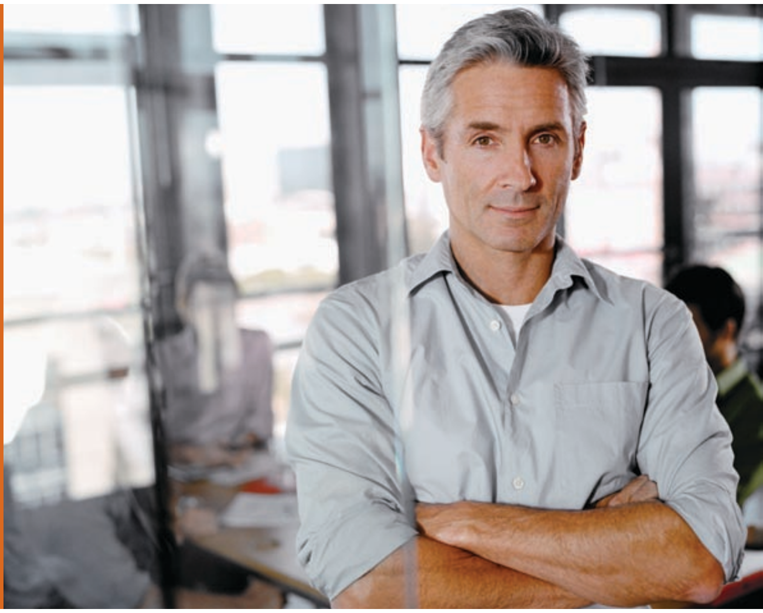
UBS

Portfolio recovery strategies

Actionable steps to accelerate growth and protect wealth



For those striving to recover savings that evaporated during the financial crisis, last year's unexpectedly robust equity market rebound was surely good news. Yet despite such a recovery, the portfolio assets of many investors still have a ways to go before regaining their pre-crisis footing.

Although the outlook for the economy and financial markets continues to improve, the consensus of market forecasters does not anticipate a repeat of strong market returns such as those we saw post March 2009 lows. In such an environment, bridging the gap between where a portfolio is now and where it needs to be continues to be a major challenge for investors in 2010 and beyond.

Recapturing lost ground

Getting your portfolio back on track may require you to take a different approach to investing and achieving your goals. To that end, we present twelve strategies that can help you recapture lost ground and protect hard-earned gains in an uncertain environment. The first six ideas center on ways to enhance return and another six focus on protecting capital in down markets.

With limited upside potential for the capital markets expected over the near- to medium-term, it may help to talk to your Financial Advisor about looking at the available investment choices in a new light, seeing beyond the traditional asset allocation strategies. It may also help to begin managing your portfolio to find incremental sources of return using time-tested ideas whose value may have been lost in the over-optimism of a bubble market.

Your Financial Advisor can discuss these strategies in greater detail and help you determine which ones might make sense for you in the context of a properly diversified portfolio.

Six strategies to enhance return: **Page**

Six strategies to protect against loss:

Roadmap for recovery

The fallout from the recent financial crisis left many investors with a diminished asset base. During such times of extreme crisis, investors sometimes oscillate between desperate attempts to protect what's left in their portfolio and heroic efforts to recover what's been lost. The right approach is somewhere in-between.

When starting with less in your portfolio, it becomes even more important to plan carefully, execute efficiently and manage risk. In developing your own roadmap for recovery, make sure to incorporate the following sound investment principles:

1. Look at the big picture.

Consider your investment options within the context of a well-informed, up-to-date global economic outlook.

2. Use recent, reliable data.

Make sure your investment decisions are based on up-to-date analyses, supported by reliable data from a source that you trust.

3. Keep perspective.

Do not allow a set of extreme and rare events to distort your long-term view. As we've learned, bull markets don't last forever, and a financial crisis—even one as severe as the last one—does not bring about the end of the world. Be a student of history; seek to understand the ebb and flow of past markets.

4. Know your risk tolerance.

The past two years have taught us very well about our true tolerance for risk. Remember this lesson in the years ahead for surely there will be more bear markets in our future. Give careful consideration to your income and liquidity needs and to your time horizon. But keep in mind that arbitrarily avoiding risks can be as damaging as taking on too much risk. A thoughtful planning-based approach to risk and portfolio management can help provide a guide toward your goals.

5. Don't go it alone.

An experienced Financial Advisor can help you with all of the above. UBS has a number of planning tools to help you create or update your financial plan, as well as specialists in equities, fixed income (taxable and tax-exempt) and most other asset classes who serve as a deep reservoir of intellectual capital from which our Financial Advisors can tap in the course of working with you.

Six strategies to enhance return

Whether you believe the market will remain flat, retreat or resume its upward climb, you can pursue strategies that seek to bolster returns based on a given market scenario. Intelligent, informed risk-taking is key when taking this approach. (For a deeper discussion of risk, ask your Financial Advisor for a copy of the report by UBS Wealth Management Research (WMR), *Risk: How much is enough? A new strategy for moving forward in a changed world.*) Each of the six strategies below represents a sophisticated way to take calculated risks in your portfolio:

1. Enhance the yield potential of a stock you own by writing (i.e., selling) covered calls.[1]

If you expect a stock to trade within a range over the next few months, consider selling call options against it. You will receive a premium for selling the call, which varies depending on the strike price and time to expiration as well as market conditions. This premium creates cash flow to enhance your portfolio return. By agreeing to sell your holding at the designated level, you commit to giving up any increase in the stock above the strike price. (Generally, one call option can be sold for every 100 shares of stock owned.)

Example: Say you buy 100 shares of XYZ, which has a current price of $44 per share, and you sell one 3-month 45 call (i.e., with a $45 strike price) for a premium of $1.25. Here's what could happen:

Scenario 1: XYZ remains below $45 throughout the three months to the option's expiration and is not called away. You keep your position in the stock, plus any dividends, and retain the $1.25 per share premium. (If this stock paid no dividends, this would translate to a current yield of about 2.84 %.) You then can repeat the process, sell another call going out three more months and bring in additional cash flow to the portfolio. (Based on these simple assumptions, you might be able to generate an 11.36% yield over a year's time, even if the stock failed to appreciate.)

Scenario 2: XYZ rises above $45 in the three months to expiration and results in the stock being called away. This requires you to sell XYZ at $45, even though the stock has risen above $45. You no longer own the stock, but you keep the call premium, plus any dividends paid on the stock while you owned it. Additionally, you will have a $1/share profit on the stock for a gain of 2.27%. With the call premium yield of 2.84%, the total return to your portfolio in this three-month period is 5.11%.

Scenario 3: XYZ is equal to $45 at expiration. If the stock is not called away, you can repeat the process and sell another call.

[1]Options involve risk and are not suitable for everyone. Prior to buying or selling an option you must receive a copy of the Options Disclosure document entitled Characteristics and Risks of Standardized Options. The Option Disclosure document can be assessed at the following web address: *www.optionsclearing.com/about/publications/character-risks.jsp*. To participate in the options markets, you must be qualified as a "suitable" investor, based on your investment experience and capacity. There are three different levels of suitability. Although they may not be suitable for every situation, strategies considered to be the least risky may be used in IRA or Qualified Retirement accounts.

2. Review your portfolio positions and reallocate your holdings toward sectors likely to outperform.

Although a buy-and-hold strategy may work well in a broadly upward trending market, successful tactical investments can help boost portfolio returns even in more tenuous environments. WMR identifies tactical asset allocation ideas that are designed to take advantage of short- to intermediate-term market opportunities and/or limit exposure to overvalued asset classes and vulnerable markets. Certain trends within an asset class or sector have the potential to drive performance over time—perhaps over several months or even years. The chart below illustrates the extent to which different sectors have outperformed the broader market. Your Financial Advisor can share WMR's tactical investment ideas with you and help you evaluate which ones may make sense for your portfolio.

Example: Consider overweighting consumer staples among your equity holdings. Because the consumer staples sector is normally considered a defensive play, this idea may seem a bit counterintuitive in the midst of a recovering economy. However, WMR foresees strong prospects for long-term growth for a number of firms in this sector because of their global reach and exposure to faster-growing regions around the world. Given their attractive valuations and generous dividends, WMR believes many of the companies in this sector offer a good total return story.

Historical performance (1995 – 2009) of S&P 500 Index and its component sectors

	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Materials	Technology	Telecom	Utilities	S&P 500 Index
1995	18%	36%	26%	50%	**55%**	36%	17%	39%	37%	25%	34%
1996	11%	23%	22%	32%	19%	23%	13%	**43%**	-2%	0%	20%
1997	32%	31%	22%	**45%**	42%	25%	6%	28%	37%	18%	31%
1998	40%	14%	-2%	10%	42%	9%	-8%	**78%**	49%	10%	27%
1999	24%	-17%	16%	2%	-12%	20%	23%	**78%**	17%	-13%	20%
2000	-21%	14%	13%	23%	36%	5%	-18%	-41%	-40%	**52%**	-10%
2001	**2%**	-8%	-12%	-11%	-13%	-7%	1%	-26%	-14%	-32%	-13%
2002	-24%	**-6%**	-13%	-16%	-20%	-28%	-8%	-38%	-36%	-33%	-23%
2003	**36%**	9%	22%	28%	13%	30%	35%	47%	3%	21%	26%
2004	12%	6%	**29%**	8%	0%	16%	11%	2%	16%	20%	9%
2005	-7%	1%	**29%**	4%	5%	0%	2%	0%	-9%	13%	3%
2006	17%	12%	22%	16%	6%	11%	16%	8%	**32%**	17%	14%
2007	-14%	12%	**32%**	-21%	5%	10%	20%	16%	8%	16%	4%
2008	-35%	**-18%**	-36%	-57%	-24%	-42%	-47%	-44%	-34%	-32%	-38%
2009	41%	15%	14%	17%	20%	21%	49%	**62%**	9%	12%	26%

Source: Datastream

Past performance is no guarantee of future results.

3. Consider long-dated LEAPS (Long-term Equity AnticiPation Securities—a type of option) to maintain your upside exposure where you feel you need to reduce your capital at risk.

LEAPS have terms extending as far out as three to five years—far longer than traditional options—and they generally tie up less money than owning the underlying stocks. In a situation where you desire to book a profit in a stock you've owned a long time—perhaps to pay the capital gains at today's historically favorable rate—you can simultaneously purchase a LEAPS call and retain upside exposure to the stock with very little capital at stake. (This is also referred to as a stock replacement strategy.) In effect, you're immunizing your risk on the stock. As the owner of the call, the most you can lose is the amount paid for the option. Yet you maintain unlimited profit potential if the stock price rises above the strike price.

Example: You're very bullish on WXY, a company you've owned for a long time, but selling shares now may serve the objective of reducing your single stock exposure or a tax planning strategy to shelter gains with realized losses in the rest of your portfolio. You sell your position at a price of $50 per share, and with some of the gain, you buy January 2012 in-the-money LEAPS with a $40 strike price for $14—$10 for the intrinsic value plus $4 for the time value. You might want to take the remaining $36 and put it into something safe, like short-term, high-quality bonds, to boost retirement income. If the stock goes up, as you expect, you've retained unlimited upside to WXY, replacing your exposure for about 25% of the value you had at risk. If the price of the stock drops to $30, you lose only the $14 premium you paid for the LEAPS call, rather than the $20 you would have lost if you had held on to the stock. Depending on how you reinvested the proceeds of the original stock position, the portfolio will additionally benefit.

4. Augment portfolio return potential with a "cash-secured put" strategy.

Have you and your Financial Advisor ever decided that you should purchase a security at a specified price? If so, you have participated in a waiting game. The stock will not be purchased until it trades at or below your limit price. Instead of waiting for that to happen, you could have sold a cash-secured put. A premium (the price of the option) for selling a put option would be paid to you for accepting the obligation to buy a stock that you want in your portfolio at the price you select.

Selling a cash-secured put involves selling a put and investing additional money for the potential purchase of the stock in short-term U.S. Treasury securities. The purpose of having the money in the account is to ensure that funds are available to purchase the stock should the put be assigned to the account.

Example: Stock ZYX is a stock that you would like to own. Currently, it is priced at $47, but you feel it would be a good buy at $45 and that the stock could reach that level within the next two months. You can either place a limit order to buy ZYX at $45 or an order to sell ZYX puts with a $45 strike. Remember, by selling the puts with a $45 strike, you have the obligation to buy the stock at $45, should the buyer of the options exercise the right to sell ZYX. You would sell one put for every 100 shares of stock that you are willing to purchase.

Let's compare these two strategies. Commissions and taxes have not been taken into consideration in these examples, although they can have a significant effect on your returns.

Place a limit buy order on 500 ZYX at $45 versus selling five ZYX two-month $45 puts at 1.25 when the stock is trading at $47.

At expiration, the stock will either be above $45, in which case you will not buy the stock, or below $45, in which case you can expect to buy the stock at $45. The outcome of each scenario is explained at right.

Scenario 1: ZYX remains above $45 between now and expiration—option not assigned.

Limit order to buy 500 ZYX @ 45	Sell 5 ZYX 2-month 45 puts @ 1.25
No stock is bought	No stock is bought
Limit order still open	Keep premium of 1.25 x 5 contracts =$625

By selling a cash-secured put or entering a limit order to purchase the stock, you will not be able to participate in a rise in the price of the underlying. If the puts that were sold expired without being assigned, the investor could sell another five puts if he were still interested in owning 500 shares of ZYX.

Scenario 2: ZYX is below $45 at expiration—option assigned.

Limit order to buy 500 ZYX @ 45	Sell 5 ZYX 2-months 45 puts @ 1.25
Own (long) 500 shares ZYX @ 45	Own (long) 500 shares ZYX @ 45.25 Less premium for put 1.25 Net cost = 43.75

Using a limit order to buy ZYX, the breakeven would be what you paid for the stock. Selling the put lowers the breakeven which is the strike price less the premium, $45 - $1.25 = $43.75. Having sold the puts with a $45 strike, should ZYX decline considerably, you still have the obligation to buy the stock at $45. However, you do have the cost reduction of the $1.25 premium received for the sale. If a limit order had been used to purchase the stock at $45, you would begin losing money as soon as ZYX dropped below 45 (the breakeven).

Scenario 3: ZYX is at $45 at expiration.
You may be in situation 1 or 2. With a limit order at $45, you may or may not buy the stock. There is no guarantee that you have bought ZYX at $45 until it trades below your limit price. If puts were sold, you have the obligation to buy 500 shares of ZYX, and you may be assigned (have the stock "put to you") or the puts may expire worthless. Either way, you retain the premium.

5. Enhance upside potential with Return Optimization Securities (ROS).

If you're comfortable taking some added market risk, ROS, a type of structured product,[2] can help you enhance the upside potential of an asset like an equity or commodity index, up to a predetermined maximum gain, without increasing the downside market risk of the index. Although ROS may enable you to regain some of what you've lost more quickly, they come with little or no principal protection, so you need to be comfortable with the potential downside market risk.

Example: You believe the U.S. stock market is poised for moderate growth in the near- to medium-term. So you decide to use a portion of your portfolio's equity allocation to purchase Return Optimization Securities with Partial Protection linked to the S&P 500 Index. This structured note has a term of 18 months, protection against the first 10% decline in the level of the S&P 500 and is designed to pay double any positive index return up to a maximum gain of 17%.

Any payment on an ROS, including any element of protection, is subject to the credit risk of the issuer.

The table below illustrates some of the possible outcomes with this investment.

Index return*		ROS return*
30%	2x positive index return to 17% maximum	17%
10%	2x positive index return to 17% maximum	17%
5%	2x positive index return to 17% maximum	10%
0%	Protection against first 10% index decline	0%
-10%	Protection against first 10% index decline	0%
-30%	Protection against first 10% index decline	-20%

*At maturity.

[2] Structured products offer ways to gain exposure to a particular asset class, while altering the asset class's risk-return profile. Structured products involve tradeoffs compared to traditional investments which should be considered carefully before investing. Structured products are designed to be held to maturity, and any secondary market may be limited or may not materialize. **Any payment on a structured product, including, if applicable, any element of principal protection, is subject to the creditworthiness of the issuer.** Please see applicable offering materials for specific information on the risks associated with investing in the particular structured product.

6. Magnify a market view by employing Leverage Securities.

Leverage Securities are structured products designed to provide exposure to a specific underlying asset, such as an equity, bond or commodity index, with a specified degree of leverage—e.g., two times leverage—for a predetermined time period (typically, 3 or 12 months). Leverage Securities can be used to go long or short the underlying market. The path the underlying index takes prior to maturity does not affect the ultimate payout at maturity. But you should be willing to tolerate potentially large movements in the value of the securities—positive or negative—along the way. And if your view proves to be wrong, you could lose your entire investment. Because Leverage Securities are debt securities issued by a financial institution, you need to be comfortable with the credit risk of the issuer.

Example: You are optimistic about the prospects for the stock market, believing it will be higher at the end of the next 12 months than it is currently. Your allocation to U.S. large-cap companies based on your profile is 30% of your portfolio, or $500,000. Let's assume this allocation closely tracks the performance of the S&P 500 Index. Alternatively, to better address your investment view, you could keep 90% of your U.S. large-cap equity allocation in traditional investments and allocate 10%, or $50,000, to the purchase of Double Long Leverage Securities linked to the S&P 500 Index. For the purpose of this example, assume the Double Long Leverage Securities have an issue price of $10.23 per $10 principal amount of the securities and incur an interest expense of three cents over their term.

Scenario 1: At maturity, 12 months hence, the S&P 500 has appreciated by 15%. The issuer would pay you your $10 plus a return equal to 2x 15% minus the interest expense, or $12.97. Taking into account your 23-cent upfront fee, this would represent a return of +26.8% on your investment. In this case, rather than the straight 15% return that you would have received on your traditional large-cap portfolio investment, the combination of traditional investments and the Double Long Leverage Securities would return 16.5%, a 1.5% outperformance vs. your original allocation.

Scenario 2: At maturity, the index finishes down 15%. The issuer would pay $6.97 per security. Taking into account the upfront fee, you'd be left with a 31.9% total loss on your investment in the Leverage Securities. However, the combination of traditional investments and the Double Long Leverage Securities would return -16.5%, a 1.5% underperformance vs. your original allocation.

Scenario 3: The index finishes flat at maturity. The issuer would pay $9.97 per security, and taking into account the upfront fee, you'd be left with a 2.5% loss. In this case, the combination of traditional investments and the Double Long Leverage Securities would return -0.30%, a slightly worse return vs. your original allocation.

Leverage Securities are also subject to the risk of an automatic early redemption. In the case of Double Long Leverage Securities, if at any time prior to maturity the index is down by a pre-specified percentage from its original trade date level, the issuer will redeem the securities early, and you would likely suffer a substantial loss on your investment.

Leverage Securities are intended for those investors who have a high tolerance for risk. They represent an aggressive strategy and should only be used when you have a strong conviction of the market.

Six strategies to protect against loss

Perhaps even more important to your portfolio than strategies designed to enhance return are strategies designed to mitigate downside risk. In spite of the fact that few financial sectors were spared during the recent market crisis, diversification remains critical to effective risk management. While the benefits of a diversified portfolio are more limited during a crisis, portfolios with concentrated positions—where an individual holding makes up over 30% of total holdings—tend to be even riskier.

While it's always critical to rebalance and appropriately reallocate your holdings within and across asset classes—it's especially the case after a watershed event like the one we have experienced in the past two years. In addition, there are defensive strategies that allow you to hedge the downside on a position you are unable or unwilling to eliminate from your portfolio; certain strategies even allow you to retain some upside equity market exposure. Below, we discuss fixed income investments and a few strategies you might consider to help limit the risk of rising interest rates, future tax increases or stepped-up inflation.

1. Limit downside risk while maintaining equity market exposure through a market-linked CD.

If you remain concerned about your portfolio's risk exposure but believe the market could continue to rise, an FDIC-insured marked-linked CD pays a return based on the performance of a specified equity market (usually an index or basket of indexes). You will receive 100% of your principal back at maturity, subject to the credit risk of the issuing bank and FDIC insurance limits. Also available are market-linked CDs that pay interim coupons, pay a minimum level of return or have performance linked to other asset classes such as commodities or foreign exchange.

2. Protect your stock positions by buying puts.[3]

If you hold a stock and are concerned about downside risk—but do not want to sell because you believe the stock may rise in value—you can pay a premium to hedge against a loss in the stock position. No matter what happens to the price of the stock, as the put owner, you can sell the stock at the strike price at any time prior to the put's expiration. Thus, for the life of the option, you've limited your downside risk by paying a premium, while maintaining the stock's unlimited profit potential.

Example: You own XZY stock at $50 per share. You believe in the company's long-term prospects but are concerned that the short-term direction of the market may be down. You can buy a protective put to hedge against downside loss and still maintain upside exposure. The table below illustrates two possible hedging strategies; each has different advantages and risks, depending on the strike price. The upside breakeven is lower with the out-of-the-money put, but the capital risk is greater.

		Buy 6-month put	
	Own XZY	At-the-money strike = $50	Out-of-the-money strike = $45
Stock cost	$50	$50.00	$50.00
Put cost	$0	$2.25	$1.00
Total cost	$50	$52.25	$51.00
At risk	$50	$2.25	$6.00

[3]Buying a put option in an equity position that does not have a "long-term" basis will eliminate the investor's holding period. The holding period for this purpose can only begin after the put option expires or is liquidated at a profit or loss.

3. Limit downside risk with an equity collar.

If you have an equity position that accounts for a large proportion of your net worth, but don't want or are unable to reduce that position, you can limit your downside if you're willing to give up some of the stock's upside potential. You can do this with the simultaneous purchase of a put option and the writing of a call option. Both options are out of the money and usually have the same expiration date. This strategy may make sense if you have accumulated a large position through an employee stock purchase plan.

Example: You own XYX stock, now trading at $44.75. To protect your downside, you could purchase a 10-month put with a strike of $40 for $4.75, but you'd rather not pay such a high premium. To lower the net cost of your protection, you could at the same time sell 10-month calls with a strike of $50 for $4.50.

Scenario 1, worst case: XYX is trading below $40 at expiration. By exercising your put and selling your shares at $40, you can greatly limit your loss, but you will have to absorb a loss of $4.75, plus the $0.25 net cost of the collar; total loss would be $5.00 per share.

Scenario 2, best case: XYX is trading above $55 at expiration. It is likely that the investor who purchased your call option will exercise his or her right, and you will be obligated to sell your shares at $50. You will then realize a gain of $5.25 less $0.25 for the collar to net a gain of $5 per share.

Scenario 3: XYX is trading between $40 and $50 at expiration. Both the put you purchased and the call you sold will expire worthless; your cost for the collar (not including commissions) will be $0.25 per share, and you will have retained ownership of XYX, with the ability to vote and receive dividends.

4. Review and rebalance your fixed income portfolio.

The fixed income landscape has radically changed over the past year and a half. Carefully review your fixed income portfolio for concentration risk across specific securities or industries. If you're now comfortable assuming some credit risk, consider extending a portion of your fixed income portfolio into AA- or A-rated corporates. If you're nearing retirement, you may want to shift a greater portion of your portfolio into investments that can throw off income to help meet immediate cash flow needs. Zero-coupon bonds are fine as part of a growth-oriented strategy, but as you move closer to retirement, consider converting some of these holdings into a high-quality, diversified bond portfolio with laddered maturities.

5. Hedge against inflation and rising interest rates.

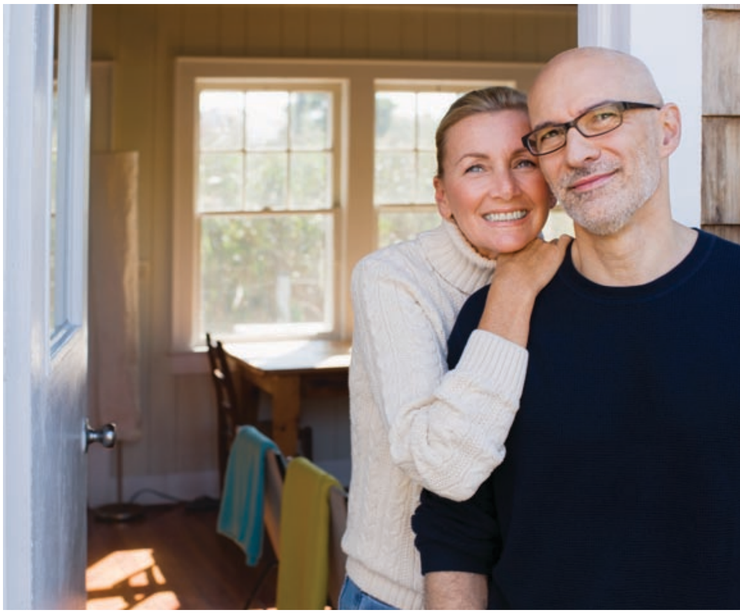
The interest payments and principal of Treasury Inflation-Protected Securities (TIPS) are adjusted for inflation at maturity; thus, you may want to include them as part of your bond portfolio if rising inflation is a concern. WMR expects the federal funds rate to stay very low well into 2010. But as the economic recovery gains momentum, Federal Reserve policymakers will eventually be forced to tighten to contain inflation. Depending on your views as to when rates will start to rise, shortening the average duration of a laddered portfolio across varying maturities could make sense. Variable rate bonds such as TIPS are another way to protect against rising rates.

6. Hedge against future income tax increases by investing in essential service municipal bonds.

If you're in the top tax bracket, tax-exempts should continue to be a core holding in any taxable portfolio. Taxes are likely to rise in future years, and this could make tax-free municipal bonds even more attractive on a relative basis. The muni market is generally a high-quality market, but it's best not to be cavalier about credit risk; stay with investments like essential services, e.g., water and sewer revenue bonds.

Take an active role in your portfolio's recovery

The cyclical outlook for the economy and financial markets is generally positive. The monetary policy backdrop remains supportive, credit market conditions have continued to normalize and business conditions are improving—albeit slowly.



Nevertheless, given the strength of 2009's rebound in both equity and fixed income markets, the easy gains may be behind us. And in such a setting, investors looking to make up lost ground in their portfolios will need to look beyond traditional buy-and-hold strategies.

Returns are expected to be more muted and yet, in light of lingering uncertainty, volatility is likely to remain high. Now more than ever, it is important for you to be comfortable—but not complacent—about the investments in your portfolio. Take an active role in managing your portfolio. Take advantage of strategies that allow you to protect your downside or reduce your capital at risk while still maintaining upside exposure. Explore tactics that offer incremental return, even in sideways markets. Look for ways to contain your downside risk while embracing a strong conviction about the direction of the markets, economy or other broad index.

Talk to your Financial Advisor about which strategies may be appropriate for your portfolio. Incorporating those strategies into a comprehensive financial plan will create your own personal roadmap to recovery.

Important disclosures
Wealth Management Research is published by Wealth Management & Swiss Bank and Wealth Management Americas, Business Divisions of UBS AG (UBS) or an affiliate thereof. In certain countries UBS AG is referred to as UBS SA. This publication is for your information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness (other than disclosures relating to UBS and its affiliates). All information and opinions as well as any prices indicated are currently only as of the date of this report, and are subject to change without notice. Opinions expressed herein may differ or be contrary to those expressed by other business areas or divisions of UBS as a result of using different assumptions and/or criteria. At any time UBS AG and other companies in the UBS group (or employees thereof) may have a long or short position, or deal as principal or agent, in relevant securities or provide advisory or other services to the issuer of relevant securities or to a company connected with an issuer. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, divisions or affiliates of UBS.

Past performance of an investment is no guarantee for its future performance. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in FX rates may have an adverse effect on the price, value or income of an investment. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein. This document may not be reproduced or copies circulated without prior authority of UBS or a subsidiary of UBS. UBS expressly prohibits the distribution and transfer of this document to third parties for any reason. UBS will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document. This report is for distribution only under such circumstances as may be permitted by applicable law. As a firm providing wealth management services to clients in the U.S., we offer both investment advisory programs and brokerage services. Financial planning is an investment advisory service. Advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. For more information, please visit our website at *www.ubs.com/workingwithus*. UBS Financial Services Inc. does not provide tax or legal advice. You must consult your tax and legal advisors regarding your particular situation.

UBS AG, its affiliates and subsidiaries may publish research, express opinions or provide recommendations that may be inconsistent with each other and/or may be inconsistent with investing in a specific structured product. Investors should make their own independent investigation of the merits of investing in any structured product and the underlying assets, index or indexes to which a structured product is linked. The returns on structured products are linked to the performance of the relevant underlying asset or index. Investing in a structured product is not equivalent to investing directly in the underlying asset or index. Clients should carefully read the detailed explanation of risks, together with other information in the relevant offering materials, including but not limited to information concerning the tax treatment of the investment before investing in any structured product. Structured products are unsecured debt obligations of the issuer. Investors should be comfortable with the credit risk of the issuer before purchasing a structured product. UBS Financial Services Inc. does not guarantee in any way the financial condition of the issuer or the accuracy of any financial information provided by the issuer. Options are risky and not suitable for all investors. Please ensure that you have read and understood the current options risk disclosure document before entering into any options transactions. In addition, please ensure that you have consulted with your own tax, legal and financial advisors prior to contemplating any derivative transactions. The options risk disclosure document can be accessed at the following web address: http://www.optionsclearing.com/about/publications/character-risks.jsp. Please contact your tax advisor regarding the suitability of tax-exempt investments in your portfolio and your accounting advisor to determine the appropriate accounting treatment. Income from municipal bonds may be subject to state and local taxes as well as the Alternative Minimum Tax. Call features may exist that can impact yield. If sold prior to maturity, investments in municipal securities are subject to gains/losses based on the level of interest rates, market conditions and credit quality of the issuer. A zero coupon bond pays all interest at maturity, and is purchased at a discount to the maturity value (par). The difference between the purchase price and the maturity value is the interest earned on the bond. (If a zero coupon bond is purchased at a discount to its compounding yield, there may be a taxable capital gain.) Because they may be more volatile than current coupon bonds, zero coupon municipal bonds may not be suitable for investors concerned about a rise in interest rates or who need current income. Unlike traditional bank CDs, Market-Linked CDs are subject to market risk in addition to interest rate risk if they are sold prior to maturity. As with negotiable fixed rate CDs, if a Market-Linked CD is liquidated prior to maturity, it may be worth less than the purchase amount or face value. The value of the Market-Linked CD is dependent upon fluctuations in interest rates and the performance of the specified underlying asset. Market-Linked CDs also have a limited secondary market which may adversely affect their price if liquidated prior to maturity. Unlike traditional bank CDs, Market-Linked CDs may be subject to IRS treasury regulations that apply to contingent payment debt instruments. Please read the applicable offering materials for additional information regarding the tax treatment of the Market-Linked CD. Unlike traditional bank CDs, Market-Linked CDs do not pay fixed interest payments at prevailing market rates or may not pay any fixed interest payments. Please read the applicable offering materials to understand the payout structure of the Market-Linked CD.

Nothing herein constitutes an offer to sell or the solicitation of an offer to buy, any securities or investment vehicles.

Version as of March 2010.

UBS

UBS Financial Services Inc.
www.ubs.com/financialservicesinc
100128-1865

UBS Financial Services Inc. is a subsidiary of UBS AG.