

# INNOVATION, POLICY AND THE ROAD TO RECOVERY



## TRANSCRIPT

### Merrill Lynch Global Wealth Management Webcast

# INNOVATION, POLICY AND THE ROAD TO RECOVERY

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**SALLIE KRAWCHECK:** Good evening everyone and welcome. Thank you for joining us for Merrill Lynch's fourth-quarter Webcast. I'm delighted to welcome those of you in our audience here live and all of our clients who are tuning in and watching online. You tell us quarterly webcasts are a great way for us to reach out to you to talk about what's going on in the markets and what we're hearing from all of you. I've been traveling a lot these past few months since joining the company, and everywhere I go, clients talk about wanting information and perspective. And you want to be partners with our Financial Advisors in terms of building your portfolios, so we'd like to use this as an opportunity to provide you with our best thinking and latest information from across our global franchise. To this end, we've chosen a topical theme for tonight's discussion: Innovation, Policy and the Road to Recovery. We've had 3.5% GDP growth last quarter, and the markets have been rallying, but beyond that, we see the potential for an innovation revolution in areas like green energy, health care, infrastructure and information technology. Industries are investing for growth through change, and we believe investors can benefit. These are some of the key issues that will make tonight's discussion, we hope, thought-provoking and forward-thinking, filled with new ideas that you can discuss with your Financial Advisor. Tonight's discussion will focus first on a macro view of the markets and the economy and how innovation and policy are playing a role in the recovery. Then we'll look at investment opportunities. With me this evening are four experts who've come to share their unique perspectives. I have with me Jeff Immelt, Chairman and CEO of General Electric; Harold Ford Jr., Vice Chairman and Senior Policy Advisor, Bank of America Merrill Lynch; Ethan Harris, Head of North America Economics, Bank of America Merrill Lynch Global Research; and Michael Hartnett, Chief Global Strategist, Bank of America Merrill Lynch Global Research. With that said —why don't we get started? The Bank of America Merrill Lynch Research has said that the recession ended in July. Are we in the midst of a sustainable recovery, gentlemen?

**ETHAN HARRIS:** Well yeah, I think we are. I think there are two reasons to be optimistic about the U.S. economy these days. The first, I think is this tremendous monetary and fiscal stimulus we've had in the last year. It's an unprecedented policy response to an unprecedented set of events, and the second reason for optimism is we know that when the economy collapses the way it did in the last year and we go deep into recession, cyclical forces are let loose that create a recovery, so sectors that [were] beaten down into the floor come marching back up again, and so for both of those reasons, I think we're in the beginnings of a sustained recovery.

**MICHAEL HARTNETT:** I think you can see it overseas as well. I mean, undoubtedly as Ethan says, I mean, it was an unprecedented bear market, an unprecedented market meltdown, but the key is, you had an unprecedented policy response to that as well. And there were certainly parts of the world, China, Asia, Latin America, even parts of Europe that really didn't have the banking systems that were impediments to recovery, and hence, they've come back, you know, very, very quickly. And you know, now that they are, you know, considering actually normalizing policy because they just don't need the stimulus anymore.

**SALLIE KRAWCHECK:** Well Jeff, you've got a very interesting view, given the company you have responsibility for. Are you seeing the growth starting to take hold?

**JEFF IMMELT:** You know, Sallie, I would say that we are. You know, I think if you think about what happened a year ago is you had this incredible credit crisis, and then what followed was a deep recession. I mean, probably the deepest we've seen...

**MICHAEL HARTNETT:** Easily.

**JEFF IMMELT:** ...In the postwar period. The credit markets are really healing. I mean, you do see credit systems around the world that have done better, and behind that, we've seen kind of sequential growth quarter after quarter with really maybe the low-point being the first or second quarter of this year. Third quarter better; fourth quarter will be better. And then, you know, probably almost 60% of the companies outside the United States and you know, China had a downturn for about two minutes, right? And then it just kind of powered through—even countries like Korea and others [like Brazil] have done very well, and we see that growth still being quite strong.

**SALLIE KRAWCHECK:** How important [has] the economic stimulus, the government stimulus, been in jump-starting the economy?

**ETHAN HARRIS:** I think it's been a big deal. I mean if you look at where we were a year ago in the midst of the panic, I think without a major stimulus plan, we wouldn't be where we are today talking about a recovery. And I think it wasn't just that you had a big fiscal stimulus, this almost \$800 billion fiscal policy, but it was also the TARP plan to aid the banking system and then a very creative, broad-based approach by the Fed of basically prying open the capital markets one at a time, and it's really those three sets of policies kind of working together to stop the panic and to start growth that are the basis of the recovery right now.

**MICHAEL HARTNETT:** And I think—I mean the key date of the year was March the fifth. I mean that was the date that the Bank of England was the first central bank to say, we will quantitatively ease, which means that they were prepared to use their own money to buy assets. And ever since then, you've seen the markets recovering, and I think so long as that policy remains in place and we expect it to remain in place at least until spring, you are going to see markets continue to improve. And then, I think the key is really coming back to what Keynes called animal spirits. It's whether that rise in asset prices can engender businesses and consumers to go out there and spend money, and that's [when]—and only then, I think, it will become sustainable.

**HAROLD FORD:** Government leaders, I would agree with everything—government leaders are probably looking at a different market and a different barometer. Job creation will determine in large part the state of play and the fluctuations in the political market over the next—to borrow the terminology that's comfortable here for a moment—for people in Washington and for that matter in state capitals and local governments across the country. The idea of the stimulus and TARP and for that matter the facilities that the Fed created no doubt helped, but in rural areas and urban areas across the country, and certainly in state capitals, as they struggle to balance their budgets, one of the great pressures that 48 states out of the country face that the federal government does not face, and I daresay you either Immelt: They have to balance their budget. I mean you have to do that as well.

**MICHAEL HARTNETT:** Every year.

**HAROLD FORD:** Every businessperson, everyone, every client has to do that, so as government thinks between now and end of the year with health care, Afghanistan dominating a lot of the agenda, the beginning of the year I think there may be a pressure—they won't call it a second stimulus—they'll give it some creative name... We'll focus on tax cuts and infrastructure spending and probably some aid to the states to help them through what clearly will be a difficult time.

**JEFF IMMELT:** Ethan and Michael—I'm sorry Sallie—but I was just going to say, you've got relatively high unemployment and you've got lots of excess capacity, so industrial capacity utilization is in the mid-60s. So, how do you get—you know, what kind of stimulus will address those kinds of issues? I think jobs, as Harold said, is the key, and you know, one of the things I've always thought, particularly in the U.S. context, is we just have to think about this country as more of an exporter in the future, and without some kind of—you know not just short-term stimulus, but some kind of vision for what this economy can be. And how does the United States really access other parts of the world? I think it's going to be hard to solve some of these problems on unemployment and otherwise, so there are some challenges.

**SALLIE KRAWCHECK:** So consensus, expectations out there? A sub par recovery. You know, the downturn was very swift. The upturn should therefore, in theory, be quite dramatic, but the consensus is it'll be sub par. Thoughts on that?

**MICHAEL HARTNETT:** Well, I think that it will, you know, that sentiment will only change when a couple of things happen. I think you're absolutely right, Harold, jobs get created, house prices start rising, and banks start lending, and those are the missing pieces of the jigsaw. And I think, not just in the states but the rest of the world—I mean the Chinese are not going to tighten policy aggressively or you know do things that threaten their recovery when they see the unemployment rate in the U.S. continuing to rise, so you're in that slightly sort of almost twilight zone. For Wall Street, there's a recovery. It's very, very clear. For Main Street, there isn't, and I think until the rest of the world sees more of a recovery for Main Street, America with some jobs creation and house prices going up, you're going to continue to see the markets at least dominated by policy and stimulus and liquidity rather than economic fundamentals.

**ETHAN HARRIS:** I think that policymakers understand this. I mean, what is the Fed trying to achieve right now? They're not out saying, glory hallelujah; we finally got over this recession. Everything's fine. They're looking at the economy and saying, we need to see a real return to health. We need to see the job market pick up, sustained downward trend in the unemployment rate. Then you start thinking about removing the stimulus, but right now the economy is still very much in the intensive ward unit, you know. We've got a fiscal plan that's going to last all the way through the end of next year adding stimulus along the way. We could get a second stimulus if we don't see the job market turn by the spring, I agree with you. The Democratic Party doesn't want to go to the fall elections with nothing to show...

**HAROLD FORD:** I can assure you the Republicans don't either.

**ETHAN HARRIS:** Exactly. So neither party wants to go to the elections with nothing to show. You've got this massive stimulus, and what do you have to show for it? Nothing. Well, if you can get some job growth going, you will have something to show for it, so they're going to keep their eye on the prize here and keep pushing until we get a real recovery.

**SALLIE KRAWCHECK:** Okay. Like jump-starting a car. So all of the economic analyses I see go through the numbers very clearly about why it's going to be a sub par recovery. One of the things that the economic analyses rarely take into account is the role of innovation in terms of the growth of this country and global growth as well. Jeff, innovation's very important to the growth of GE. How do you see that as contributing to GE and very importantly to the economy, global economy, more broadly?

**JEFF IMMELT:** Sallie, what I—again, I think innovation’s always been important in good times and bad, and I think many companies, not just GE, have really increased investment in technology even in the downturn, like 2009 and 2010, so it’s very important. What I would say is if you’re running a company today, you aren’t going to count on a robust recovery. If it comes, great, but it’s not going to be your planning assumption. What your planning assumption’s going to be is that it might be sluggish, and therefore, you’ve got to have more products at more price points. And so we are rapidly trying to fill in all the white space around the products we’re in from jet engines to gas turbines, MR scanners—all the things we do, we will have more new products introduced in the next 12 months than we’ve probably had in any year in our history because that’s what you have to do. This is the kind of time that you’ve got to be driving technology. Now, when I put a broader hat on and think about it from a U.S. standpoint, we’ve got to use and leverage technology to help solve some of these big macro issues like clean energy and affordable health care. R&D as a percentage of GDP in the U.S. has declined to nearly an all-time low. President Obama has added to that a little bit, but there are going to be 10 million jobs created in clean energy. The question is, who creates them and what part of the world? So I think innovation is important not just for companies, but it’s also quite important for the country if it’s going to create jobs and create exports, and create growth.

**ETHAN HARRIS:** This gets back to your earlier point. You were talking about the need for exports as a driver of growth, and I think that if the U.S. is going to succeed, we want to be on the offense, which means use our strength, which is some of the best graduate programs in the world and the best innovative minds. I mean that’s where our competitive advantage is to drive exports and innovation. It’s not erecting trade barriers or trying to play defense. It’s playing offense.

**JEFF IMMELT:** You know, 7% of the U.S. GDP are exports. In Germany, that’s 35%. Nobody can claim that Germany’s a low-cost country, right? Of any kind. They pay their workers a full wage. It’s just a headset that starts at the top of the country and goes all the way through, and so we’ve got to declare, you know, GE has declared clean energy. But the U.S. is going to have to look at a few places, leveraging the universities and otherwise, and encouraging the entrepreneurs that it really wants to own, and I would put clean energy close to the top of the list—transportation—I mean clearly we’ve done a great job in the Internet and information technology, but there’s going to have to be more to drive the kind of growth that the U.S. needs.

**SALLIE KRAWCHECK:** Yeah. So from a pol—policy perspective, excuse me—you know, Google, Hewlett Packard, these great institutions were started in garages. You know, how much of the stimulus dollars are, one, going to things like clean energy, and two, reaching into the startups, where we’ve had so much of the innovation in this country over time?

**HAROLD FORD:** There’s a slice of it that went to the Department of Energy for that specific purpose of identifying those small, promising technologies that would benefit from an infusion of wherever the dollars may come from, public dollars in this sense.

The challenge right now is that the health care debate in Washington morphed into a weird conversation recently about abortion—don’t get me wrong, whatever your feelings are about abortion, I respect it—but health care, the cost of health care, the arc has very little to do with the cost of abortions in the country from death panels to abortion, so we didn’t really have the meaningful, serious, purposeful conversation about the role of how you leverage technology to lower costs and even create jobs, which in a lot of ways will harm our ability—impact negatively our ability to get to a serious energy reform bill at the beginning of next year, throughout next year. Most of the political capital, I think next year, will be consumed by trying to pass some kind of stimulus, second stimulus. Every incumbent—the lessons from a few weeks ago in Virginia, in New Jersey and upstate New

York was that if you were an incumbent, you ran into real political winds and might have even spelt defeat for you, so all of them will be in survival mode. I wish, frankly, that the focus early on had been on jobs then. If there was a big piece of legislation to turn through, it should have been energy because the next frontier of job creation for the country, I would agree, is this conversion to sort of a clean energy economy, or an economy that's less dependent on how we consume or how we generate and consume energy today. So, I think more and more you will see more of an emphasis and more of a focus—more of a focus here—and more vehicles created through the federal government to invest in those small—those great ideas, be it from a big company or a small company. But right now, that platform is not as robust as we'd like.

**SALLIE KRAWCHECK:** Yeah.

**HAROLD FORD:** You've seen it... you feel differently about that?

**JEFF IMMELT:** No, no. I think it's totally—it's—from a political standpoint, it's all about jobs. I think the other thing is—

**HAROLD FORD:** Right, right. But are there enough vehicles making investments into companies?

**JEFF IMMELT:** Look, I think, Harold, it's more complicated. You know, in other words, the venture capital community's had a tough decade. The late 90s, in some ways you know, kind of really hurt the venture capital industry, and right now, the venture capital industry, just given where the economy is and some of the key investments—I think it's a tougher go, so I—The entrepreneurial headset in the U.S.—even though I run a big company, and you know I love my company, I'm very respectful of how important small businesses are in this economy. Some have had a tough time getting credit. Some of them have had a tough time getting the kind of funding, so I think the government has to be very mindful of the small businesses, and I think they've had a tougher go in this economic cycle than maybe some of the big businesses have...

**MICHAEL HARTNETT:** And they should be—they should be booming, I mean given where the level at the dollar is relative to, you know, other currencies. I mean we should really see small businesses, particularly the export sector, just going great guns at the moment, so—and if you do—there are your jobs. I mean you know, the small businesses create 50% to 60% of all the jobs in this state, so you know, it's a shame that somehow it doesn't seem to be coming through, and I don't think it's anything to do with innovation particularly. Policy? Maybe. The idea that there are more business regulations, taxation may be something that retards the spirit, but there's no excuse with where the dollar is. I mean, these businesses should be doing a lot better.

**SALLIE KRAWCHECK:** So you talk, Jeff, you hit on the point about, you know, the clean tech, the alternative energy. There are other countries that are ahead of the United States. Does it matter?

**JEFF IMMELT:** Well, you know Sallie, I would say—you know, first and foremost, I think about it in the GE context to say, I'll go wherever we need to go in order to sell these products, and satisfy our customers and things like that. I think you have to think about it across four dimensions. It's who is going to add the demand—in other words, if you are building a lot of capacity yourself as a country, the jobs tend to go with that. Who has the technology? Who has the low-cost position? And where is their supported public policy? So if you look at—if you look at Europe, Europe has more or less weak demand, but they have great public policy. They have standards for renewable energy. They have pretty good technology, so Europe's got a chance to really

lead. The U.S., because of our economy, we're not going to add that much electricity or that many new cars. We have good technology. We have relatively low cost, and our public policy is kind of a mess in this space, you know? And so, you have to have some element of those four things. China, the U.S. will add something like 35, 40 gigawatts of power in the next, let's say five years. China will add 250 gigawatts of power. So, can they lead in coal gasification or will the U.S. lead in coal gasification? You have to say, China's probably going to lead in coal gasification. Now, the one place where the U.S. leads—The U.S. can do well in gas technology, clean gas technology, nuclear is still up for grabs, batteries is moving as we speak, you know? So, each technology has a country that's going to be advantaged, and I think—you know I just got back from China last night. You know, what I see is that people aren't waiting for us to move. You know, you're either going to be out ahead of it or you're either moving, or this is going to move ahead of us, so I think it's all about—at this point, the innovation exists here. There is some demand, but there is going to have to be some public policy that drives these technologies forward, price for carbon, things like that.

**MICHAEL HARTNETT:** And also, there's a much greater, I mean dare I say, geopolitical need in Europe and China. I mean they don't have any oil, so it's a much greater necessity. I mean, you can think of European spending on alternative energy, it's like their defense spending. They do not want to be reliant on the Russians for the next 100 years, so you know, there is a great, great push to create alternative energy there. I think in Germany now, it's 50% of all the solar power in the world is coming from you know, Germany, and they have less sunlight than Portland, Oregon I'm told. So, it's—it's fairly impressive, and China, we know, has this big sort of nuclear power program that's being put in place, and again, there are geopolitical necessities there. I think the price of oil is also quite important. I mean, I think if we were all paying \$4, \$5 for a gallon of petrol—as we say where I come from—or gas in the States, you know, the need for sort of alternative energy would be much greater, and I'd imagine sort of public policy would be, perhaps, a little bit more focused on it this year rather than on health care.

**SALLIE KRAWCHECK:** Okay. From a government perspective, [are we] missing the boat here?

**HAROLD FORD:** Well, I think to, Michael—to your point about the price of gas, I mean, we probably in this country, and it's unpopular, so we probably need a carbon tax. It's not a popular thing to talk about, but it could certainly help finance aspects of inn—I should say, a government innovation policy, if there's a way to talk about that, and for that matter, finding ways to ensure that we're leaders in one or two of these categories that have been laid out. I mean, one of the great fears that I have is that we import so much of our energy from one part of the world, and if we don't make these investments, we'll end up importing our batteries or other technologies from other parts of the world, so we'll just shift where the money's going and where the job creation's going. I often said, I mean, two other issue—One issue we have not talked about, which has a tentacle to it, is that we have an—we spend an enormous amount of money in this country defending our oil appetite and protecting oil reserves around the globe, and we will continue doing that. I think the biggest decision the President will make in the next two weeks is what our role will be in Afghanistan, and it's a whole conversation and a whole debate taking place in Washington, and it probably could erupt here if we switch focuses, but it's important because it will play a role in our spending. And—the federal deficit as well as moneys we have to spend in other areas. If you think about it, this administration, as big as the deficit number is, it's important to note, this is the first administration, we should say—the previous one did not put the cost of the war on budget. It was all off budget. So, the \$1.4 trillion debt for the first time, we've actually put all of this money, I should say that we're spending in the war, on the top of it. A lot of times when we've spent money in war, we've actually developed new technologies and new ways of doing things and created jobs as a result. I don't know if we're

actually achieving that with what we're doing—what we're doing now. So, the price of oil is critical, but at some point, it will take courage—it will take the courage of a set of political leaders who are willing to put their own political livelihoods on the line and say, we're going to make—take some tough steps in this country, so five to 10 years from now, two things don't happen. One [is that] 14-year-old boys that they don't go to fight wars to preserve our—and protect our interest and appetite for oil. And two, 10 years from now there's a whole new era of jobs that are—and a whole new unleashing of jobs in this country that we can't envision today.

**JEFF IMMELT:** Abu Dhabi will bring a new nuclear plant online before the U.S. will in the middle of oil. This is one that I find to be quite fascinating. They will build a new nuclear plant before the U.S. will.

**SALLIE KRAWCHECK:** Nuclear energy becoming more important certainly?

**JEFF IMMELT:** There's either going to have to be coal or nuclear as big—what I would call big bet baseload technologies. And coal's going to have to have some treatment of carbon, and nuclear is going to have to be commercialized again after 25 years of basically being—this will be decided probably not in the next 10 years, but probably between 2020 and 2030, but for the next 10 years, there's going to be some investment in nuclear and some investment in coal sequestration.

**HAROLD FORD:** So you don't think the administration moves on nuclear?

**JEFF IMMELT:** Look, one of the phrases we have inside GE is, to do something, you have to do something, you know? In other words, you have to actually build a plant. We haven't built a plant in this country for 25 years, and so there's—well for all the conversation, you could wake up tomorrow with \$150 oil and having done nothing, nothing. And so...

**MICHAEL HARTNETT:** Meanwhile China's about to spend about a trillion...

**JEFF IMMELT:** I think Secretary Chu...

**MICHAEL HARTNETT:** ...on nuclear power in the next ten years.

**JEFF IMMELT:** Even that [is] going slowly. But they're going to build 20 plants. You know, I would say that the—Secretary Chu is pro-nuclear, but for nuclear to get built, the President himself is going to have to say, this is what I want to have happen. And I think if you had maybe \$100 billion in loan guarantees or something like that, it could get commercialized, but—you know, we're in the nuclear business, but don't be mistaken. Nuclear's not really a commercial business today. It's a sovereign business. It's the country of Japan. It's the country of France. It's the country of China. It's the country of Korea. It's the country of Russia. GE's the last American company. We are very much a commercial business, right? We're not—we have to take risk capital, put it to work, and so...but the government's going to have to nurture this through loan guarantees or it's just not going to happen. It's just not going to happen in the U.S. It'll happen someplace else... Now, if you could build 20 plants, you could own the supply chain. You could create jobs. You could create a couple hundred thousand new jobs if you move quickly, but if you don't move, China will get the jobs. Japan will get the jobs. Somebody else will get the jobs.

**SALLIE KRAWCHECK:** Let me shift topics on us a little bit. I have a question from Arthur in Palm Beach Gardens, Florida, who wants to talk about a different kind of innovation which is, how will innovation in health care reform affect the pharmaceutical industry?

**HAROLD FORD:** Well, I think two things. The way that the bill is envisioned now—there's a bill that passed the House which has a public option to it. It's paid for by taxing what they call a Cadillac plan, at about somewhere between 30% to 35%, depending on how big your plan is. The pharmaceutical industry, in exchange for the White House not allowing Congress or the Senate to encroach even more on their profit base or to force them to sell generics to this new public option, contributed \$80 billion, said they'd find \$80 billion in savings and give that back to the government. Actually, the way the House [and Senate] bills whereas written, the pharmaceutical industry should do okay, and even the Senate—the Senate bill is written—they should be fine. The concern, I think expressed by the question is that R&D will be affected—I don't believe that would be the case. Now there's some Democrats in the House and Senate who want to extract more savings. That's their term. They'd like to ask the pharmaceutical industry to pay even more. Some believe that they got off pretty easily with only an \$80 billion contribution towards the effort, but if the bills remain as they are, the R&D dimension or budgets for many of these businesses, for that matter the industry, won't be affected. I think it'll actually be helped in the long run.

**SALLIE KRAWCHECK:** So Jeff, what are some of the interesting innovations in health care that you're seeing?

**JEFF IMMELT:** Sallie, I think the—you can go from the super high-tech, which is, you know, the ability to predict and diagnose disease before it takes place, you know. You can do that in cancer. You might be able to do that in Alzheimer's disease. This ultimately will improve quality of living and lower costs at the same time, but some of those have gotten a bad name. You know, in other words, it's viewed as being super high-cost health care, when, you know, if you could—if you could diagnose Alzheimer's before the symptoms came out, there are now drugs that could delay the onset of the disease, you can save \$60 billion in the health care system, so that's at the high end. Then, there's innovation around the information technology. You know, Sallie, that everybody hears about the electronic medical record, and you hear about it in the context that if you're—if you live in Connecticut, like I do, and get in a car accident in Texas, somebody would know whether or not you're a diabetic. That really is worth almost nothing. In other words, that's worth a little bit, but that's not going to really transform health care. But if every physician had decision support, I mean what information gives you is the chance to make decisions faster, so that you could diagnose the right drug at the right time to the right patient, you're going to have less infections in a hospital. You're going to have better patient safety, and you're going to really take costs out at the same time. So, you've got information; you've got drugs; you've got therapy, but ultimately, if you want to change the curve, you're going to have to go into the providers, the big hospitals and into a city like New York City, and you're going to have to run this place better. And that's going to be done city by city, and the government can't do it to an omnibus bill. That is the only way you're going to ever really change the slope of the health care because you know Medicare—when the government says they save 5% on Medicare reimbursement costs, that money doesn't come out. It just means GE's—our insurance pay goes up by that 5%, so until you're addressing costs on a city-by-city basis, you haven't done anything, and this reform, which is probably needed, you know is really insurance reform or access reform, it's not really doing anything about changing the...

**MICHAEL HARTNETT:** It's not going to contain costs. It's not going to do anything...

**JEFF IMMELT:** ...—or about where the cost of health care goes.

**SALLIE KRAWCHECK:** Michael, Ethan, how important is innovation in health care or health-care spending overall to the economic recovery, to the U.S. economy?

**ETHAN HARRIS:** Yeah, I think it's vital that we get our hands around this, so I think the fact that the Obama administration's even tried to address health care is a good thing because after all, we've had nothing for years. I mean, we have a situation—health care is the only industry where technological advance increases costs because it creates new products, new mandated benefits, and we need to bring it under control. There are estimates that you know 20 years from now, health care will be 25% of GDP. At the rate we're growing right now, the cost part has to be addressed. And now I think it takes courage for the President to even whisper the word "cost controls" in health care, but I think that you know you need technology. You need a real public discussion of things like, I hate to talk about it, like end of life. You need to talk about medical malpractice, all these things.

**JEFF IMMELT:** You know companies have done a terrible job of managing their own health care. It's—I actually think that companies are going to need to move forward, you know—you say—the question is what happens post-reform because I quite agree with Ethan that it's courageous. Something's probably going to happen. It's not going to really solve the problem, but something's going to happen, but then you say, what happens the day after health reform gets passed? We have 600,000 covered lives. We're going to have to step in and do a much better job than what we've done so far about how we engage in our communities, how we engage with our employees, how we make them prevent disease in the first place, wellness campaigns because we, in the end, pay out of our investors' pockets. We've got to do a better job.

**SALLIE KRAWCHECK:** And everybody's unhappy, right?

**JEFF IMMELT:** Everybody's unhappy—

**SALLIE KRAWCHECK:** The employees are unhappy. The investors [are] unhappy, the industry is unhappy...

**JEFF IMMELT:** And so I think, Sallie, that's where change is going to have to take place.

**SALLIE KRAWCHECK:** How about from a global perspective? We talk about health care a lot from the United States, but in terms of an impact on global growth?

**MICHAEL HARTNETT:** I don't think there's any impact whatsoever. I think the—well, what the rest of the world wants to see in the U.S. is jobs creation, and I think that the only way that the health-care debate has really impacted that, as Harold pointed out, it's been a distraction perhaps, and more attention could have been paid on the stimulus and you know making it work more effectively, creating more jobs. You know, that's really what the world wants to see from the U.S. at the moment is signs of jobs, and I think that, you know, more direct support for the housing market, smaller businesses would have made sense, and I think also, you know, the other, you know, big topic we were talking about this evening is alternative energy. And again, there's been surprisingly little on that this year, and I think again, the health-care debate has just, you know, overwhelmed everything else, and you know, it's a noble topic and so on and so forth, but from the health of the global economy certainly in this year and next year, it's you know immaterial.

**SALLIE KRAWCHECK:** A client question we've gotten on several—several—asked several different ways and a bit off-topic for what we're talking about, but something clients are very concerned about is inflation. So, now we've been talking about is the economy not going to grow particularly fast, which tends to imply deflation, but can it tilt the other way, and how concerned should clients be about that?

**ETHAN HARRIS:** Well, you know I think there's a misconception about inflation that the economy's on some kind of knife edge where, you know, if the Fed tightens too early, it can kill the economy. If they wait too long then inflation's going to run out of control, but inflation doesn't work that way. Inflation is a long, lagging indicator. Normally when you come out of a recession, inflation continues to fall in the first few years of the recovery, and the reason is you've got a lot of unemployment, a lot of unused factories, very little pricing power, and you know, businesses are in hunker-down mode, so I know that it's a concern of investors, and I think that the one area we do need to worry about inflation is in the commodity markets. We've got rip-roaring growth in China. Asia is coming back quickly, so in commodity markets, there's an inflation concern, but outside of commodities, you know it's—I think it's kind of an overrated worry out there.

**SALLIE KRAWCHECK:** So let's shift to some of the investment opportunities. How can clients access, you know, exposure to some of these innovative technologies? I know your answer, Jeff. Let me talk to these guys for a second.

**MICHAEL HARTNETT:** It's a great theme. It is attracting a lot of capital. But there are very few investment opportunities. If you add up the market capitalization of all the alternative energy companies in the world, it comes to about \$180 billion. Well, that's the market capitalization of Google. So, you know with all this money—if all this money pours into a particular thematic like this, and we saw it with the Internet, a bubble, a speculative bubble can emerge very quickly. So, I think it's important, as it always is, to diversify. Fortunately, there are a number of ETFs now that you can use that just focus on an innovation theme such as alternative energy, or ETFs that focus on companies that have, you know, a good backlog of patents, or patents maybe as... And so I think there are investment vehicles that you can use to access, you know, the innovation theme going forward. The alternative is large, industrial, you know companies because the big sort of titans, whether it's here or in Korea or in Europe, you know, they're the ones that are going to be benefiting the most at the front-end of the process. So, you either go with very large, you know, caps, companies that focus on this area, or you get an ETF basically that can access a number of companies that are focusing on this area.

**SALLIE KRAWCHECK:** And push us a little bit further. You were talking about the green energy, the solar—you know, we've got the wind power, bio-fuels. How do we get to that? Is that really a viable investment theme for our clients? And how do they access that?

**ETHAN HARRIS:** Well, I think one thing to keep in mind here is that as long as we've got what is actually a relatively subsidized energy world in terms of oil, I mean we're not paying the full price of oil right now. We don't—we're not paying for the pollution effects. We're not paying for the geopolitical cost of oil, and so, I—again, nobody wants a tax in anything, but I think that if you're going to create an incentive system to move over into these alternatives, you have to create an incentive system. It means paying a little bit more for the stuff that we've kind of gotten overly dependent on, and that will then make all these things become viable and the technology will develop to the point where they'll become important parts of the energy chain.

**JEFF IMMELT:** The only thing I would say, Sallie, without doing a GE commercial is the thing about energy is, it's a combination of pretty good technology and low cost. If I compare it to health care, health care was an industry that really was built on best of breed. The best widget, the best drug always got funding. Energy's an industry that I would urge your investors not to fall in love with, but understand who will ultimately have—you know, how do you achieve low cost. And if you can combine pretty good technology with the ability to achieve low cost quickly, those are going to be the winners whether it's bio-fuels, solar, wind, batteries, everywhere in between. And that's where I think investors have to be—have to be savvy about—don't fall in love with the neatest thing. Study cost profiles, scale, how it gets created, things like that.

**SALLIE KRAWCHECK:** So Jeff, a good part of your job is making investments yourself, right? And it's both across products and businesses, but it's across markets as well, and an interesting theme that goes along with the innovation theme for this evening is the emerging markets, naturally. Tell us, you know—so much conversation about the BRICs, but tell us how you're seeing the attractiveness with the various emerging markets and how it sort of builds into our innovation idea.

**JEFF IMMELT:** Sallie, I just think the BRICs—there's not going to be anything profound other than to say, it's really real, you know? It's not like every tree goes to the sky; there's not going to be bumps. But when you think about China, India, Middle East, even some parts of Africa, Indonesia, just go around the world, it's the combination of more consumers that are joining the middle class, getting consumption power, mixed with more sophisticated governments, better feds in these countries than there were before, more sophistication mixed with education and a whole series of other things, and you know, we kind of segment the world, the two priority segments, or what we call the resource-rich parts of the world, which are Middle East, Africa, Brazil, actually Canada, Australia, the places with natural resources, and what we call Rising Asia, which is China, India, Southeast Asia. Resource-rich and Rising Asia in 2008 were about 25%, 26% of our revenue. By 2012, that could be somewhere between 40% and 50% of our revenue, you know? It's just stunning to see how they're growing, and there'll be issues. China's going to have issues, and India's going to have issues. But the long-term secular trends, I just think are irrefutable, and that is, will be the emerging-market consumer will be the growth engine of the coming years the way the American consumer was for the past 30 years.

**MICHAEL HARTNETT:** It's without a doubt, and it's exactly the same story. I mean they're exactly where America was in the early 1980s. There's billions of them that have never ever experienced single-digit interest rates and single-digit inflation in their lives because the whole story of emerging markets, really, it's been the problem teenager of the investment world: fits, tantrums, sort of hyperinflation, booms, busts and so on and so forth. And that's the policy change is that you've gone through this wrenching sort of economic and market cycle over the past 18 or 24 months, and they've come out with flying colors. I mean, the numbers stack up for themselves; 2 billion of them will become middle class in the next 20 years. What is it? 80% of the world's land mass is in emerging markets; 70% of the world's population is there; 60% of the world's foreign exchange reserves are there; 30% to 50% of the world's economy is there. And you know, they're still just 10% of the world's equity market, so it's—the threat is that they just let it go to their heads, and they let inflation come back because they get greedy, and that would be a nightmare for your business because that would really kill the consumer story because you just want to keep that purchasing power as strong as it can be, and the only thing that will really will destroy that going forward will be hubris and just letting it all go to their heads, and they let the inflation genie out of the lamp again. I don't think it's going to happen, but that would be the risk. Otherwise, it's really game on, I think, yeah.

**SALLIE KRAWCHECK:** Okay, so there are those that argue that the past few years have been watershed years in many ways, and probably too numerous to mention, but one of those ways is the emerging markets, which was doing bad in the United States before the downturn; did better than the United States during the downturn; and is doing better than the United States coming out of the downturn, right? Have we really seen a turning point here?

**MICHAEL HARTNETT:** Again, I think that next year's going to be a moment of truth in that you need to see the Chinese re-value their exchange rate. You're going to need to see the Brazilians and other parts of the emerging-market world tell us that they can be adult and that they will raise interest rates if inflation starts to pick up and so on and so forth, so I think it's—they still haven't quite passed the test, but if next year, you know, by this stage next year, you know, if they haven't let inflation pick up, the growth is still there, then there's no doubt that the next three to five to seven years, the growth story globally—and it will be a very scarce growth story globally—will remain in emerging markets. I'm pretty sure about that.

**SALLIE KRAWCHECK:** So I'm going to ask a question that I shouldn't ask because the right answer is the clients who are watching should talk to their Financial Advisors about their individual situations, et cetera et cetera. But, given this, how much exposure should clients be thinking about vis a vis emerging markets, you know some of the innovative technologies we've spoken about versus thinking about the risk profiles of those investments?

**MICHAEL HARTNETT:** Well, I think it remains a volatile, you know, space. I mean, there's a couple of ways of answering that question. Emerging markets are, you know 10% of the—for every \$100 of equities on the planet, emerging markets account for 10 of those dollars, so if you were benchmarked, that would be your ratio of investments there. But you know, we would have certainly argued, and we do argue that the, you know, the profile should be higher, but of course, there are currency risks and you know, there's still a lot of volatility there, so the second way to gain exposure there is to buy American companies that have—a lot of exposure in emerging markets, and I'm not going to name any of them, but you know, there are—the whole theme of mega-cap multinational companies is one that we've been running with for the past year or two, and again, I can't name the companies themselves, but there are a number of U.S. companies that do have a lot of access to the growth. You have to be careful though because if we were talking this time 18 months ago and you said, how do I play the Chinese consumer? Which American company is all over the Chinese consumer? It would be General Motors, you know, because they had huge market share in China, but that wasn't the investment you should've made, right? So, you have to treat it case by case, I think.

**SALLIE KRAWCHECK:** Right. So, do clients get enough? They get some exposure if they're in the U.S. through the S&P, but do we think it's enough?

**ETHAN HARRIS:** No. I think, you know—I mean, one of the themes we've been pushing recently is this idea that there's tremendous home bias for investors, and you know, the typical investor looks at the rest of the world as this—it's kind of like that New Yorker—

**SALLIE KRAWCHECK:** New York—*New Yorker Magazine*?

**ETHAN HARRIS:** ...map with the New York and the rest of the world out there. That's about the way their portfolio is divided up, so I think we would agree, and even if emerging markets is a more uncertain place, it's less uncertain than it used to be, and people have always been under-invested in emerging markets and in Europe, and in developed Asia as well.

**SALLIE KRAWCHECK:** Now, as we finish up, I'd love to hear from each of you a prediction about an innovation that is likely to—that will change our lives and the markets over the next, let's call it decade. Jeff?

**JEFF IMMELT:** You know, I again just would combine some of the themes that we're talking about, which are, you know the combination of emerging-market infrastructure and solution of some of these big problems like global warming, affordable health care. So, I'm—we're quite intrigued with what we call kind of reverse innovation for lack of a better word, where business models and our products get engineered in some of these emerging markets with very low price points, and then those can actually be used in the U.S. to solve the affordable health-care issue. We've just launched [a] hand-held ultrasound product that's kind of like the next stethoscope. It's a PDA that's an ultrasound that's designed for an India or China price point, but can be sold in a pervasive way on a global basis, so I actually think, thinking about some of these themes we've talked about tonight, which is high-tech low cost. And if you can have a series of products that are simultaneously high-tech low cost, that can fit a global supply chain, those are the product lines that go from zero to a billion dollars just like that, and that's what we—that's where I think some innovation will take place.

**SALLIE KRAWCHECK:** Okay, gentlemen? Thoughts? Innovations that will change our lives?

**ETHAN HARRIS:** I've got a good one, right? You just went to China? How would you like to have avoided taking that trip? What about video conferencing, right? Worst invention ever, you know the voice comes back late. It looks like Max Headroom on the other end. But actually, video conferencing is actually becoming useful. You know, you can do the modern video technology, as my boss sitting out in the audience knows, you can actually feel like you're in the room with the people, and I think for me personally, being able to avoid getting on an airplane, best thing that could happen. So that's—that to me is my No. 1 technology advance.

**MICHAEL HARTNETT:** I would say certainly that the innovation that has captivated our client base the most—because the readership for this particular report was extremely large—was the issue of Chinese nuclear power, and the \$1 trillion worth of renminbi that they'll spend in the next ten years, which equates to about 150 billion. The-- on the subject of, you know, the Chinese nuclear industry really sort of captivated a lot of our sort of clients, and it very much fits in with the idea that you know this part of the world, they have the money, and you know, powerful is revenue, and that's where the revenue is, and they're willing to spend it. And again, in the case of China, they've got a great geopolitical need to do so, so that will have a lot of tentacles to it. There's many companies that can benefit from that whether they have constructed the nuclear facilities themselves or uranium supplies and so on and so forth, but you know, I think within the EM infrastructure world, certainly you know the area that's been most captivating to our clients this year has been the subject of Chinese nuclear power.

**HAROLD FORD:** Three things. I wish—[and] these are more personal. I wish people would take more responsibility for their own health. As we talk about health care, if people worked out more and ate less and probably stopped smoking, we could probably make a bigger dent in health-care costs. Two, the biggest killer of our troops in Iraq are these roadside bombs. I wish some company would come up with a way for our captains and our colonels to have these things on the side of the road and diffuse them before they get close to them. If we did that, we'd cut three-quarters if not four-fifths of the kids [being] killed. And three, I'd love—we talked about exports—

the creation—I was with an economist the other day in Boston, who said the creation of these special zones across the country, where small businesses and for that matter these leading technology companies can come together and not be saddled with all this bureaucracy and all these rules and figure out how—government runs these experimental cases and these pilot programs, we ought to set up a series of pilots around the country where the best technology—you’ve had a couple things win *Popular Science* magazine awards and your hybrid water pump and so forth. All of these new ideas and these new models and these new technologies have a special place to be where they don’t face many taxes, much bureaucracy and for that matter Washington regulations, and let’s see if we can grow.

**SALLIE KRAWCHECK:** Okay. Final one before I let you all go. I think I know the answer to this one. We’re going to be doing this, of course, every quarter, but if we were to come back a year from now, two years from now, five years, optimist or pessimist: economy, markets, innovation.

**JEFF IMMELT:** Well, you can’t run a company these days without being an optimist, I’d say.

**SALLIE KRAWCHECK:** No [such thing as a] successful pessimistic CEOs, right?

**JEFF IMMELT:** You know, so I think—I think if you—if you look at what happened last fall, and you’re not ready personally to take accountability and say, I’m going to look at the world, my job, the future in a different way, and I would say that I’m humbler and hungrier than I’ve ever been, and I think that’s a good thing. So, I’m quite optimistic to say, if everybody feels the same way and says, look we’re going to—we are going to come out a better company, a better country, then I think there’s room to be optimistic for everybody, and I think that’s the way most people feel.

**SALLIE KRAWCHECK:** Harold?

**HAROLD FORD:** I’m more optimistic because to use the humbler—or hungrier theme, when government gets humbled leadership does. They get hungrier, and they get more things done. Centrist Presidents solve more and achieve more than Presidents who are outside that center.

**SALLIE KRAWCHECK:** Ethan, Michael?

**ETHAN HARRIS:** I think that give us another year for—I mean we’ve come out of this disaster with a lot of aftershocks still playing through the economy. We’ve got the commercial real estate disaster, the foreclosure disaster, the state and local government disaster—I’m not sounding very optimistic, am I? But those problems can be worked through time, so if you keep the economy on its feet growing, if policy works, a year from now, you can start talking about organic growth, where we’re not fighting these vicious headwinds any longer, so I think that they’re somewhere out there in the next couple of years. We’ve got a real recovery where we see the unemployment rate drop significantly, and we get back on a more normal footing for the U.S. economy.

**MICHAEL HARTNETT:** I’ll be optimistic simply because there’s so much pessimism around, and I think that that pessimism is not wasted, you know there is a lot of thought going in how to you know improve our innovation policy and so on and so forth, and the adage we always have with the markets is you, you know, you buy humiliation and you sell hubris, and I think, you know, there’s a lot less hubris these days both in this country and elsewhere, and that’s probably a good thing. So, you know, I think you have to be optimistic just because of at the starting point [there] has been so much pessimism just over the last 12 to 18 months.

**SALLIE KRAWCHECK:** Well, gentlemen—Jeff, Harold, Michael, Ethan, thank you so much for joining us this evening. And that concludes our discussion. I hope you found these perspectives to be helpful. I'd like to encourage all of you to use this evening's information as a basis for a conversation with your advisor. If you'd like to get further information, you can return to our Website, where you'll find videos and what we hope is other useful material relating to this Webcast. You'll also be able to access the on-demand replay of this evening's roundtable discussion. On behalf of our panel and myself, and all of us at Merrill Lynch and Bank of America, thank you all and good night.