TD Ameritrade

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The influence of midterm elections is likely to depend on whether there is political unity in Washington.

Source: McGraw-Hill Financial Communications

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Source: McGraw-Hill Financial Communications

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Source: McGraw-Hill Financial Communications

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Source: Spring 2010 issue of TD Ameritrade's *thinkMoney* magazine

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ADRs are equities created to simplify foreign investing for U.S. investors.

Source: McGraw-Hill Financial Communications

2010 Look Back; 2011 Look Ahead

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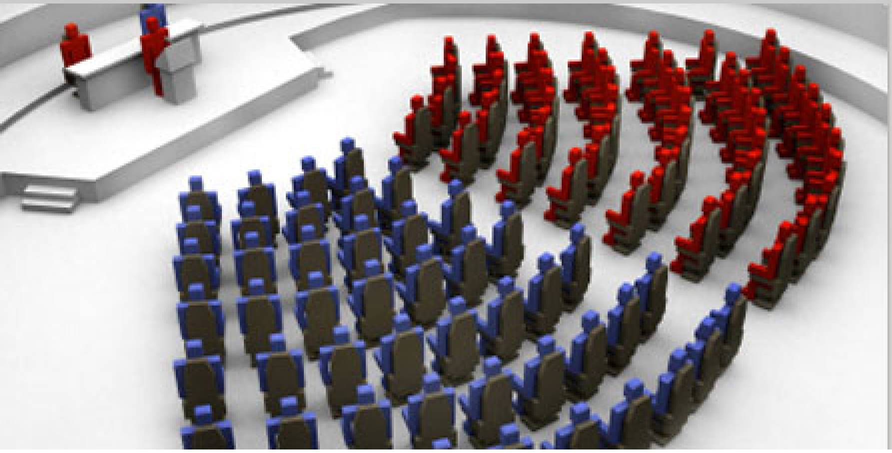

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Midterm Elections and Markets

Source: McGraw-Hill Financial Communications

The stock market hates uncertainty, but that is what is happening in Washington in the short term.

Summary Points

- Because the financial markets prefer unity, stock market returns have been the highest when the same political party controlled both houses of Congress.
- Historically, stock market returns have been strong during the third year of a president's term.
- Standard & Poor's Economics believes that Republican inroads in Congress increase the chances that the tax rates enacted under President George W. Bush could be extended.

The midterm elections of 2010 saw the tables turn in Washington, with Republicans reclaiming control of the House and gaining ground, but not dominance, in the Senate. What do the election results potentially mean for investors? Although the third year of a president's first term in office historically has been positive for the stock market, Sam Stovall, Chief Investment Strategist, Standard & Poor's Equity Research, pointed out that a split Congress and the resulting uncertainty could set the stage for more muted returns.

Q: Typically, how has the stock market reacted when no single party has dominated events in Washington?

A: It's important to understand that there have been only eight instances, out of 66 calendar years, since 1945 when the House and the Senate were controlled by different political parties; so the number of years to review is not extensive. That said, all of these instances, which I have called Total Gridlock, occurred under Republican presidents. The average gain in the S&P 500 under Total Gridlock was 3.5% compared with 8.4% for all periods. The rationale behind this subpar performance could be that gridlock generated uncertainty, and Wall Street hates uncertainty.

Historically, Total Unity, in which majorities of both houses of Congress share the same political affiliation as the president, has resulted in stronger periods for the equity markets. This scenario appears logical. Under a unified party government, if the president proposes legislation, it will likely be rubber-stamped by Congress, thereby stimulating the economy, increasing output, raising corporate earnings and propelling shares higher.

S&P 500 Percentage Changes During Presidential/Congressional Unity and Gridlock Since 1945

Political Scenario	Average Percentage Change	Number of Years
Total Unity: Unified Congress, same affiliation as the president	10.7%	28
Partial Gridlock: Unified Congress	7.6%	30
Total Gridlock: Split Congress	3.5%	8
All Years	8.4%	66

Source: Standard & Poor's Equity Research.

Q: What about the third year of a president's term in office? What does history reveal about trends during this period?

A: Since World War II, during the third year of a president's term, the S&P 500 has gained an average 17% and has increased 94% of the time. As the party in power attempts to retain its edge, Congress may be more likely to introduce economic stimulus designed to increase employment, send the stock market higher and influence voters to cast ballots favoring the incumbent political party during the next election.

Whether 2011 will be a typical third-year scenario remains to be seen. The federal government already has initiated a significant amount of stimulus with the Troubled Asset Relief Program (TARP) and two rounds of quantitative easing from the Federal Reserve. What else could Congress do? S&P Economics believes Republican inroads increase the chances that the tax rates enacted under former President George W. Bush could be extended for everyone, not solely for those earning less than $250,000 a year as proposed by President Obama.

Q: What does this mean for investors?

A: During the short- and intermediate-term, we see the stock market outlook as being very favorable. When September and October have posted gains for investors, as they did this year, during the following December the S&P 500 gained an average of 4% and was in positive territory to some degree 100% of the time. Although there are no guarantees, this year (remember history is a guide, not gospel), it is possible that investors who were awaiting election results could put their money to work before year-end. Standard & Poor's recommended sector positioning reflects a largely cyclical emphasis with a focus on what we view as dependable global growth at a reasonable price with Industrials, Information Technology and Consumer Staples recommended overweight. Conversely, S&P recommends underweighting more domestic sectors with limited earnings visibility, such as Financials and Utilities.

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Research & Guidance for the
INDIVIDUAL INVESTOR

December 2010

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Market Recap for November 2010

Source: McGraw-Hill Financial Communications

A summary of market performance for November 2010.

(For the month ended November 30, 2010.)

Stocks surged then slumped in November, as initial enthusiasm about strong corporate earnings and new Federal Reserve stimulus gave way to anxiety over events in Europe and Asia. During the market's first losing month since August, all three major U.S. equity indices gave up ground in the wake of renewed military tensions on the Korean peninsula, worries over European sovereign debt contagion and concerns that Chinese anti-inflation policies will have worse-than-anticipated results on economic growth. After rising 12.8% in September and October, the S&P 500 lost 0.2% in November. The Dow Jones Industrial Average was down 1.0%, and the Nasdaq fell 0.4%. Treasury yields generally moved lower early in the month, but higher by the end.

Through 11/30/10*	November	Year-to-Date	1-Year	3-Year	5-Year	Closing Value
S&P 500	-0.2%	5.9%	7.8%	-7.3%	-1.1%	1,180.55
Dow Jones Industrials	-1.0%	5.5%	6.4%	-6.3%	0.4%	11,006.02
Nasdaq Composite	-0.4%	10.1%	16.5%	-2.1%	2.3%	2,498.23

Source: Standard & Poor's. The S&P 500, Dow Jones Industrials and Nasdaq Composite are unmanaged indices. It is not possible to invest directly in an index. Past performance is no guarantee of future results.

*Price only. Does not include dividends.

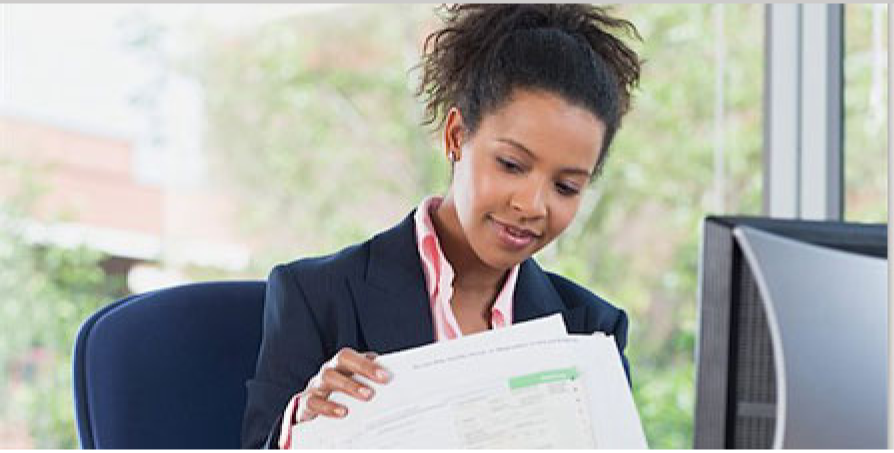
China Price Chinese inflation hit 4.4%, above market expectations of 4%, driven largely by a 10.1% food price spike. This sparked fears of continued Chinese monetary policy tightening and ongoing increases in Chinese bank reserve requirements, which are up 2% since January at 17.5%. With China by far the biggest contributor to global growth, investors the world over fretted in November that a hard landing may be looming. As such, risk assets like global equities and commodities succumbed to profit taking.

Global Reverberations Ireland's fiscal woes rekindled peripheral European sovereign debt jitters. That weighed on the euro and boosted the greenback, thereby adding to the pressure on risk assets that have been negatively correlated to the dollar for most of the past few years. Military tensions on the Korean Peninsula also roiled stock markets around the world.

Easing Efforts The Federal Reserve announced another round of quantitative easing, stating the intent (though not firm promise) to buy another $600 billion in long-term Treasury securities through the second quarter of 2011. The move is intended to bring down long-term interest rates even further and boost lending to the household and business sectors. However, with rates already hovering near record lows, and inflation-protected bonds recently auctioned at a negative interest rate, any impact is likely to be modest.

Politics and Policy Although markets responded favorably in the immediate aftermath of the Republican election day routing, the rally proved short lived as many saw the shift in Congressional leadership as unlikely to bring any sudden change in policies. One major initiative, however, seemed likely: an extension of the Bush tax cuts, which would keep the capital gains and dividend tax rates capped at 15%.

Treasury Notes Falling Treasury prices pushed up yields in November, despite the Fed's announcement of a new round of Treasury purchases. The 10-year Treasury yield was 2.80% at the end of the month, versus 2.63% after October. Yields on 30-year issues rose to 4.11%, from 3.99%.



New cost basis rules will change our tax reporting.

Learn what they are and how they will affect you.

New Cost Basis Rule

Source: McGraw-Hill Financial Communications

The rule will take effect over a three-year period, eventually including stocks, bonds, mutual funds, options and other types of investments.

Summary Points

- A new rule that takes effect in 2011 will make it easier for investors to track their cost basis, which usually starts with how much they paid for a security or a fund.
- Effective over a three-year period, the cost basis of a traded investment will be included on Form 1099-B and will also be reported to the Internal Revenue Service (IRS).
- Tracking cost basis is important because it is used to determine whether an investor incurs a capital gain or a capital loss.

There's an old saying in investing that it's not how much you earn but how much you get to keep that really matters. To know how much you get to keep, it's important to understand cost basis, which usually begins with how much you paid for an investment. Other factors, such as stock splits, can also affect cost basis.

Tracking cost basis, and determining whether proceeds from a trade are taxable, may be confusing for many people. But a new federal law that takes effect on January 1, 2011, is designed to help streamline cost basis reporting for investors. You can go to the TD Ameritrade Web site for more details about the new law and how it may affect you.

Currently, when an investor sells a position in a security or a fund, firms such as TD Ameritrade report only the sale proceeds to the investor and to the IRS. It is up to the investor to track the cost basis, calculate the capital gain or loss, and determine the tax implications.

What Will Change

- Effective January 1, 2011, TD Ameritrade and other financial institutions will report the cost basis of equities purchased on or after January 1, 2011, on Form 1099-B, which typically is made available to investors in January of the following year. In addition, the expanded Form 1099-B will specify whether a gain or loss was short term or long term, which influences tax treatment. Note that the

new reporting requirement will apply solely to investments purchased after 2010. Also, for 2011, the reporting requirement will not pertain to stocks acquired through a dividend reinvestment program (DRIP) or to regulated investment company (RIC) stocks. The cost basis also will be reported to the IRS.
- Effective January 1, 2012, the cost basis reporting will be expanded to cover mutual funds, RIC stocks and stocks acquired through DRIP programs that are acquired on or after January 1, 2012.
- Effective January 1, 2013, the cost basis of bonds, options, warrants, rights, derivatives and commodities purchased on or after January 1, 2013, will be covered under the new rule.

What You Can Expect

In order for TD Ameritrade to report the cost basis information required by the new law, it needs to be gathered. On the TD Ameritrade Web site, when you enter an order that is covered by the new law, a tax lot identification method will be specified for the trade. The tax lot identification method is used to determine which specific securities are deemed to be sold when there are multiple purchases of the same security on different dates at different prices, and the entire position is not sold at one time.

TD Ameritrade will use first-in, first-out (FIFO) as the default tax lot identification method for equities and average cost for mutual funds and DRIP-eligible securities. If the default method is your choice, you do not have to do anything. If you prefer a method other than the default, you can select a different identification method from the drop-down menu when you place your order.

Additionally, you will have the ability to pick a specific lot for your trade from the Gain/Loss section of the Web site (under Accounts) from the day following execution up to the settlement date. Note that this is a change from the current process, under which you can do this up until year-end.

Benefits to You

- You'll gain a more complete picture of your cost basis, which may simplify your year-end tax preparation.
- You'll gain greater flexibility in specifying the lots you're trading.
- You'll be able to select the cost basis reporting method you prefer.
- You'll be able to continue to track cost basis when you make an account transfer.

Points to Remember

- The new reporting requirements phase in over a three-year period and will not cover all trades for 2011, only equity purchases.
- Although the new information on Form 1099-B will present a gain or a loss, it is up to you or your tax preparer to calculate your tax liability. Tax rates affecting capital gains and losses are scheduled to increase in 2011, unless Congress acts to maintain existing rates; so it is important to monitor how tax issues could apply to you.

You can find out more about the new cost basis accounting on the TD Ameritrade Web site. You can also visit the Tax Center. Just log on to your account and click "History & Statements" (under Accounts), then the "Tax Center" tab. If you have any questions, please call Client Services, 24/7, at 800-669-3900.

TD Ameritrade does not provide tax advice. Please consult with a tax-planning professional with regard to your personal circumstances.

New cost basis rules will change our tax reporting.

Learn what they are and how they will affect you.

If Not Now, When?

Source: Spring 2010 issue of TD Ameritrade's *thinkMoney* magazine

Investors can use options in many different ways, including playing favorite stocks, hedging a portfolio and trading covered calls.

Summary Points

- Advances in technology, innovative trading tools and better access to information have helped to level the playing field for the average options trader.
- With faster execution, there has been an ongoing shift away from trading floors altogether and toward pure electronic trading.
- Other factors benefiting "the little guy" include multiple listings on different exchanges, pricing in one-cent increments and new products targeted toward individual investors.

Options once intimidated most investors, who viewed them as complex, highly advanced financial instruments best left to skilled traders with extensive knowledge and experience. In recent years, however, with the growth of online tools, extensive information becoming widely available and research accessible to everyone, the field has opened up to ordinary investors without specialized training. Many have found options to be a valuable part of their investing strategy. TD Ameritrade presents this article as an overview of how the options landscape has changed. As it points out, this may be an excellent time to explore whether options might play a useful role in your portfolio.

Leveling the Playing Field

Back in the day, only a privileged few could take advantage of things like streaming quotes and real-time option chains. Options were shrouded in mystique and deemed too complex for the average Joe -- to be traded only by "sophisticated," professional investors. Since then, however, seismic changes in the options world have leveled the playing field for individual traders and investors. Thanks to advances in technology, innovative trading tools and better access to what was once privileged information, the little guy now has the same data at his fingertips as Wall Street's movers and shakers did during their heyday -- just a few short years ago.

Getting Off the Floor

In the mid-1990s, a number of new trading software applications helped investors do things like create charts, get quotes and track portfolios. Even though a good program still cost thousands of dollars, for the individual investor (aka "the little guy"), it changed things forever. Quotes, charts and news were no longer proprietary tools of Wall Street trading firms and their favorite clients. They were there for the taking -- by anyone.

Since then, online brokerage firms have followed suit by offering customers Web-based and software-based trading platforms to find, analyze and place trades. Today, sophisticated trading platforms are no longer a barrier to entry, but rather, in most cases, a free benefit to traders. So in the modern trading world, you can now chart your favorite stock, check its fundamentals, view an options chain, analyze a spread and place the order using just one trading platform.

On a larger scale, there has also been an ongoing shift away from trading floors altogether and toward pure electronic trading. In fact, one of the largest options exchanges -- the International Securities Exchange -- is all electronic. While exchange floors still exist, they are mere shells of their former selves. That's why fewer and fewer people actually take a big chunk of change and set up shop on the exchange floor. It's expensive to do, and realistically, the odds of success aren't much better.

These days, once your order has been filled, the report hits your account within seconds. In fact, most of us are probably in a better position at home in front of our monitors today than a trader on the exchange floor was a decade ago.

A New World for Investors

Fast execution and free tools aren't the only factors that have helped to level the playing field. There are plenty of reasons that have little to do with online brokers and cool toys. Let's take a look at a few more of the majors:

1. Multiple Listing. Because there are now eight different options exchanges, and individual options contracts are listed on multiple exchanges, you can route your orders directly to the exchange where you think the best price currently exists. (You can do this on the thinkorswim from the TD Ameritrade trading platform.) However, if you want to buy a call option on your favorite stock and it's listed on eight different exchanges, your broker will usually direct the order to the exchange with the best price, taking into consideration the cost of execution and current market conditions, such as the National Best Bid and Offer (NBBO), volume and liquidity.

2. Penny Pricing. On January 26, 2007, the options exchanges kicked off a penny pricing pilot program that included 13 stocks and Exchange Traded Funds (ETFs) with options listed at one-cent increments. Since that time, the list has been expanded to more than 100. These one-cent increments are another important trend that has put more power into the hands of individual investors. No longer are we fighting 5-, 10- or 25-cent spreads between bid and ask prices; the spread on many of the most actively traded names is often just one or two pennies. This may not sound like much, but if you're trading 10 contracts at a time and can save just 5 cents per order, over 100 round trips per year will save you $10,000 in "slippage." Not bad.

3. The "Minis." New products targeted toward individual investors have proliferated. Examples include the mini-indices and mini-ETFs. Say I want to trade the Dow Jones Industrial Average. I can trade an index called the Dow Jones Industrial Index (symbol: DJX) or its related ETFs. The DJX and most of its related ETFs are designed to trade at 1/100th of the Dow Jones Industrial Average. So, if the Dow is trading at 10,000, these two instruments will trade at around 100. This smaller value means the options premiums are much lower, which also makes it much easier for individual investors to play the Dow. These are just two of the many innovative products created with the individual investor in mind.

4. Speed of Information. When it comes to active investing and trading, information truly is power, and individual investors have never had so much news, research and data. Through brokerage firms, news services and fee-based Web information sites, investors now have easy access to virtually any market-related information they might need. Streaming quotes and news means the delivery is also faster than ever.

5. Options Education. Finally, the free educational resources available today are almost overwhelming. In addition to magazines and the dozens of options trading books you can buy (or check out at your local library), some private companies offer seminars and courses for a fee. And, of course, check out the resources that TD Ameritrade can offer you. There are plenty of free online education and live event opportunities for anyone who just wants to learn more about options.

Many Different Uses

Volume in the industry continues to grow as increasing numbers of investors add puts and calls to their trading plans. According to the Options Clearing Corporation, an average of 14.385 million contracts traded each day in 2009 -- another record year.

Obviously, not everyone uses options in the same way. For example, while I might trade call spreads to play my favorite tech stock, you might buy index puts to hedge a stock portfolio. Someone else might sell puts on stocks they want to own, while another investor might trade only covered calls. There's no right strategy for every kind of investor.

The important point is this: A major shift has taken place in the world of retail options trading, and the changes that can potentially benefit the little guy are the very reasons many professional traders have taken their operations "off the floor." Now is an ideal time to educate yourself about what options can do for your trading plan. Don't be intimidated or fooled by popular misconceptions that options are too risky or too complex. We're not saying they're a walk in the park; but with a little time and effort, most can probably take the next step. Thanks to evolving improvements like better technology, easy access to information and innovative tools, the time has never been better. Really. If not now, when?

Learn More About Options at www.tdameritrade.com

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Before investing in an ETF, carefully consider the fund's investment objectives, risks, charges and expenses. For a prospectus containing this and other important information, please contact TD Ameritrade at 800-669-3900. Please read the prospectus carefully before investing.

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The information contained in this article is not intended to be investment advice and is for illustrative purposes only.

Clients must consider all relevant risk factors, including their own personal financial situations, before trading.

TD Ameritrade is obligated to seek the best price available for your order, taking into consideration the cost of execution and current market conditions, such as the NBBO, volume and liquidity. Price improvement is not guaranteed and will not occur in all situations. TD Ameritrade acts as agent. Orders are filled by independent third parties.

Foreign Markets Using ADRs

Source: McGraw-Hill Financial Communications

Prices frequently mirror the underlying stocks of the foreign companies they represent.

Summary Points

- Using foreign stocks to complement a portfolio of U.S.-based stocks may potentially increase returns and lower volatility over the long term.
- American Depositary Receipts (ADRs) can streamline U.S. investors' access to foreign markets.
- ADRs are listed on major exchanges and are traded like many U.S.-based stocks.

American Depositary Receipts, ADRs for short, represent some of the most familiar names in global business, including companies that are so deeply integrated into the American economy that they are included in the S&P 500. One such ADR is Royal Dutch Petroleum, maker of Shell gasoline. Another is Unilever, whose consumer brands include Lipton tea, Hellmann's mayonnaise and Dove soap. Understanding ADRs can help you build an investment portfolio with stronger average returns and lower overall variability.

Investing Overseas Can Help Diversify a Portfolio

The potential benefit of global investment has tantalized investors for decades. A portfolio whose holdings are diversified across national borders may have lower overall volatility and higher average returns than a collection of investments in any single economy. For a U.S.-based investor, that benefit can be clear even when small amounts of the assets are foreign.

For example, a portfolio with 80% of its assets mirroring the S&P 500 and 20% mirroring the Morgan Stanley Capital International EAFE Index of developed foreign markets would have produced an annualized total return of 10.04% since 1970, compared with an annualized total return of 9.83% for the S&P 500 alone. The globally diversified portfolio was less volatile as well; so its risk/reward ratio was 0.60, compared with 0.58 for the S&P 500 alone.[1]

Depositary Receipts Can Simplify Access to Foreign Markets…

ADRs are a form of equity security that was created specifically to simplify foreign investing for American investors. An ADR is issued by an American bank or broker. It represents one or more shares of foreign-company stock held by that bank in the home stock market of the foreign company. (The ratio of foreign shares to one ADR will vary from company to company, but each ADR for any one company will represent the same number of shares.)

ADRs may be listed on the New York Stock Exchange, American Stock Exchange or Nasdaq. Those that are listed can be traded, settled and held as if they were ordinary shares of U.S.-based companies. ADR investors are not subject to non-U.S. stock transaction taxes. And for those countries that maintain tax treaties with the U.S., dividends are paid without foreign withholding. However, like investment gains or income from domestic securities, proceeds from an ADR holding may be subject to U.S. income or capital gains taxes and may be subject to backup withholding.

Foreign companies that sponsor listed ADR programs in the U.S. issue financial reports in English, and these reports generally conform to U.S. accounting conventions. These companies also file required disclosure statements with the Securities and Exchange Commission (SEC).

Companies that meet all U.S. reporting and disclosure rules are permitted to raise capital directly from U.S. investors by issuing new stock specifically to be represented by ADRs. Companies that meet a more limited set of SEC reporting requirements are permitted only to sponsor ADRs that represent shares previously issued in their home markets.

In rare cases, a U.S. bank or broker may create an ADR without the support of the company that issued the underlying stock. However, these securities, referred to as unsponsored ADRs, cannot be offered for sale to individual investors in the U.S. unless the foreign company files appropriate financial reports with the Securities and Exchange Commission or requests an exemption under Section 12g3-2(b). The SEC maintains a list of all 12g3-2(b)-qualified companies.

...And Still Offer Investors the Potential Benefits of Diversification

Studies suggest that ADR prices tend to behave like the underlying stocks of the foreign companies they represent, rather than like the domestic U.S. stocks alongside which they trade. For example, one study that compared the prices of ADRs with the prices of their underlying shares concluded that any price differences between the U.S. and home market are more likely the result of currency effects than market inefficiency.

And what's more, ADRs may give U.S. investors a more favorable reward-to-risk ratio, due to lower transaction costs.[2] Another study looked at the impact of market shocks on ADR prices and concluded that any effects tend to disappear for long-term investors.[3]

Studies such as these indicate that the potential benefits of global stock market diversification can be readily realized through familiar resources.

[1]Sources: Standard & Poor's; Morgan Stanley Capital International. Performance is for the period from January 1, 1970, through October 31, 2010. The S&P 500 is an unmanaged index generally considered representative of the U.S. stock market. The EAFE is an unmanaged index generally considered representative of foreign developed markets. Index performance is not indicative of the performance of a particular investment, and past performance does not guarantee future results. Individuals cannot invest directly in an index.

[2]Source: "Diversification Gains From American Depositary Receipts and Foreign Equities: Evidence From Australian Stocks," V.T. Alaganar et al, *Journal of International Financial Markets, Institutions and Money*, March 2001.

[3]Source: "Price Transmission Dynamics Between ADRs and Their Underlying Foreign Securities," Minho Kim et al., *Journal of Banking and Finance,* August 2000.

2010 Wrap-up webcast.

(Looking back at 2010 and forward to 2011)

Before investing in a mutual fund, be sure to carefully consider the fund's investing objectives, risks, charges and expenses. For a prospectus containing this and other important information, contact the fund or a TD Ameritrade representative at 800-765-8298. Please read the prospectus carefully before investing.

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