

While we believe the recession in the U.S. largely ended in the third quarter of 2009, a full economic recovery in the U.S. is far from complete.

## Alger 2010 Market Outlook: Where Do We Go From Here?

After a brief rise, 2010 has opened in a dour way, with the markets S&P 500 Index down 3.60%. From its recent peak on January 19th, this represents a 5.47% decline, the largest such decline since the current bull market began. Investors are clearly starting to show the signs of “pause” or uncertainty that we believed would occur related to the uneven economic growth in the U.S.

From March 2009 through January 2010, equity performance worldwide was remarkable amid stronger-than-expected corporate earnings and signs of economic stabilization across the globe. While we believe the recession in the U.S. largely ended in the third quarter of 2009, a full economic recovery in the U.S. is far from complete. The various government programs and stimulus introduced over the last year, along with the amount of liquidity provided by the U.S. Federal Reserve and other central banks around the world, have succeeded in taking the worst case scenario of a total financial system collapse off the table. This success is evident, in our opinion, by the improving economic activity throughout the world, not to mention better functioning capital and funding markets. For the U.S., it is likely that the broadest measures of our economy will support our view that, near term, a stronger than expected recovery continues into early 2010. However, as we mentioned in the fourth quarter of 2009, we do expect that the ability of the U.S. economy to leverage the momentum of recovery with “true” growth in 2010 and beyond would be a source of anxiety for the U.S.

### A Different Type of Uncertainty Plaguing the Markets

One of our favorite “Algerisms” relating to stock-picking is that we would rather “hear an incomplete stock story” than “one with all the answers.” The idea behind this thought is that investing is inherently a profession that requires decisions to be made where uncertainty reigns and perfect information or knowledge is a fallacy. Thus, if the investment thesis for a new stock investment, presented by one of Alger’s analysts, is “one with all the answers”, it is implied that other investors know the same answers, or information, about the stock as well. In sum, the story is, in effect, already out for all to process. Especially in these days of around the clock access to information and with internet connectivity to Google-plexes of data, the information is usually immediately reflected in the stock’s price. Uncertainty, however, is actually the friend of the dedicated professional investor. The greater the level of uncertainty perceived by other investors, the more likely it is that the particular investment is mis-priced, whether to the upside or downside, and thus the greater the opportunity is for those with fortitude.

We have now entered a different kind of environment for investors. We've traded economic uncertainty for policy uncertainty, in the U.S. and globally.

At Alger, our fortitude and determination to produce superior investments results served us well in 2009 and we are proud of our achievements for our clients. It was a great year, based on sound research and conviction in our disciplined investment process. Clearly, early 2009 showed how powerful the reflexive action to avoid uncertainty can be. The market continued its dramatic sell-off of 2008, with stunning strength, dropping 22.49% in the opening months of 2009. That strength was the result of a flawed kind of certainty - flawed in that it was based on the idea that the economic platform of the U.S. was both collapsing and destined for a prolonged decline. Uncertainty about the economic future of the United States was, indeed, at a generational high. However, like the stock story "too good to be true," that fear was itself "too bad to be right." Thus, a recovery occurred in 2009 - in both the stock market and our economy.

We have now entered a different kind of environment for investors. We've traded economic uncertainty for policy uncertainty, in the U.S. and globally. The election of a republican senator in the bluest of States, and to a seat once held by one of our most illustrious Democrats, was evidence, if any was needed, that the real issues facing the market - and our nation - today are about policy. The form and depth of healthcare reform remains unsettled, despite a year of legislative effort. Economic policy is equally uncertain with issues regarding the timing and methods of withdrawal of financial stimulus (in all its forms) dominating policy makers. Reform of the financial system - the rules governing our banks and major financial institutions - continues front and center on TV and media, though the shape of concrete proposals is far from clear. Even the re-upping of Chairman Bernanke to another term as Chairman of the Federal Reserve was played out in the context of "maybe not" rather than the typical "of course we will" which has occurred historically.

Finally, on the international policy front, it is hard to pinpoint any significant, noticeable change. We are still in Iraq, we are more than ever in Afghanistan. Pakistan and the Taliban are seemingly as problematic as ever. And, as an economic power and political rising star, China seems more so. Copenhagen, rather than a triumph of forward-thinking for the greenest U.S. President of modern times, became more like a "coming out" party for China and emerging nations against the U.S. and other developed nations. What seems pervasive is not actual change, but hopefulness for future changes. Uncertainty may reign today, however, it is not wrought with an air of gloom.

For the market, the level of policy uncertainty is unusually high now, and it is rational that investors feel less inclined to add to their investments in U.S. equities. However, at Alger, we are highly confident that the current uncertainty about policy direction is nothing more than a distraction from the economic story that is continuing to unfold in 2010. We believe we will emerge stronger than most would have possibly suspected just a year ago. In short, we think this market pause could go on well into the second half of 2010, but ultimately, we see a significant rally in U.S. equities and a continuation of the bull market into 2011. For those who like historical precedents, the pattern might be similar to 2004, where the market drifted sideways with a downward bias for the first 8 to 9 months of the year before taking a decisive upward turn towards the year end.

Based on our analysts' research and analysis, we see corporate earnings delivering solid growth this year. Rates of earnings growth will slow, but this is meaningless in the context of absurdly "easy" compares – against the earnings collapse of late 2008 and the first half of 2009. We also see above average (and well above Street consensus) growth in GDP and improvement in other key economic metrics. Even as withdrawal of stimulus is debated and executed by policymakers globally, the amount of stimulus presently in the U.S. and global economy is tremendous, and its positive boost to economic growth will continue to stimulate corporate and consumer activity throughout 2010. We do not see, in the initial reduction of fiscal stimulus by governmental authorities, whether in the U.S. or stronger economies (i.e., China's) anything that would kill the economic momentum that is building. In the U.S., we see the beginnings of both a housing and a jobs recovery occurring this year. However, it will take a couple quarters of strong, reported corporate earnings growth before investors (the "consensus" that is, not Alger's) grasp the strength and durability of the U.S. corporate recovery, and then, as in the past, reignite their interest in U.S. equities. We note that "interest" today seems largely focused, as it has been for most of the past year, on short term bond funds and international equities, though signs of a shift in flows have recently appeared (e.g., in January, U.S. domestic equity mutual funds had net inflows for the first time in 5 months).

For U.S. equity investors, while policy uncertainty may have some affect on, for example, whether commercial HMOs or HMOs focused on Medicaid programs perform better in the stock market, the overall result is a positive one for U.S. equities. In other words, the U.S. economy and global economies are improving, and that trend is a friend to risk assets like equities. Thus, as the markets' vacillate on a feast of policy uncertainty, we will be looking to add to investments in high quality, growth companies positioned to grow their market share, generate superior revenue growth, and deliver high-quality earnings.

### Uncertainty is Opportunity

At Alger, uncertainty and change equals opportunity. When change happens, some investors panic, others turn a blind eye, whereas others, like ourselves, accept and embrace change. We believe that when uncertainty occurs – whether it is in a company, sector, industry or the economy - the best investment opportunities emerge and we seek to quickly capture them. This is exactly what we have done over the last year as the market created so many attractive opportunities at very reasonable valuations. The current environment continues to provide us with strong opportunities demonstrating the benefits of our rigorous, original and fundamental research approach in uncovering companies with the strongest fundamentals and the ability to leverage change strategically.

In any event, no matter what type of uncertainty prevails within the market, Alger investment professionals remain focused and disciplined on executing our growth investment philosophy based upon identifying companies undergoing Positive Dynamic Change, which we believe offer the best long-term growth potential for our clients. We have been utilizing this approach since 1964 and it has been the driving force behind our successful investment philosophy and tenure.

In any event, no matter what type of uncertainty prevails within the market, Alger investment professionals remain focused and disciplined on executing our growth investment philosophy...

---

The views expressed are the views of Fred Alger Management, Inc. as of February 11, 2010. Alger has used sources of information which it believes to be reliable; however this publication is not intended to be and does not constitute investment advice. These views are subject to change at any time and they do not guarantee the future performance of the markets, any security or any funds managed by Fred Alger Management, Inc.

These views should not be considered a recommendation to purchase or sell securities. Individual securities or industries/sectors mentioned, if any, should be considered in the context of an overall portfolio and therefore reference to them should not be construed as a recommendation or offer to purchase or sell securities. References to or implications regarding the performance of an individual security or group of securities are not intended as an indication of the characteristics or performance of any specific sector, industry, security, group of securities or a portfolio and are for illustrative purposes only.

The S&P 500 Index is an unmanaged index generally representative of the U.S. stock market without regard to company size. Investors cannot invest directly in any index. Index performance does not reflect deduction for fees, expenses, or taxes. Investing in companies of all capitalizations involves the risk that smaller, newer issuers in which the Fund invests may have limited product lines or financial resources or lack of management depth.

Investing in the stock market involves gains and losses and may not be suitable for all investors. Growth stocks tend to be more volatile than other stocks, as the prices of growth stocks tend to be higher in relation to their companies' earnings and may be more sensitive to market, political and economic development.

Recent performance has been impacted by an unusually strong period in the U.S. equity market and there is no guarantee that such conditions will be repeated.

**Before investing, carefully consider a fund's investment objective, risks, charges and expenses. For a prospectus containing this and other information about a fund, call us at (800) 992-3863 or visit us at [www.alger.com](http://www.alger.com). Read it carefully before investing.**

**NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE.**

Fred Alger & Company, Incorporated, Distributor. Member NYSE Euronext, SIPC.