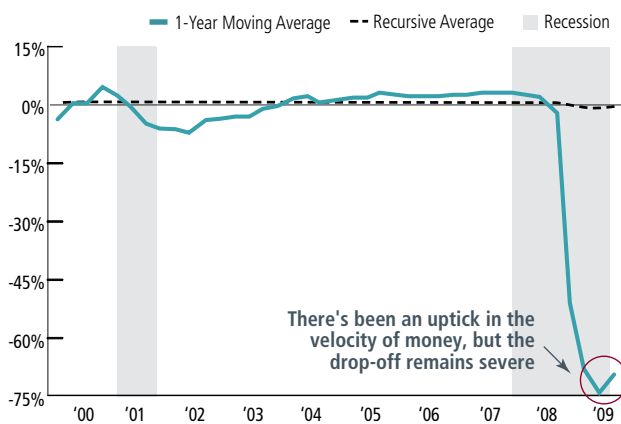
$$MV=PQ \text{ also then } V=PQ/M$$

where M= nominal quantity of money, V= velocity of money, Q=output or real income, P= price level for financial assets, real estate, commodities, product pricing (CPI and PPI)

The Fed is injecting money (M) into the economy, and the velocity (V) has collapsed over the past 18 months (see Figure 5). The Fed is trying to offset the collapse in V with a huge surge in M because (as the equation states) if V collapses, then either P, Q, or both P and Q collapse. We have seen output collapse, as measured by GDP and industrial production. There has also been a huge collapse in P, due to the implosion of the real estate bubble. (The equity market’s collapse was not a result of a bubble in stock prices, but the result of the banking system crisis and the Great Recession. In contrast, housing was a bubble financed by debt.)

The Fed’s continued pumping of M supports asset prices and relieves some of the pressure. The Fed has also wanted to influence specific asset prices with the increase in M, and has accomplished this through massive purchases of government, agency, mortgage and other debt. In effect, the Fed has inflated these assets to minimize the impact of a collapsing V. Some of the monetary stimulus will work its way into Q, but today Q is delayed because of excess global capacity, labor and high debt levels. We have seen V bottom and start to recover, and that is a sign the Q is slowly improving.

Figure 5. Monetary Base Velocity Growth



Source: Federal Reserve Bank of St. Louis, “Monetary Trends”, January 2010.

As we have noted in the past, Figure 5 is the single best economic chart we know that explains the current crisis. The collapse in V is the crux of the problem: It is a direct measure of a country’s willingness to transact, and business is all about transactions. The animal spirits of the economy have been crushed; and the will and ability to build, create and expand risk capital is fractured. The Fed wants to entice people to move money out of cash and into risk assets. But the prospects of high taxes (lower returns), huge uncertainty (more risk) and a broken banking system leaves capital in the lowest risk investments (cash), even if the return is zero. Instead of focusing on redistribution, government fiscal policies need to address this. Otherwise, we won’t have enough to redistribute in a few more years!

The plan is to increase M, and then slowly reduce M as V increases. If V is stubborn, then we believe the increase in M will probably continue, until other asset bubbles become very extended or burst. For example, as the result of the dollar currency peg, China has more monetary stimulus than it needs, and this could create real estate, financial or other bubbles in the Chinese economy.

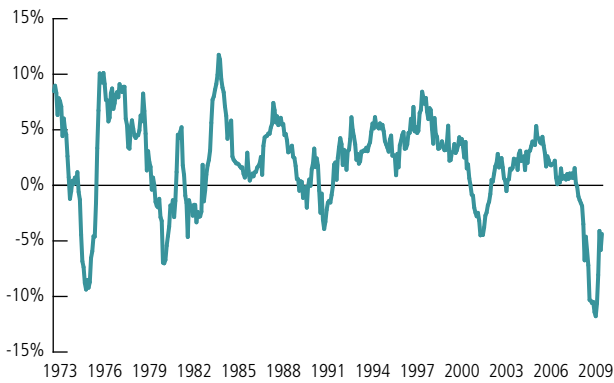
The absolute level of the economy is still an issue. Did the productive capacity of the economy drop and the level of capital employed change dramatically? If so, the size of the economy at a lower level may mean a structurally higher level of unemployment will persist.

Combined with potential excess global capacity and labor, the odds of structurally higher unemployment appear to be even greater. One additional complication is that the Fed’s move to increase M may be partially offset by a decreased demand for dollars from the rest of the world. The drop in the dollar since March reflects many factors, including a move back out of liquidity and safety for non-U.S. investors, a concern about dollar devaluation, less demand as a result of the collapse in worked trade (70% of traded products use dollar for the exchange). The dollars may flood the economy from other markets at the same time the Fed is doing the same thing. This may result in excess dollars beyond the expected amount,

\*In our October 2009 commentary (“The Shape of Things to Come”), we expressed our skepticism about the output theory gap and highlighted the difficulties of measuring output in the economy with many changes and global trade impacts.

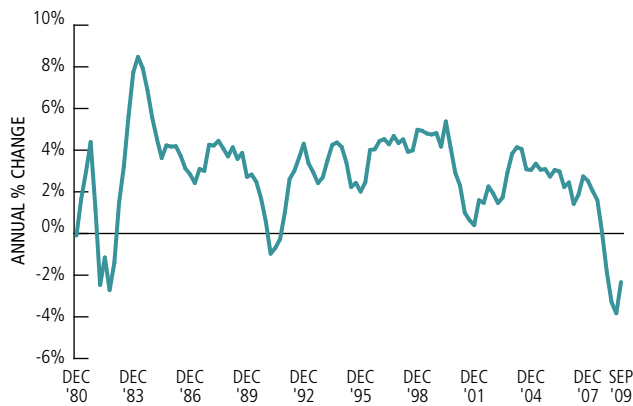
**Figure 6. Signs of a Recovery**

Industrial Production (Year-Over-Year % Change)  
January 1973–November 2009



Source: Federal Reserve Board

Real GDP (Year-Over-Year % Change)  
December 1980–September 2009



Source: Factset

**Figure 7. World Exports of Goods & Services**

1990–2009



Source: International Monetary Fund, World Economic Outlook Database, October 2009. 2009 data is estimated.

causing additional inflation in assets, goods or both. We have witnessed the use of special drawing rights (SDRs), currency diversification away from the U.S., and swap agreements between countries' to avoid using the dollar for exchange. All of these decrease demand at the margin for dollars. We need more countries to invest in our debt and currency to finance the huge deficit, but the opposite appears to be occurring.

Without the Fed's help, prices would decline and output would be reduced to a new lower level of output, resulting in a temporarily smaller economy until markets clear. The lower prices mean the asset values (collateral) that support the debt are significantly below loan values, leading to bankruptcies and wealth destruction. The intervention is designed to artificially increase asset values and stimulate consumption and credit again. However, we believe that in the absence of government intervention, many investors around the world would become active buyers of the depressed assets. We believe this would result in a quicker real economic recovery.

### Perspectives on the U.S. dollar

We believe the U.S. dollar's decline against the yen and euro is largely over. We expect that Japan will become more aggressive with monetary debasement since two decades of Keynesian deficit spending have left that economy with a huge amount of debt and stagnation. The euro may come under some additional pressure as the banks and Eastern European countries look for some relief. The trade unions and peripheral problem economies (such as Greece, Italy and Spain) may also look to pressure the euro. Trade tariffs combined with a looser monetary policy may appease all involved, but we believe this would not be the correct path to take.

We do expect the dollar to continue to decline against the emerging economies if global growth continues. Considering the dollar's multiple roles, we believe it is likely that the dollar rallies against the major developed countries' currencies, declines against store-of-value currencies and gold, and declines against the commodity countries' and emerging market currencies in general. The dollar should slowly decline against the "major" trade partners' currencies, as other alternatives to the dollar are openly discussed and used.

### III. Positioning

As we discussed earlier, we are very excited about large-cap growth opportunities in the United States. We believe that there are many choices for investors to upgrade balance sheet quality, global reach and stable cash flow characteristics for no price premium. We also see the technology sector capturing a leadership role in the next decade. Such a resurgence could provide a powerful tailwind to the Nasdaq Composite Index over the next decade.

In addition to technology, we are also favoring commodities, agriculture and energy. We are digesting the likely changes to the health care sector and are assessing potential opportunities to increase exposure there. We are also considering additional investments within staples and expect to stay overweighted in industrials with global reach. We expect to keep energy sector

weightings at least neutral for the foreseeable future. We believe consumer discretionary will likely develop as a bottom-up opportunity market, as the divide between winners and losers widens.

We do not believe that high risk will equal high return in 2010, in either the credit or equity markets. Our view is that the high-beta, high-risk balance sheet opportunity in the high yield bond and equity markets has substantially played out. It will not be enough for a business to simply survive; investors will be focused on revenue growth and earnings growth. We believe that balance sheet management will also be a critical factor in a global business environment marked by ongoing volatility and fierce competition.

We believe convertible securities still offer attractive risk-reward characteristics, based upon our expectation for more volatility, short-term debt maturities and some exciting individual business opportunities. The convertible market as a whole is still undervalued. Moreover, we believe that convertible securities, properly selected, will provide risk-wary investors with a compelling way to participate in the equity markets in a more defensive fashion.

The risk premium and liquidity premium in the corporate fixed-income market is more normal now and does not offer significant risk-reward opportunity. Over the course of the year, we intend to continue migrating to higher-grade debt and lower durations. We are extremely cautious about government, mortgages and agencies, as these are “supported” price markets. When exposure is necessary, we expect to keep durations close to that of cash.

In regards to equities and convertibles, we are becoming agnostic to the “U.S. versus non-U.S.” question. The developed markets, except Japan, are closely linked in value. The economic backdrop in most developed countries is similar, and the dollar is probably somewhat cheap relative to these markets. Accordingly, we will take a bottom up approach as we look globally for opportunities. The country exposure will develop from there.

From the broadest perspective, emerging markets may be ahead of themselves, given the strong rally and currency strength of the last year. The emerging markets look compelling as a group, but individually there is political and country risk. As a result, we prefer to be well diversified in this asset class.

## Sector Outlook and Positioning

In past commentaries, we have summarized our sector positioning. Here’s the current update:

Sector	Positioning*	Key Considerations
Financials	Underweight	Banks will be under pressure to pay for the FDIC’s huge insurance liability, while new regulations, lower ROEs and ROAs continue to make the banking sector too dicey to participate in.  Asset managers and insurance look reasonable from valuation- and business-model perspectives.
Technology	Significant Overweight	Capital spending as a percentage of GDP is at a 40-year low, and we expect that this trend will reverse. Technology companies are positioned well for a rebound in the capital spending cycle and are very used to competing in a deflationary environment.  Productivity enhancement and cost controls should help technology spending.  We see consumers remaining willing to purchase certain “special” products such as cell phones, laptops and flat-screens.  We have found software companies offering stable revenue streams, strong balance sheets with lots of cash, and products that offer solutions for cost reduction and productivity.  The sector will benefit from global infrastructure stimulus spending.  Stock valuations are attractive and the risk/reward is compelling.  The sector may be re-establishing its leadership position in the equity market for the first time since last decade’s collapse.
Consumer Staples	Neutral	Due to the sector’s lagging in the market rebound, better relative valuation opportunities have emerged  There is presently a narrow risk/reward band, but as emerging economies improve, we may consider moving to overweight exposure.  We favor low-cost producers with global reach.  High-end consumer items are still under pressure but stock values reflect an opportunity for high returns.
Industrials	Neutral	Valuations previously implied a very weak economic cycle for the next decade, but valuations are now pricing in a more normal cycle; in the third quarter of 2009, we reduced our overweight to a neutral weight.  Global infrastructure stimulus spending will benefit many companies in this sector, so we expect that overall growth should be above the average global growth rate.
Materials	Neutral (decreased from overweight)	Valuations are getting stretched.  Further U.S. dollar devaluation and global stimulus spending should help boost commodity prices.  The small capitalization of this sector and volatility of commodity prices will again make it prone to large price swings.
Energy	Overweight	U.S. dollar devaluation should help support energy prices.  Mid-East turmoil adds to the attractiveness of this sector as it can hedge unforeseen energy price spikes. Stock valuations appear reasonable but government intervention will make this a difficult sector to value.
Consumer Discretionary	Underweight	Stocks offer significant discrepancies in values and opportunities, with a widening divide between winners and losers.  Consumers are more cost conscious and value conscious.  The U.S. appears to have excess retail capacity.  Overall potential minefield with some gems buried within.
Health Care	Neutral	This sector may be undergoing some significant changes with the government taking on a more activist approach, and becoming a major player and insurer. It is important to follow government actions and adjust accordingly.  We are assessing potential opportunities to increase exposure.

\* Sector overweights and underweights are general indications for the broad sectors. Each portfolio may hold different overweights or underweights due to characteristics particular to individual asset classes utilized.

We will likely reduce some exposure based on short-term gains and add to our exposure on weakness.

That said, we continue to see long-term opportunity in emerging markets. We believe emerging markets are over-loved (short term) but under-owned (long term) from a global capitalization and asset allocation perspective. We may see a short-term correction in a cyclical bull market for emerging market stocks, but a secular bull market opportunity exists. We have a similar perspective on commodities.

## IV. Conclusion

A change in the economy changes the rules, which in turn changes the investment game plan. Our job at Calamos is to understand what is changing and adapt and improve our execution. We have invested through many difficult markets—most recently, through this “lost decade”—and we believe our long-term results attest to our abilities.

The credit-enhanced recession carries with it the likelihood of being a game changer for a number of years, even as we enter a recovery phase in the economy. We believe it is likely that the Fed will create inflation in assets as intended, but also in unplanned places. The Fed cannot direct all flows and we expect some unintended consequences. *Investing does not get easier from here.* That said, we believe that we are well equipped to navigate the terrain ahead. We remain very vigilant about identifying bubbles and understanding their potential implications. Overall, our track record at Calamos has been quite good at this. Although we (like most others) were not able to sidestep the systemic risk that emanated out of the collapse of the housing market collapse, we avoided the Japan stock market bubble, biotech bubble, the Asian crisis, the technology and telecomm bubble, and the real estate bubble itself.

As we discussed, the global economy faces new challenges and longer-standing ones. Against this backdrop, we expect that the performance of individual companies and investments will vary considerably in 2010. We are not daunted by this prospect. Rather, we see the year ahead as offering significant opportunities for our highly selective and risk-aware approach.

**S&P 500 Index**—Is generally considered representative of the U.S. stock market. **Nasdaq Composite Index**—includes over 3000 securities that trade on Nasdaq. **MSCI World Index**—Is a market capitalization weighted index composed of companies representative of the market structure of developed market countries in North America, Europe, and Asia/Pacific region. **MSCI Emerging Markets Index**—is a free float adjusted market capitalization index. It includes market indexes of Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. **Credit Suisse High Yield Index**—Is an unmanaged index of high yield debt securities. **Merrill Lynch All U.S. Convertibles Index**—is an unmanaged index representing the performance of the U.S. convertible market.

Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees, expenses or sales charges. Investors cannot invest directly in an index.

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