STANDARD & POOR'S

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Looking Ahead

Since the March 9 low for the S&P 500, stocks moved unsteadily higher, in fits and starts. Of the 13 industries with rising relative strength rankings, it is interesting to note that six are from the information technology sector, according to S&P Chief Investment Officer Sam Stovall. Check out the May 13 issue for a list of tech-focused mutual funds.

Please see page 3 for required research analyst certification disclosures.

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Energy Edge

Bringing wind power online.

Vaughan Scully
S&P Editorial

With each passing day, U.S. electric utilities move closer to the time when they must begin to acquire some of their power from renewable sources, such as wind or solar.

More than half of the U.S. states already set their own timetable for utilities to meet a Renewable Portfolio Standard (RPS), and a bill currently moving through Congress would create a 15% RPS requirement (it could possibly be higher) nationwide by 2020.

While the technology and manufacturing capacity currently exists to allow utilities to meet that goal mostly through wind and solar development, there is a major roadblock to bringing that power to market — the lack of long-distance power transmission lines connecting attractive renewable generation sites to areas of high demand. Prime locations for wind and solar generation are hundreds and sometimes thousands of miles from the customers they would serve, and many proposed facilities are stuck on a long waiting list to connect to the grid because of a lack of transmission capacity.

Recognizing the problem, Congress voted in 2005 to allow the Federal Energy Regulatory Commission, which regulates interstate power transmission and sales, to grant higher regulated rates of return for new transmission lines that reduce line congestion or increase service reliability. Now, companies such as Michigan-based ITC Holdings, the largest independent power transmission owner, and others are taking advantage of those incentives and public demand for renewable energy to build huge new transmission projects that could generate profits and benefit shareholders for years to come.

"We believe that new transmission lines will be needed in order to connect new renewable resources, such as solar and wind generation, to load demand areas," says Christopher Muir, an equity analyst with Standard & Poor's. "ITC and others stand to benefit from these rate incentives by being allowed to earn a higher return on equity for a specific project than they would otherwise."

(Continued on page 8)

POSITIVE POTENTIAL IMPLICATIONS

COMPANY / TICKER	‡STARS	‡QUALITY RANKING	*RISK	STYLE	CURRENT PRICE	**12-MONTH TARGET PRICE	†P/E RATIO	YIELD (%)
Allegheny Energy / AYE	4	B	Medium	Blend	26	38	8.7	2.3
American Electric Power / AEP	4	B	Low	Value	26	31	9.0	6.3
FPL Group / FPL	5	A	Low	Blend	54	64	12.6	3.5
ITC Holdings / ITC	4	NR	Medium	Blend	45	56	19.3	2.7

*Based on our analysts' assessment of qualitative factors, including financial strength, potential share volatility, competitive position, industry cyclicality, regulatory/legal issues, and other factors. **Please note that all investments carry risks. Specific risks to each stock recommendation and target price can be found in each company's individual stock report. ‡See definitions on page 2. †Based on S&P estimated fiscal 2009 earnings. Source: S&P Equity Research.

Intelligencer

Headlines, Highlights, and What's on Our Minds

EU TO BOOST IT RESEARCH: The European Commission, the executive branch of the European Union (EU), plans to double Europe's national and EU information technology (IT) research investments by 2015, according to an EU report released April 21. Next year, the Commission expects to begin increasing annual IT research spending from 100 million euros to 170 million euros by 2013.

According to the report, Europe's information and communication technologies research is behind other regions, and the EU believes the increase in spending will help it catch up to the United States, China, and Japan. In addition, the EU says it wants to launch at least two flagship research programs by 2013. Examples of possible research include huge increases in computing power, computers that work similar to the brain, wheelchairs controlled by the mind, and robotic companions.

More European IT spending could have positive implications for exchange-traded funds such as iShares S&P Global Technology Sector (IXN), SPDR S&P International Technology Sector (IPK), and Technology Select Sector SPDR (XLK). / Art Epstein

HANGING UP: As fears about the recession become more widespread, millions of Americans are on the verge of disconnecting expensive cell phone plans. Two out of five Americans with contract-based cell phones — 39% percent, or 60.3 million consumers —are likely to cut back on their cell phones to save money if, as is widely expected, the economy worsens over the next six months, according to a new survey of 2,005 Americans conducted by Opinion Research Corp.

Of course, people don't always do what they tell polltakers they will do. Jim Moorman, a telecom equity analyst for Standard & Poor's, thinks it highly unlikely that customers will hang up their cell phones for good.

"We believe the more likely scenario is a shift to the prepaid, or lower cost offerings," he says, like those from Leap Wireless (LEAP 35 ★★★), MetroPCS (PCS 17 ★★★), Boost Mobile — a part of Sprint Nextel (S 4 ★★★), T-Mobile — part of Deutsche Telekom (DT 11 ★★★), Verizon (VZ 30 ★★★★), and others. These offerings, Moorman says, tend to provide more "no frills" service in what is sometimes a more limited service area with fewer bells and whistles and often without the higher end handsets, such as the iPhone. / Beth Piskora ■

MARKET MEASURES

INDEX	CLOSE WED. 4/29/2009	% CHG. YEAR TO DATE	% CHG. PAST 52 WKS.	‡OPERATING —EARNINGS— 2008	E2009	†P/E RATIO	INDICATED ANNUAL DIVIDEND	% YIELD
S&P 500 Composite	873.64	-3.3	-36.7	49.51	58.01	15.06	22.95	2.63
S&P MidCap 400	561.68	4.3	-32.0	30.03	32.79	17.13	10.45	1.86
S&P SmallCap 600	262.01	-2.5	-29.7	10.22	11.74	22.33	3.92	1.50
S&P SuperComposite 1500	199.45	-2.7	-36.1	11.12	12.96	15.39	5.03	2.52
Dow Jones Industrials	8185.73	-6.7	-35.9	462.49	379.09	21.59	274.22	3.35
Nasdaq Composite	1711.94	8.6	-28.8	...	...	...	...	...
S&P Global 1200	988.71	-3.9	-41.3	...	...	...	...	...
BBB Indus. Bond Yield (10-yr.)	8.78	-0.35 ◊	1.93 ◊			...	...	...

Data through April 29, 2009. E-Estimated. †Based on estimated 2009 earnings. ‡Before special factors. ◊Actual change in yield (not percentage change).

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Standard & Poor's The Outlook

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The McGraw·Hill Companies

S&P EVALUATION SYMBOLS

STARS Rankings*

Our evaluation of the 12-month potential of stocks is indicated by STARS:

★★★★★ **Strong Buy**—Total return is expected to outperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★ **Buy**—Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★ **Hold**—Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★ **Sell**—Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.

★ **Strong Sell**—Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

NR Not ranked.

*The fund and ETF STARS rankings come from S&P's mutual fund reports.

Quality Rankings (QR)

Our appraisals of the growth and stability of earnings and dividends over the past 10 years for STARS and other companies are indicated by Quality Rankings:

A+	Highest	**B+**	Average	**C**	Lowest
A	High	**B**	Below Avg.	**D**	In reorganization
A-	Above Avg.	**B-**	Lower	**NR**	Not Ranked

Quality Rankings are not intended to predict stock price movements.

The Observatory

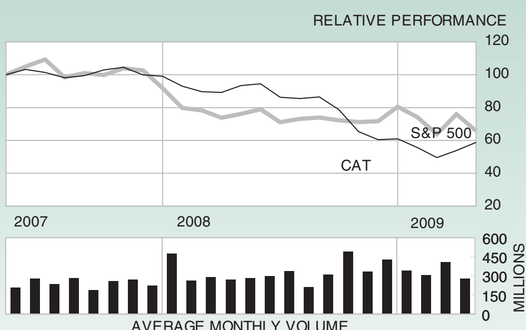
Selected actions for April 27 through May 1.

One to Watch

Bristol-Myers Squibb BMY 19

To ★★★ From ★★★★

First-quarter earnings of $0.48 a share, vs. $0.39 a year ago, met our forecast. Sales rose 2.5%, or 8.0% excluding adverse foreign exchange translation, driven by gains in Plavix (+10.0%) and Abilify (+30.0%). The gross margin widened to 72.5%, from 69.9% in the first quarter of 2008, and we left our 2009 earnings estimate at $1.90, reflecting recent FDA delays in ruling on the Onglyza diabetes drug. While we still see promise in the pipeline, we think Plavix, which accounts for 27.0% of sales, faces competition and its patent expires in 2011. We lowered our target price by $2 to $24, based on our revised discounted cash flow analysis and comparable peer P/Es. ■



RISING STARS

Beckman-Coulter BEC 52

To ★★★★ From ★★★

First-quarter earnings of $0.74 a share vs. $0.68 a year ago was $0.01 ahead of our estimate. Sales fell 5.0%, but were flat excluding negative foreign exchange (forex) translation. As expected, instrument and life sciences sales (excluding forex) fell by 19.0% and 10.0%, respectively, while consumable sales, which represent 80.0% of sales, rose 5.0%. We view the results as solid, given the challenging operating environment, and see continued strong consumable sales. We also think the pending acquisition of the diagnostic unit of Olympus, subject to approvals, will strengthen the company. We raised our 2009 earnings estimate by $0.05 to $4.00 and our 12-month target price by $6 to $60.

Edwards Lifesciences EW 64

To ★★★★★ From ★★★★

First-quarter earnings of $0.70 a share vs. $0.56 a year ago was $0.01 better than our estimate. Heart valve revenues were $14 million better than we forecast, driven by strong demand for Sapien valves in Europe. Sales in critical care and vascular categories were below what we expected, but we think momentum in the valve category will persist. We still see 2009 sales of $1.28 billion and earnings of $3.00. We lifted our target price by $3 to $70, on a forward P/E-to-growth ratio of 1.5, a bit ahead of peers, which we think is justified due to Edwards' favorable revenue trends and disciplined cost controls.

FALLING STARS

Aetna AET 22

To ★★★ From ★★★★

First-quarter earnings of $0.96 a share vs. $0.92 a year ago beat our estimate by $0.03 on higher revenue than we expected. We are encouraged by Aetna's 7.4% commercial medical enrollment increase vs. peer reports of declines. But we are concerned about the company's reserve methodology, given an unfavorable reserve development. While Aetna raised prices in response to recent commercial medical cost pressures, we will wait to see how well it succeeds in lowering its commercial medical-loss ratio. Applying a below-peer forward P/E of 7.0 to our 2009 earnings estimate of $3.85, we reduced our target price by $10 to $27.

CLARIFICATION

On the front page, the April 29 issue of *The Outlook* should have read Volume 81, Number 16. ■

For a rolling eight-day list of STARS changes, additions, and deletions by S&P Equity Research, please visit our website.

S&P Observatory provides a selection of analytical actions and commentary — upgrades, downgrades, initiations — from S&P Equity Research. Stocks featured in S&P Observatory are selected by *The Outlook* according to factors including, but not limited to, newsworthiness, capitalization, and inclusion in a portfolio published by *The Outlook*. Please note that all investments carry risks. Specific risks to each stock recommendation and target price can be found in each company's individual stock report.

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S&P Ratings Services

Will The U.S. Dollar Be Clipped?

S&P Ratings Services, which operates independently of S&P Equity Research, wrote and prepared this article.

People's Bank of China Governor Zhou Xiaochuan recently sparked a new round of debate regarding the international monetary regime with his call for a new international reserve currency.

While the U.S. dollar was not specifically mentioned, it is clear that the proposed new international currency is meant to replace the role that the U.S. currency currently plays. When a senior official of a government that holds about 10% of the U.S. government's marketable debt makes such a statement, people take notice. There appears to be some international support for Governor Zhou's idea although the U.S. is understandably less enthusiastic. So will we see the U.S. dollar losing its international pre-eminence anytime soon?

Why Is The U.S. Dollar Dominant?

An evaluation of this question must begin with an understanding of why the U.S. dollar is so well regarded globally in the first place. There are four main reasons for this. One is that it has — at least up until now — been a reliable store of value. Two, it is the most-widely accepted means of international payment for goods and services. Third, large, deep, and liquid U.S. dollar financial markets exist for savers to invest their money. Finally, a long period of dominance has allowed the currency to become a part of the international financial trading infrastructure.

The U.S. dollar is the most frequently used currency in international trade today. The fact that the U.S. is the world's largest trading nation is only part of the reason. The value of international trade that is invoiced in the U.S. dollar is much larger than total trade conducted by the United States and countries with currencies linked to the greenback. This is particularly true in Asia, where many countries bill more than 80% of their exports in the currency.

For investors interested in making the U.S. dollar a part of their portfolio, one method is through a couple of exchange traded funds — the PowerShares DB U.S. Dollar Bullish (UUP) and the PowerShares U.S. Dollar Bearish (UDN).

Large international savers, such as the Persian Gulf states and East Asian exporters, also find U.S. financial markets most attractive. Partly, this is because Gulf oil exports are paid for in the U.S. dollar and it is also the most convenient currency for Asian central banks to intervene in foreign exchange markets. More importantly, it is because the U.S. financial markets remain the most efficient places to intermediate global funds. In these markets, particularly the U.S. Treasury securities market, large amounts of financial assets can be bought and sold without causing large movements in market price. Moreover, due to the narrow differences between buying and selling prices, the costs of transacting in these assets are lower than in any other markets. Investing in U.S. financial markets, and also through the U.S. dollar in other financial markets, therefore, lowers costs and increases the flexibility of portfolio decisions.

The previous two reasons also give rise to a third factor that keeps the U.S. dollar as the world's currency. The currency has become an integral part of international financial and commodity markets because it is so frequently used in international trade and investment. In quoting exchange rates, the value of a currency is most frequently stated in terms of the U.S. dollar. Even in actual exchange, the U.S. dollar's role is important. A company wishing to exchange Thai baht for New Zealand dollar typically buys the U.S. dollar first before converting it into New Zealand dollar. This is why the U.S. dollar is involved in one leg in close to 90% of all foreign exchange transactions, compared with less than 40% for the euro and 16% for the Japanese yen.

The common factor crucial for the continued validity of the above support for the U.S. dollar's international status is confidence in the stability of its purchasing power and the government to honor its debts. Whether one is a trader or an investor, there is a need to hold the currency on an ongoing basis. People have to believe that it is a good store of value, in that the real effective exchange rate of the U.S. dollar is not expected to see large declines over the short to medium term. This belief rests on the strength of the U.S. economy, the independence and checks inherent in key institutions, as well as the prudence and coherence of its policies. If even a significant minority of external creditors doubts that these factors are no longer true, then markets in U.S. dollar money and capital markets will become unstable. The real interest rates and equity premiums will rise sharply and the dollar will fall precipitously against other major currencies.

The reason for Governor Zhou's proposal is that recent developments have the potential to weaken confidence in the U.S. dollar. As the U.S. has the largest trade deficit in dollar terms, its vibrant economy as well as responsible fiscal and monetary policies have supported the value of its currency. These conditions make investments in U.S.-based companies attractive and the government's debt a safe asset to hold. Given these factors, the U.S. has managed to attract international capital to help maintain its international balance of payments.

This foundation is looking shaky now that the economy has suffered serious damage, budget deficits are expected to rise sharply, and the Federal Reserve is pursuing quantitative easing. Not only have growth prospects dimmed but inflation risk over the medium term has risen. U.S. policymakers pursuing measures that deal with domestic problems, however, have affected confidence over the longer-term attractiveness of the U.S. dollar. But it is still too early to call the end of the pole position of the U.S. dollar. And even if it isn't, it is not clear that Governor Zhou's proposed use of the Standard Drawing Rights (SDR) is the right answer anytime in the next few years.

SDR Not a Solution

The SDR is currently an accounting unit that represents a basket of currencies: U.S. dollar (44%), euro (34%), yen, and sterling (both 11%). It is neither used in physical or financial trading, only in the internal accounting of the International Monetary Fund. There is no economic need and, therefore, demand for the currency. It will be difficult to persuade major financial institutions to make expensive investments to change their systems for such trading.

The most likely candidates for an alternative international currency are the euro and Japanese yen. In recent years, however, the growth in the use of the euro has slowed significantly. In terms of use in international trade and international debt issuance, the share of the euro has stabilized in recent years. While its use in Europe is naturally widespread, the currency's influence outside of the region has remained small. The Japanese government's push to internationalize its currency in the late 1990s has also met with no success.

Importantly, while the U.S. economy has weakened recently, the European and Japanese economies hardly seem in better shape.

Moreover, more so than the United States, both regions face serious demographic challenges that are likely to bring down their medium- to long-term growth. Over a longer horizon, as long as fundamental U.S. economic policies are not changed, the country will continue to have better growth prospects. The truth is that, in the near term, there appears to be no good alternative to the U.S. dollar as an international currency.

It's also far from certain that conditions in the U.S. economy are sufficiently serious for the world to doubt the stability of the worth of its currency. Even counting a few years of exceptionally large fiscal deficits, it is unlikely that the U.S. government debt will reach that of the Japanese government in relation to their respective GDP.

The U.S. dollar survived serious tests before. In the early 1970s, there was a significant loss of confidence in the U.S. currency, which eventually led to the dollar floating freely against gold. Stagflation in the 1970s also called into question the pre-eminence of the U.S. economy and the role of the U.S. dollar. In both episodes, however, the innovation and flexibility of the country's open economy helped it to return to strong growth. Confidence in the U.S. dollar also returned as a result.

For investors interested in making the U.S. dollar a part of their portfolio, one method is through a couple of exchange traded funds — the PowerShares DB U.S. Dollar Bullish (UUP) and the PowerShares U.S. Dollar Bearish (UDN). ■

Health Matters

Phillip Seligman
and Joseph Agnese
S&P Equity Analysts

Does Wal-Mart pose a threat to pharmacy benefit managers and drug stores?

In September 2008, Wal-Mart began directly providing Caterpillar's (CAT 36 ★★★) employees with pharmacy benefits. Under the program, Wal-Mart charges Caterpillar's employees wholesale prices for brand-name drugs and waives co-payments on generic drugs. In return, Wal-Mart receives from Caterpillar reimbursement for drug costs, a fee for overhead, and a small profit margin.

With Wal-Mart claiming that the pilot test generated better-than-expected results, it began offering the service to other large U.S. companies. By demonstrating that its program reduces consumers' drug costs, Wal-Mart looks to benefit from increased traffic in its stores.

Wal-Mart's drug strategy focuses on the wide margins associated with generic drugs. The company already offers hundreds of generic drugs for which it charges up to $4 for a 30-day supply if picked up in the store. Wal-Mart credits this strategy with increasing traffic to its stores, mainly from price-sensitive, cash-paying customers not covered by third-party drug plans.

With its new program, Wal-Mart is targeting consumers who carry insurance, hoping to further increase traffic by waiving co-payments on all generic drugs. The company's target is the 75 million Americans who work for companies that fund their own health plans, but pay a fee to health insurers to administer the plans for them.

So what's the impact to pharmacy benefit managers (PBMs) from Wal-Mart's plan? According to *Drug Store News*, a publication catering to the drug retailing industry, Caterpillar uses a PBM to manage all of the administrative functions associated with the arrangement, but it was Wal-Mart that negotiated the prescription drug pricing directly with Caterpillar rather than through a third party. Even so, according to *Bloomberg News*, Wal-Mart says it doesn't currently plan to expand into administering prescription claims, despite its view that it has the infrastructure to compete with PBMs. Wal-Mart also does not offer mail-order services, so Caterpillar relies on another PBM for those.

The Wal-Mart/Caterpillar deal bypasses the Average Wholesale Pricing (AWP) benchmark for drug prices, from which PBMs negotiate discounts. The PBMs pass onto the payer the AWP minus the negotiated discount to yield a final cost that we believe can be as low as, if not lower than, the Wal-Mart/Caterpillar cost-plus deal, given what we see as the PBMs' significantly greater buying power. Indeed, we believe that since PBMs give their clients the best possible price to be competitive, there is likely no difference in the results between AWP minus a discount and cost-plus pricing. Although AWP has been facing legal challenges, it was adjusted and still serves as a benchmark.

In any event, we think the consolidation we see under way in the PBM industry will give the surviving PBMs even more purchasing power in their contracts with the drugmakers.

Typically, the employee covered by a health plan has a small co-payment for a generic drug, the average being $10 for a 30-day supply, but in many cases well under $4 for hundreds of older drugs, at the local pharmacy. Indeed, Caterpillar employees may fill their prescriptions at other pharmacies for the normal $5 co-pay, according to health care information website *AISHealth.com*. Hence, the employee's overall cost to procure the generic drug may well be lower at the local pharmacy even with no co-pay at the nearest Wal-Mart, particularly when including the cost of transportation and the cost in time.

In addition, some employer clients of PBMs arranged zero co-pays for generic drugs for their employees, and these employees have access to

(Continued on page 7)

POSITIVE POTENTIAL IMPLICATIONS

COMPANY / TICKER	‡STARS	‡QUALITY RANKING	*RISK	STYLE	CURRENT PRICE	**12-MONTH TARGET PRICE	†P/E RATIO	YIELD (%)
Express Scripts / ESRX	5	B+	Medium	Growth	60	77	16.3	Nil
Medco Health Solutions / MHS	4	NR	Medium	Blend	42	55	15.2	Nil
● Wal-Mart Stores / WMT	5	A+	Low	Blend	50	59	14.0	2.2

NEGATIVE POTENTIAL IMPLICATIONS

COMPANY / TICKER	‡STARS	‡QUALITY RANKING	*RISK	STYLE	CURRENT PRICE	**12-MONTH TARGET PRICE	†P/E RATIO	YIELD (%)
● CVS Caremark / CVS	5	A+	Medium	Blend	31	33	12.1	1.0
Rite Aid / RAD	3	C	High	Value	1	0.5	NM	Nil
Walgreen / WAG	3	a+	Medium	Growth	31	30	14.8	1.5

●Master List issue. *Based on our analysts' assessment of qualitative factors, including financial strength, potential share volatility, competitive position, industry cyclicality, regulatory/legal issues, and other factors. **Please note that all investments carry risks. Specific risks to each stock recommendation and target price can be found in each company's individual stock report. ‡See definitions on page 2. †Based on S&P estimated fiscal 2009 earnings. Source: S&P Equity Research.

By a Large Margin

Beth Piskora
Managing Editor
S&P Editorial

These stocks posted a larger net margin last year than in the previous year.

Net profit margin refers to after-tax profits as a percentage of sales. This percentage can vary widely among companies, with higher percentages indicating greater profitability. Many investors consider it an important parameter in searching out stocks in which to invest.

In the Net Profit Margin columns of the table, Last Fiscal Year refers to the net profit margin for the most recently reported full fiscal year, while Two Years Ago refers to the net profit margin for the full fiscal year prior to the one most recently ended. The table includes only those stocks that reported a higher net profit margin for the most recent fiscal year than in the previous fiscal year. And it includes only stocks with a four- or five-STARS ranking from Standard & Poor's equity analysts, suggesting outperformance in the next 12 months. ■

POSITIVE POTENTIAL IMPLICATIONS

					PRICE		NET PROFIT MARGIN			
COMPANY / TICKER	‡STARS	‡QUALITY RANKING	*RISK	STYLE	CURRENT	**12-MONTH TARGET	LAST FISCAL YEAR	2 YEARS AGO	†P/E RATIO	YIELD (%)
Ace / ACE	4	NR	Medium	Blend	47	54	18.2	7.8	6.2	2.3
Allegheny Energy / AYE	4	B	Medium	Blend	26	38	12.5	2.4	8.7	2.3
Buckle / BKE	4	B+	Medium	Blend	36	37	10.5	10.3	14.4	2.2
●Chubb / CB	5	A-	Medium	Blend	40	54	19.8	12.9	7.8	3.5
Dominion Resources / D	5	B+	Medium	Blend	30	42	9.5	5.7	9.1	5.8
●Entergy / ETR	4	A	Medium	Blend	65	82	9.9	9.5	9.6	4.6
Exelon / EXC	4	B+	Low	Blend	46	58	14.4	6.1	10.8	4.6
FPL Group / FPL	5	A	Low	Blend	54	64	8.6	7.4	13.2	3.5
NStar / NST	4	A-	Low	Blend	31	36	6.8	6.0	13.1	4.8
Progress Energy / PGN	4	B	Low	Blend	35	42	7.6	7.1	11.5	7.1
Shaw Group / SGR	4	B-	Medium	Blend	32	34	2.0	1.1	14.2	Nil
Xcel Energy / XEL	4	B	Low	Value	19	22	5.7	5.1	12.7	5.0

●Master List issue. *Based on our analysts' assessment of qualitative factors, including financial strength, potential share volatility, competitive position, industry cyclicality, regulatory/legal issues, and other factors. **Please note that all investments carry risks. Specific risks to each stock recommendation and target price can be found in each company's individual stock report. ‡See definitions on page 2. †Based on S&P estimated fiscal 2009 earnings. Source: S&P Equity Research.

Health Matters

(Continued from page 6)

the 60,000-plus chain and independent drugstores in each of PBM giants Medco Health Solutions' and Express Scripts' retail pharmacy networks. All told, S&P Equity Research does not view Wal-Mart as competitive with regard to the full-service functions of PBMs. We believe Wal-Mart's ability to garner more companies that self-insure as customers would be wholly dependent on its service having a lower cost than that of the range of services offered by PBMs, which we figure would prove very difficult.

S&P Equity Research sees benefits to Wal-Mart only to the extent it can successfully compete against drugstores. Customers covered under a plan such as that contracted with Caterpillar are likely to have prescriptions filled in a Wal-Mart pharmacy when shopping in its stores or driving past a Wal-Mart store. We have listed the large drugstore chains as having negative potential implications from the move by Wal-Mart, the 800-pound gorilla, so to speak, into this business.

However, while we believe drugstore chains are likely to lose business from increased Wal-Mart competition, risks are mitigated due to drugstores' convenience, according to S&P Equity Research. Whereas Wal-Mart's $4 generic drug program helped lure cash-paying customers, consumers in drug plans are less price-sensitive, with exposure only to a drug's co-payment. So, we believe such consumers often make purchasing decisions based on convenience rather than price. In this regard, we view large drugstore chains, such as CVS Caremark, Walgreen, and Rite Aid, as well positioned to benefit from efforts in recent years to locate to free-standing locations near consumers' homes. ■

Energy Edge: Bringing Wind Power Online

(Continued from cover)

In order to link the large number of wind power projects proposed for Midwestern plains states such as North Dakota and Iowa to urban centers, ITC proposed in February to build the Green Power Express, a set of three concentric loops 3,000 miles long and consisting of new super-high voltage wires that would bring 12,000 megawatts (MW/million watts) of renewable capacity to cities like Chicago and Minneapolis. In April, FERC granted ITC's request to receive a regulated return on equity of 12.38%, which includes 1.6 percentage points in extra rate incentives, known as an "adder," as well as other provisions sweetening the deal. More such projects are likely on the way. There is a large backlog of wind power projects proposed for the Midwest that currently lack transmission lines connecting them to demand centers. According to the Midwest Independent System Authority, of the 62,800 MW of proposed wind power in the area, just 118 MW had an interconnection agreement at the end of 2008 that would allow them to begin operating by 2017.

By allowing new projects to go forward, ITC's Green Power Express will benefit wind power developers and equipment suppliers as well. ITC said it has contacted many wind power developers who want to build in the area, including units of NorthWestern Energy (NWE 20 NR), FPL Group, and Iberdrola (IBE SM Madrid ★★★★), as well as several private companies.

ETFs

ETFS	*TOTAL RETURN SINCE INCEPTION	EXPENSE RATIO
ISE Global Wind Energy Index Fund / FAN	-65.0	0.60
PowerShares Global Wind Energy ETF / PWND	-57.0	0.75

*Total Returns are through March 31, 2009; PWND launched on July 1, 2008 and FAN launched on June 6, 2008. Sources: PowerShares and First Trust.

While Green Power Express is the largest and most ambitious new transmission project announced so far, ITC and several other companies are also working on other transmission projects that aim to take advantage of the new financial incentives and rising demand for renewable power. In October 2008, FERC granted Berkshire Hathaway (BRK.A 92,010 ★★★) unit Pacificorp. a 2 percentage point adder for its Energy Gateway project that involves building 2,000 miles of high voltage transmission lines across six Western states and will bring 3,000 MW of wind power from Wyoming to urban demand centers. The project would cost $6 billion and more than triple Pacificorp.'s existing transmission asset base.

Several other utilities have also won incentive rates for similar but smaller projects, and many more could be coming soon, especially if Congress approves a nationwide renewable portfolio standard. A study published in February by the major grid-system operators estimates $80 billion in new transmission lines will be needed for wind power to provide 20% of power demand in the Eastern U.S. alone.

With the cost of transmission projects reaching into the billions of dollars, competition to build the lines is beginning to flare up. Two partnerships led by AEP, which include units of Berkshire Hathaway, OGE Energy (OGE 24 NR) and Westar Energy (WR 17 NR), filed proposals and won incentive rates for projects almost identical to the Great Plains project proposed by ITC to build ultra high voltage lines in Kansas and Oklahoma, according to a report in *Public Utilities Fortnightly*, a utilities industry newsletter. FERC may allow utilities operating in a regulated service territory to build any transmission projects proposed by others, it said, effectively giving any utility rights of first refusal for projects that cross its territory.

"This could create higher risk to ITC's growth prospects," Muir says, "but we think ITC may also benefit from purchasing existing transmission lines from other utilities, such as the Interstate Power assets it bought in 2007 from Alliant Energy."

In December 2008, AEP proposed building a $5 billion transmission line, which Muir expects to receive rate incentives, from North Dakota to Chicago, a project that appears to compete with ITC's.

Other projects already granted rate incentives include PATH, jointly owned by AEP and Allegheny Energy, and TrAIL, owned by Allegheny Energy. PATH is a $1.8 billion, 246 mile transmission project from the West Virgina-Ohio border to a spot north of Washington, DC and west of Baltimore. TrAIL is an $820 million, 215 mile transmission project from the Pennsylvania-West Virginia border to a spot connecting with Dominion Resources transmission system west of Washington, DC. ■

Global Asset Allocation Update

All three portfolios are outperforming their custom benchmarks.

The S&P growth ETF asset allocation is geared towards risk-tolerant investors with longer time horizons. It dedicates 37% to these asset classes: 19% in developed overseas markets (EFA), 6% in emerging markets (EEM), 7% in U.S. mid-caps (MDY), and 5% in U.S. small-caps (IJR). In addition, this allocation dedicates 43% to large-cap U.S. stocks (SPY), 5% to intermediate-term bonds (AGG), 5% to short-term bonds (SHY), and 10% to cash.

The conservative risk profile is designed for investors who primarily seek capital appreciation, but have some income requirements. In general, the time horizon for this model is five to seven years. The moderate risk profile is designed for investors with a primary objective of capital appreciation. In general, the time horizon for this allocation is 10 to 15 years.

The growth risk profile, with a time horizon of 20 to 25 years, is designed for investors who seek capital appreciation and are willing to tolerate the higher risk levels associated with greater exposure to domestic and international equity markets.

These time horizons are often tied to retirement dates or projected life expectancy, but not always. For example, a 70-year-old individual with substantial income may have a long investment time horizon since the funds may eventually be spent on the college education of a grandchild or great-grandchild yet to be born. Conversely, a 50-year-old planning to retire in five years may choose to be more conservative than his age would ordinarily indicate. ■

MODERATE PORTFOLIO

ALLOCATION	ASSET CLASS/ INVESTMENT STYLE	ETF/TICKER	*ANNUALIZED TOTAL RETURN (%)	EXPENSE RATIO (%)
45%	**U.S. STOCKS**			
37	Large-Cap Blend	SPDR S&P 500 / SPY	-38.3	0.09
5	Mid-Cap Blend	S&P MidCap 400 SPDR / MDY	-36.4	0.25
3	Small-Cap Blend	iShares S&P SmallCap 600 / IJR	-38.1	0.20
15%	**FOREIGN STOCKS**			
12	International	iShares MSCI EAFE / EFA	-46.4	0.34
3	Emerging Markets	iShares MSCI Emerging Markets / EEM	-43.5	0.72
25%	**BONDS**			
20	U.S. Debt	iShares Barclays U.S. Aggregate / AGG	3.1	0.23
5	U.S. Short-Term Debt	iShares Barclays 1-3 Year Treasury / SHY	3.5	0.15
15%	**CASH**	U.S. 6-Month Treasury Bills		
Total=100%				

*Data as of 3/31/2009. Sources: Standard & Poor's ETF Reports and iShares. *The Outlook's* Moderate ETF Portfolio lost 3.2% from inception (November 15, 2004) through March 31 vs. a loss of 6.5% for its custom benchmark, which is composed of 45% S&P 1500, 30% Barclays U.S. Aggregate, 15% MSCI EAFE, and 10% Barclays 1-3 month T-bill. Does not include transaction costs. Past performance is no guarantee of future results.

DETAILED GROWTH

ALLOCATION	ASSET CLASS/ INVESTMENT STYLE	ETF/TICKER	*ANNUALIZED TOTAL RETURN (%)	EXPENSE RATIO (%)
55%	**U.S. STOCKS**			
43	Large-Cap Blend	SPDR S&P 500 / SPY	-38.3	0.09
7	Mid-Cap Blend	S&P MidCap 400 SPDR / MDY	-36.4	0.25
5	Small-Cap Blend	iShares S&P SmallCap 600 / IJR	-38.1	0.20
25%	**FOREIGN STOCKS**			
19	International	iShares MSCI EAFE / EFA	-46.4	0.34
6	Emerging Markets	iShares MSCI Emerging Markets / EEM	-43.5	0.72
10%	**BONDS**			
5	U.S. Debt	iShares Barclays U.S. Aggregate / AGG	3.1	0.23
5	U.S. Short-Term Debt	iShares Barclays 1-3 Year Treasury / SHY	3.5	0.15
10%	**CASH**	U.S. 6-Month Treasury Bills		
Total=100%				

*Data as of 3/31/2009. Sources: Standard & Poor's ETF Reports and iShares. *The Outlook*'s Growth ETF Portfolio lost 30.3% from January 22, 2008 (inception date) through March 31 vs. a loss of 31.6% for its custom benchmark, which is composed of 55% S&P 1500, 15% Barclays U.S. Aggregate, 25% MSCI EAFE, and 5% Barclays 1-3 month T-bill. Does not include transaction costs. Past performance is no guarantee of future results.

DETAILED CONSERVATIVE

ALLOCATION	ASSET CLASS/ INVESTMENT STYLE	ETF/TICKER	*ANNUALIZED TOTAL RETURN (%)	EXPENSE RATIO (%)
30%	**U.S. STOCKS**			
23	Large-Cap Blend	SPDR S&P 500 / SPY	-38.3	0.09
4	Mid-Cap Blend	S&P MidCap 400 SPDR / MDY	-36.4	0.25
3	Small-Cap Blend	iShares S&P SmallCap 600 / IJR	-38.1	0.20
10%	**FOREIGN STOCKS**			
10	International	iShares MSCI EAFE / EFA	-46.4	0.34
45%	**BONDS**			
35	U.S. Debt	iShares Barclays U.S. Aggregate / AGG	3.1	0.23
10	U.S. Short-Term Debt	iShares Barclays 1-3 Year Treasury / SHY	3.5	0.15
15%	**CASH**	U.S. 6-Month Treasury Bills		
Total=100%				

*Data as of 3/31/2009. Sources: Standard & Poor's ETF Reports and iShares. *The Outlook*'s Conservative ETF Portfolio lost 13.2% from January 22, 2008 (inception date) through March 31 vs. a loss of 15.3% for its custom benchmark, which is composed of 30% S&P 1500, 50% Barclays U.S. Aggregate, 10% MSCI EAFE, and 10% Barclays 1-3 Month T-bill. Does not include transaction costs. Past performance is no guarantee of future results.

Small/Mid-Cap Growth Portfolio

12/31/2008— 4/24/2009
Base Currency: US Dollar

The Small/Mid-Cap Growth Portfolio underperformed its benchmark year-to-date in 2009, losing 1.9% vs. a 2.2% gain in the S&P MidCap 400 through April 24. The data we have provided shows which stocks and sectors contributed to, or detracted from, the portfolio's performance through April 24. For information on individual stocks in the portfolio, please visit *www.outlook.standardandpoors.com* for Standard & Poor's reports on the companies. ■

TOP CONTRIBUTORS BY HOLDING

COMPANY NAME	AVERAGE WEIGHT	RETURN	CONTRIBUTION
SBA Communications	7.08	55.09	3.06
Family Dollar Stores	10.28	26.33	2.53
Hot Topic	2.40	44.86	2.49
PetSmart	5.87	26.10	1.34
NICE-Systems	8.33	12.15	1.24

TOP DETRACTORS BY HOLDING

COMPANY NAME	AVERAGE WEIGHT	RETURN	CONTRIBUTION
Delta Air Lines	7.75	-31.24	-4.04
Titanium Metals*	1.73	-24.18	-2.56
Swift Energy**	1.34	-63.71	-1.77
Covance	5.43	-21.64	-1.38
Itron	5.12	-17.97	-1.36

*Replaced on January 20. **Replaced on March 16.

TOP CONTRIBUTORS BY SECTOR

SECTOR	AVERAGE WEIGHT	RETURN	CONTRIBUTION
Consumer Discretionary	18.55	36.00	6.37
Telecom Services	7.08	55.09	3.06
Information Technology	21.27	2.87	0.93
Consumer Staples	7.41	-6.65	-0.44

TOP DETRACTORS BY SECTOR

SECTOR	AVERAGE WEIGHT	RETURN	CONTRIBUTION
Industrials	13.83	-22.97	-4.59
Health Care	15.33	-21.23	-3.64
Materials	10.30	-8.05	-2.43
Energy	6.22	-3.83	-1.32

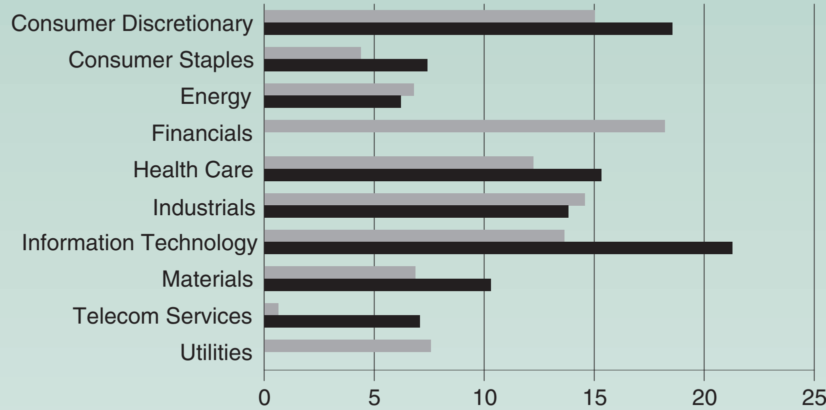
SMALL/MID-CAP GROWTH PORTFOLIO

COMPANY / TICKER	‡STARS	‡QUALITY RANKING	*RISK	STYLE	CURRENT PRICE	**12-MONTH TARGET PRICE	†P/E RATIO	YIELD (%)
Amdocs / DOX	4	B	Medium	Foreign	21	25	11.5	Nil
Astec Industries / ASTE	5	B-	Medium	Blend	28	32	12.5	Nil
BJ's Wholesale / BJ	4	B	Medium	Blend	32	34	13.8	Nil
Covance / CVD	3	B+	Medium	Growth	39	40	13.5	Nil
Delta Air Lines / DAL	4	NR	High	Blend	7	10	7.0	Nil
Family Dollar Stores / FDO	5	A+	Medium	Blend	34	40	17.4	1.6
FMC / FMC	4	B-	Medium	Value	48	57	10.1	1.0
GulfMark Offshore / GLF	5	B	Medium	Growth	27	33	5.7	Nil
Hot Topic / HOTT	5	B	High	Growth	12	14	27.9	Nil
Icon / ICLR	3	NR	Medium	Foreign	16	18	12.1	Nil
Itron / ITRI	5	B-	Medium	Growth	47	58	13.2	Nil
NICE-Systems / NICE	4	NR	High	Foreign	25	29	14.3	Nil
Owens & Minor / OMI	4	A	Medium	Blend	34	40	13.1	2.7
PetSmart / PETM	4	B	Medium	Growth	23	22	15.3	0.5
SBA Communications / SBAC	4	C	High	Blend	24	27	N.M.	Nil

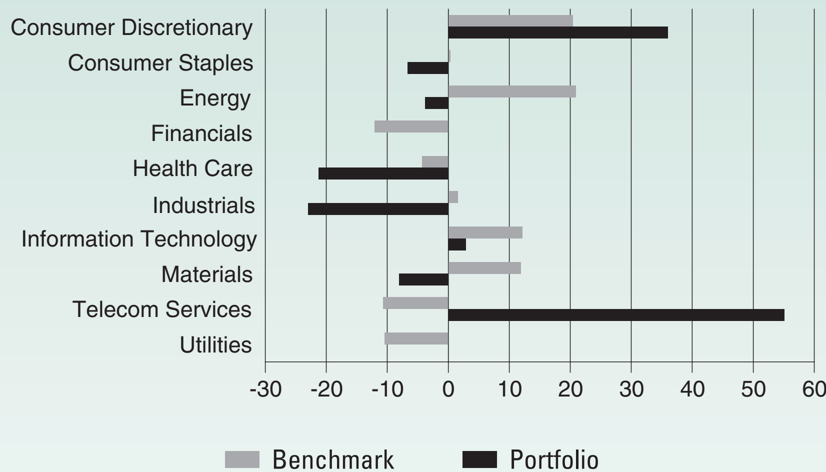
*Based on our analysts' assessment of qualitative factors, including financial strength, potential share volatility, competitive position, industry cyclicality, regulatory/legal issues, and other factors. **Please note that all investments carry risks. Specific risks to each stock recommendation and target price can be found in each company's individual stock report. †Price/earnings ratios are based on Standard & Poor's estimated fiscal 2009 per-share earnings. ‡See definitions on page 2. Past performance is no guarantee of future results. Source: S&P Equity Research.

Small/Mid-Cap Growth Portfolio vs. S&P Mid-Cap 400

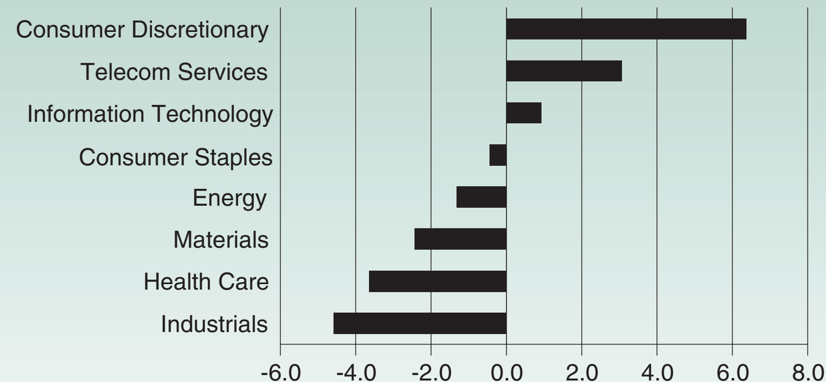
SECTOR ALLOCATION (%)



SECTOR RETURNS (%)



CONTRIBUTION BY SECTOR (%)



Source: S&P Equity Research.

LARGEST HOLDINGS

COMPANY NAME	AVERAGE WEIGHT	RETURN
Family Dollar Stores	10.28	26.33
FMC	8.57	3.41
NICE-Systems	8.33	12.15
Amdocs	7.83	15.97
Delta Air Lines	7.75	-31.24

BEST PERFORMERS

COMPANY NAME	AVERAGE WEIGHT	RETURN
SBA Communications	7.08	55.09
Hot Topic	2.40	44.86
Family Dollar Stores	10.28	26.33
PetSmart	5.87	26.10
Gulfmark Offshore	4.18	24.25

WORST PERFORMERS

COMPANY NAME	AVERAGE WEIGHT	RETURN
Swift Energy**	1.34	-63.71
Delta Air Lines	7.75	-31.24
Titanium Metals*	1.73	-24.18
Icon	4.52	-23.06
Covance	5.43	-21.64

*Replaced on January 20. **Replaced on March 16.

For more information on individual stocks in the portfolio, visit our website **www.outlook.standardandpoors.com.**

Harness Our Quant Power

Standard & Poor's Neural Fair Value 25 Portfolio buys what are deemed undervalued issues with superior return potential.

Neural fair value rankings are derived from two quantitative stock selection systems proprietary to S&P: the neural model and the fair value model.

The neural rank is based on "neural networks," an artificial intelligence system that replicates the brain's ability to learn from mistakes. The neural model identifies the factors that led to outperformance over the most recent six-month period and determines which stocks should benefit from those factors in the future. Stocks are ranked in five tiers, from most attractive (5) to least (1).

The fair value model calculates the price at which a stock should trade, based on fundamental data.

Neural fair value rankings also include the earnings surprise indicator, which tags those issues most likely to beat earnings estimates, and the timing index, which tells investors whether or not a stock meets certain trend requirements that have proved favorable to long-term capital appreciation.

Year-to-date through April 24, the portfolio gained 2.7% vs. a 4.1% loss for the S&P 500. ■

NEURAL FAIR VALUE 25 PORTFOLIO

COMPANY / TICKER	NEURAL	FAIR VALUE	TIMING	***EARNINGS SURPRISE	*S&P INDEX	**RISK	STYLE	CURRENT PRICE
Accenture / ACN	4	5	+	C	...	Medium	Growth	30
ADC Telecommunications / ADCT	1	1	+	C	Mid	High	Blend	7
Allergan / AGN	4	4	N	A	500	Medium	Growth	47
BMC Software / BMC	4	4	+	B	500	Medium	Blend	35
Check Point Software / CHKP	4	4	+	B	...	High	Growth	23
Compass Minerals Int'l / CMP	2	1	N	B	...	Medium	Value	49
FMC Technologies / FTI	4	3	+	B	Mid	Medium	NA	36
General Dynamics / GD	3	5	+	C	500	Low	Growth	53
Hanover Insurance / THG	3	3	+	C	Mid	Medium	Value	30
Herbalife / HLF	4	5	+	C	...	Medium	Growth	20
Hewlett-Packard / HPQ	4	4	+	C	500	Medium	Blend	36
Hologic / HOLX	4	4	N	B	Mid	High	Growth	15
● Int'l Business Machines / IBM	3	4	+	B	500	Medium	Growth	104
Liz Claiborne / LIZ	1	1	N	C	Small	High	Blend	4
Lockheed Martin / LMT	3	4	+	B	500	Medium	Growth	79
Macy's / M	1	1	+	A	500	High	Blend	13
NCR / NCR	5	4	+	B	Mid	Medium	Growth	10
NetApp / NTAP	3	3	+	C	500	High	Growth	18
Occidental Petroleum / OXY	5	2	+	B	500	Medium	Blend	57
Pfizer / PFE	5	5	N	A	500	Medium	Blend	13
Polycom / PLCM	4	5	+	B	Mid	High	Growth	18
QLogic / QLGC	4	4	+	A	500	Medium	Growth	14
Symantec / SYMC	3	1	+	A	500	High	Blend	17
Tidewater / TDW	3	5	+	A	Mid	Medium	Value	44
Tyco Int'l / TYC	4	4	+	A	500	Medium	Blend	23

●Master List issue. *500- S&P 500; Mid-S&P MidCap 400; Small-S&P SmallCap 600. **Based on our analysts' assessment of quantitative factors, including financial strength, potential share volatility, competitive position, industry cyclicality, regulatory/legal issues, and other factors. ***This indicator divides stocks into five tiers, designated by the letters A through E, based upon their ability to beat earnings estimates. "A" ranked stocks are most likely to show future positive earnings surprises, while "E"-ranked stocks are most likely to report negative earnings surprises. "N" indicates data was not available to determine the indicator. N-Neutral. NA-Not available. Source: S&P Equity Research.

Performance calculations do not take into account reinvestment of dividends, capital gains taxes, or brokerage commissions and fees. If the foregoing had been factored into the portfolio's investment performance, it would have been lower. This performance calculation also does not take into account timing differences between the portfolio selections and purchases made based on those selections by actual investors. Over certain periods, the portfolio incurred losses and over time the portfolio is expected to continue to pose a risk of negative investment returns. Because the portfolio has a high turnover rate, we believe it is best suited for tax-deferred accounts such as IRAs and is less suited for other accounts. Investors should seek financial advice before investing based on the portfolio. This portfolio does not address the specific investment objectives, financial situation, and particular needs of any person. Stocks in the portfolio will not be suitable for all investors. Readers should be aware that past performance is not an indicator of future results.