T. ROWE PRICE REPORT

» A Perspective On Financial Topics For Our Investors

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T. Rowe Price
INVEST WITH CONFIDENCE

Investing Across the Global Growth Gap

In the throes of last winter's desperate global financial crisis, governments and central banks around the world countered with unprecedented fiscal stimulus and monetary easing. The result by this fall: an extraordinary synchronized global economic upturn—but one that remains strikingly uneven.

Developed economies showed signs of slowly recovering by the end of this summer. Meanwhile, many developing-nation economies sharply recovered much earlier in the year, resuming much higher growth rates.

This sizable global growth gap not only will persist but likely will widen, says Gonzalo Pángaro, co-portfolio manager of the Emerging Markets Stock Fund. And it presents diverse opportunities for investing all over the world, in both developing and developed markets.

These opportunities have been building during this decade along with the growing size, strength, and stability of emerging markets. But these days, as the world emerges from the worst global economic and financial downturn since the 1930s, the opportunities for investing across this global growth gap have never been greater and the case seldom more compelling.

The Gap

In the United States, for example, seeds of recovery finally started to take hold in the third quarter, with housing sales and prices picking up, corporate earnings estimates rising, manufacturing expanding in August for the first time in 19 months, and the S&P 500 Index of U.S. large-cap stocks ending September up 19.3% year-to-date.

But the course of the U.S. recovery appears to be quite moderate, if not anemic, with growth held back by consumers continuing to retrench, the long tail of financial healing, and the nation's deteriorating balance sheet. Going forward, Alan Levenson, T. Rowe Price's chief economist, foresees U.S. gross domestic product (GDP) growth in the range of 2.0% to 2.5% next year.

Contrast that with China, where authorities earlier this year injected even larger fiscal stimulus than delivered in the United States (as a percentage of the two nations' respective GDPs). They also opened the taps of China's command banking system, increasing new lending by more than 100% in the first half of this year.

Consequently, China's money supply expanded at a record rate, fixed-asset investment surged, property values soared, and retail sales grew by double digits in the

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Global Growth Gap

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first half of this year. Though its export juggernaut remains stalled by restrained U.S. consumption, China resumed almost 8% GDP growth by the second quarter and is expected to register that for all of 2009.

Across emerging markets, from Southeast Asia to Latin America, a similar resurgence of growth occurred earlier this year in many nations. The International Monetary Fund now forecasts GDP growth rates in the developing world of at least twice that of the developed world.

Reflecting this gap, the MSCI Emerging Markets Index rose 64.9% this year as of September 30. And while China's widely publicized Shanghai market was up at one point this summer by more than 100% year-to-date before falling sharply, several other emerging markets racked up much higher gains by the end of the third quarter—including Brazil's (102%), India's (88%), Russia's (85%), and Indonesia's (116%).

At the same time, of course, emerging markets are subject to abrupt and severe price declines and historically have been more volatile than developed markets. That was certainly true last year when they endured their worst crisis in history, losing more than 50% versus the S&P 500 Index's loss of about 38%.

The Fundamentals

Even so, the Chinese economy earlier this year was the only one of the world's 10 largest that was growing, suggesting that this global recovery may be the first in which Asia—not the United States—leads the way. By August, while the Shanghai market was plummeting on fears that Chinese domestic lending was slowing, U.S. stocks were said to be gyrating in response—even though foreign investors largely cannot invest in the Shanghai bourse.

With such a fast economic rebound, strong market performance, and perhaps unrealistic expectations for emerging markets, cautions are in order. Emerging markets' strong economic growth should lead companies and markets upward in the long run, Mr. Levenson says, but short-run correlations are much less certain. Earlier in this decade, for example, China experienced rapid economic growth while its stock market lagged.

Mr. Levenson adds that, though China's and Asia's economies are growing rapidly, they remain very export reliant and thus the sustainability of their recovery—and the world's—may be as questionable as the ultimate recovery of the U.S. consumer.

Still, T. Rowe Price global-, international-, and even U.S.-oriented portfolio managers say the fundamentals of emerging markets remain very attractive for investors, particularly in the midterm to long term. "Developed markets eventually will resume an expansionary trend, but the likelihood remains that emerging market growth will account for an increased share of global economic growth, perhaps as much as two-thirds," says Scott Berg, manager of the Global Large-Cap Stock Fund.

"There are obvious concerns over current global economic conditions and great uncertainties about future growth, but long-term emerging market fundamentals and dynamics are hard to ignore," he says. "We believe emerging market growth represents a secular trend with tremendous investment prospects."

As last year's steep decline indicates, emerging markets' historical volatility and risk perception lingers. But there is a case that many of their economies went into last year's market collapse in much stronger shape than the developed world—with current account surpluses, much higher saving rates, less leverage, and relative insulation from global banking problems.

"The experience of going through some very traumatic crises up through the 1990s has really imprinted on emerging markets the need for relatively disciplined policies," says Mike Conelius, manager of the Emerging Markets Bond Fund. "They now have increased scope for greater growth."

Mr. Berg says that the demographic case alone for emerging markets is powerful: Developing nations have a float-adjusted market capitalization representing only about 12% of total global stock

China and Asia Becoming Major Forces in Global Economy: Contribution to World GDP Growth in 2008

Source: ISI Portfolio Strategy.

capitalization, but they hold 87% of the world's population, 68% of its foreign reserves, and a potential work force and consumer base that is much larger than that of the developed world.

Adds Mark Edwards, co-portfolio manager of the Emerging Markets Stock Fund: "Every region and country is different. But across the emerging market universe, return on capital is higher than in developed markets, banking systems are healthier, and consumers and corporations are less indebted.

"Despite what happened in 2008 to emerging market stocks when investors fled all asset classes that were perceived as potentially risky, the fundamentals of emerging markets are better than those of developed markets. If you liked emerging markets in 2005 to 2007, that story hasn't changed."

The Opportunities

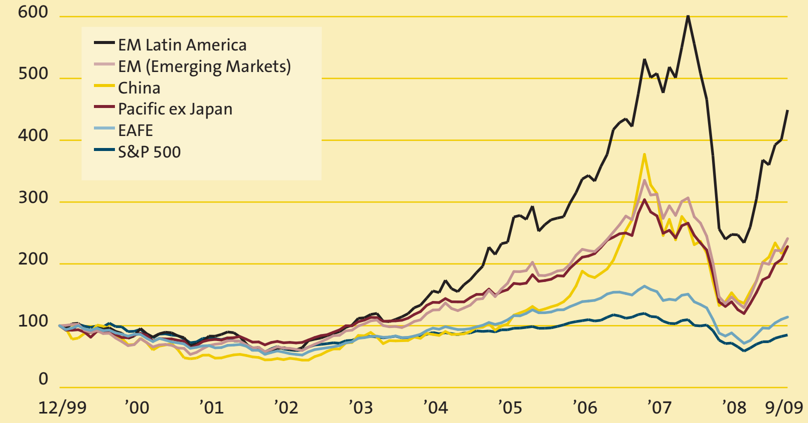
Emerging market equity valuations have risen this year, inducing some short-term caution among T. Rowe Price portfolio managers now waiting for more corporate earnings growth to drive returns. But the firm's global, international, and asset allocation portfolios, including its Retirement Funds, all remained overweight direct emerging market investments at the end of this year's third quarter.

Emerging market exposure in the International Stock Fund, for example, has risen from about 11% at the beginning of 2006 to about 28% at the end of this September. Bob Smith, the fund's portfolio manager, estimates that it has an additional 20% exposure by virtue of developed market companies reliant on developing market revenues.

"Emerging market valuations have gotten more expensive," Mr. Smith says. "But over, say, 10 years, emerging market compounded growth is likely to be so much better that the price you're paying is not that much higher."

Emerging Markets Outpace U.S. and Foreign Markets in Current Decade

Total Return Performance Indexed to 100 as of December 31, 1999



Source: T. Rowe Price. Data provided by MSCI Rimes and Standard & Poor's.

While attractive investment opportunities can be found across the emerging markets landscape, much of the interest stems from China. It is now the world's third-largest economy, and its demands are driving global demand in many sectors, not least in commodities.

"China is one of the best-positioned economies in the world," Mr. Berg says. "But Chinese stocks have run very hard, valuations are richer, so the question is to what extent have you had an inventory restocking cycle in China that steals from longer-term growth? Do we hit an air pocket in China for a time until demand gets better footing?"

As a result, T. Rowe Price's global stock portfolios, the Emerging Markets Stock Fund, and the New Asia Fund (which invests in Asia apart from Japan) all have pulled back a bit on their exposures to China—reducing exposure to some highly valued securities—but all remain overweight in Chinese stocks. The risks mainly involve China's continuing reliance on exports and therefore its dependence on stressed U.S. and Western European consumers, Mr. Berg says.

So in China, a top investment focus for T. Rowe Price portfolios is consumer stocks, to take advantage of rising incomes in an economy in which consumption still is only one-third of GDP (versus 70% in the United States). China's massive infrastructure development is another top investing theme.

"We remain relatively optimistic on Chinese equities," says Anh Lu, portfolio manager of the New Asia Fund. "Our base case is a slowly recovering global economy, and therefore exports should rejoin consumption and infrastructure in supporting Chinese growth—so China has not yet reached an overvalued status."

Beyond China

At the moment, certain other emerging markets—particularly India and Brazil—may present equal or better prospects than China.

Managers are finding attractive, long-term secular growth companies in India, where growth is being driven by consumer and infrastructure spending—not exports, which represent only 13% of India's GDP.

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Global Growth Gap

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The electoral mandate received by India's ruling Congress Party this year also bodes well for greater private-sector growth, analysts believe.

The New Asia Fund actually is more overweight in India than China. "The Indian government should continue to use private-sector companies to help improve out-dated infrastructure, and this will give equity market investors access to a great long-term growth theme," Ms. Lu says.

Meanwhile, the Latin America region is the largest regional overweight in the Emerging Markets Stock Fund, largely driven by Brazil's and Mexico's strong domestic growth in retail; banking and telecommunications; and, particularly in Brazil's case, global demand for natural resources. "After 30 years of appalling volatility," Mr. Edwards says, "Brazil is now in a sweet spot. It has undergone impressive institutional reform. Its economy is now very balanced and very well managed."

Other T. Rowe Price managers concur. The International Stock Fund, for example, is invested as much in Brazil as China. "Brazil has great companies, good growth, good corporate governance," Mr. Smith says.

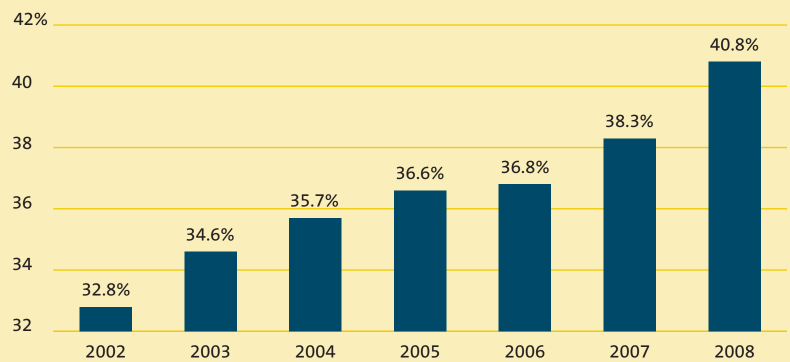
Brazilian prospects, in part, are tied to China's growing demand for its commodities: iron ore, soybeans, and, increasingly, oil. China is now Brazil's largest trading partner, recently supplanting the United States.

This underscores the idea that one of the most direct ways to invest in emerging market growth is through natural resource companies—whether based in developing or developed economies. Over the past decade, according to Charles Ober, manager of the New Era Fund, emerging economies have accounted for more than 80% of the incremental demand in natural resources.

This will be an enduring trend, despite the temporary pause in demand from the global recession, Mr. Ober says. If just the coastal one-third of China moves to the Korean and Japanese per capita level of oil consumption, for example, that would require an additional supply the equivalent of two Saudi Arabias, he says.

"Robust Chinese demand is really the engine for commodity demand," Mr. Ober says. "But we will have to see a pickup in the developed world for China really to sustain high growth. We're in a hiatus—but it's an opportunity to invest for the long term in companies outside of China or India that have pricing power in those markets."

U.S. Companies Rely More on Global Economy for Growth: Foreign-Sourced Revenue as % of Total Revenue for S&P 500



Source: Strategas Research Partners.

Developed Markets

Increasingly, U.S. investors don't have to go abroad to invest in emerging markets. Forty percent of the revenues of the firms in the S&P 500 Index now come from outside the United States, up from 32% in 2002. In this index, the energy, technology, and consumer staples sectors all derive more than 50% of their revenues internationally.

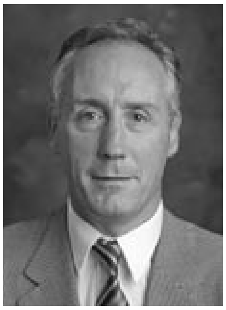
"Many companies facing the challenge of maintaining earnings growth are targeting growth in emerging markets," Mr. Berg says, "from luxury brands tapping into Asia's and South America's growing consumerism to the world's major pharmaceutical companies positioning to be part of China's health care."

While Rob Bartolo, manager of the U.S.-centric Growth Stock Fund, is optimistic about potential returns in U.S. equity markets, he also has increasingly been seeding his portfolio with U.S.-domiciled companies that are operating in faster-growing developing markets.

"The United States is a global leader in technology, health care, and financial services," he says, "and these sectors present opportunities to profit globally—along with investments offering direct exposure to Chinese, Indian, or Brazilian consumers."

Adds Larry Puglia, manager of the Blue Chip Growth Fund, who has relatively little directly invested in emerging markets but whose portfolio has become increasingly exposed to emerging market growth, "When you screen for companies that have really strong growth, you're naturally led to companies that have important operations in these markets."

Insights on International Investing



Chris Alderson has spent the majority of his 23-year investment career living and investing in markets outside the United States—mostly emerging markets. He has observed firsthand the maturation of such developing countries as China, India, Brazil, and Russia into vibrant economies.

Yet the native of the United Kingdom can still recall when emerging market investing evoked a "Wild West" atmosphere, such as the time he had a gun pulled on him by an economic development minister in Malaysia who suspected he was a spy posing as an investment manager.

In April, after a long-planned transition, Mr. Alderson assumed a new role as president of T. Rowe Price International, which manages the firm's international investment portfolios across both developed and developing markets. Following are his views on the current state of these economies and the outlook for investing internationally.

Prospects for Developed Markets

While developed economies in Europe and Asia were also plunged into recession by the financial crisis, they are well on their way to recovery. They have benefited from the massive, coordinated fiscal and monetary stimulus measures enacted by the world's central banks and governments and the resilient growth in emerging economies, especially China. Overall, I don't think we have ever seen such a synchronized global recovery.

We expect the euro zone countries to outperform over the near term because valuations on European equities relative to projected earnings are reasonable, and relative to debt instruments, they have never looked more attractive.

We favor stronger banking franchises that got tarnished unfairly by the credit crunch and industrial companies that are benefiting from demand in the developing world. We also see opportunities in the media sector, such as pay-television operators in the U.K., which have just upgraded their services to high definition and are seeing good, steady growth in subscribers.

Overall, we think the opportunities are better outside the U.S. The valuations are generally more attractive, the opportunity set is far larger, and you have far higher growth, particularly in the emerging world.

The biggest near-term risk is that the recovery stalls and the world sinks into a double-dip recession. Policymakers could tighten monetary policy and raise rates too soon and growth could falter. Consumers remain heavily leveraged, and unemployment continues to rise across Europe. But we expect the economic recovery to continue on track.

Emerging Markets Performance

Last year's emerging market sell-off, as the global financial crisis erupted, was driven more by panic and technical factors than by deterioration in economic fundamentals. (The MSCI Emerging Markets Index plummeted about 50% in 2008 and fell 27.5% in the fourth quarter alone.) The hot money that had moved into emerging markets panicked, and there was a lot of forced selling by hedge funds.

In reality, many emerging economies entered last year's market crisis in much better shape than the more developed countries. In addition to superior rates of gross domestic product (GDP) growth, many developing economies are in better fiscal and monetary shape. Apart from valuations getting quite full, we didn't see fundamental problems in emerging markets.

In fact, this is the first emerging markets crisis that the developing world has been watching from the stands rather than being in the center of the field. Crises in the

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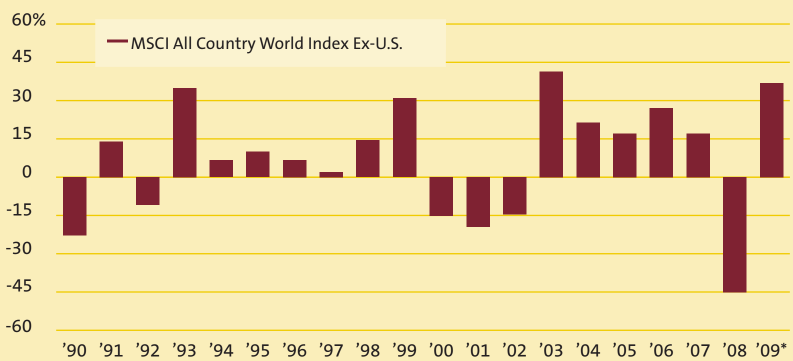
Long-Term Trend in International Stock Market Performance
Annual Total Return



The MSCI All Country World Index (excluding the U.S.) is designed to measure the equity market performance of 44 country indices—half of those reflect emerging markets.

*Through September 2009.
Source: T. Rowe Price. Data provided by MSCI Rimes.

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past usually involved the collapse of emerging markets currencies. The currencies have all been remarkably resilient throughout this downturn.

So when stock markets rallied this year as fear subsided, emerging markets led the rebound. Most markets, though, are still a long way from reaching previous highs, and corporate earnings are recovering strongly. Valuations still look reasonable.

On any longer-term horizon, emerging markets look incredibly attractive, given their much higher growth rates than we see in the developed world. Near-term risks, though, include a return of high inflation, especially in food prices; an increase in protectionism from the developed world; and extended valuations if monetary policy stays loose for a protracted period and money continues to pour into emerging markets.

One of the trends we have focused on is the increasing wealth and prosperity and the emergence of middle classes in many developing countries. As consumers demand more Western-style goods and services, attractive opportunities are created to invest in companies that are leveraged to the faster growth of local markets and are not so dependent on exports for growth.

The durability of growth domestically in emerging markets is also better than that in the developed world. Within China, for example, the fiscal stimulus has been so strong that there has been a big emphasis on infrastructure spending and the railways are being built out much faster. That's a theme we have been playing across our portfolios.

The Indian economy is much less export oriented than China's, and it hardly missed a beat throughout this downturn. Domestic demand there is a much bigger driver of GDP growth.

Emerging Markets Potential

The frontier markets are obviously more volatile, and their sovereign credits are not as strong as the more developed emerging markets. But we think a lot of the Middle Eastern markets have never been more attractive relative to the emerging world simply because they haven't bounced that much off the bottom yet. With oil prices recovering to around $70 a barrel, these economies have begun to rebound, but their stock markets have been slower to recover.

Developing economies have made tremendous strides over the last two decades. Sovereign (credit) ratings are much higher on many of the larger emerging markets than years ago, and they have more stable banking systems, improving political stability, and expanding infrastructure such as roads, transportation, and construction. The larger economies have managed themselves extremely well.

China, for example, has strong economic growth (expected to be more than 8% this year), a trade surplus, and a huge foreign exchange reserve balance. The rapid expansion of China's infrastructure—railways, bridges, and cities—continues unabated.

But China and other emerging markets still have a long way to go. These countries are by no means mature in terms of financial services, homeownership, consumer product purchases, and other areas.

It's worth remembering that GDP per capita (a measure of the total goods and services produced by the average worker) is only about $2,000 annually in China and $665 in India, compared with about $39,000 in the U.S., for example (based on 2008 real GDP at constant exchange rates). So there is still a lot of development to come.

In addition, there is tremendous potential in the so-called "frontier" markets—in Africa, the Middle East, Central Asia, and parts of Latin America—which are still in their formative stages.

These are the emerging markets of the future, and they are probably more comparable to China and Russia 20 years ago.

Investments in emerging markets are subject to abrupt and severe price declines, as well as risks associated with unfavorable currency exchange rates and political or economic uncertainty abroad.

Global Market Returns by Decade

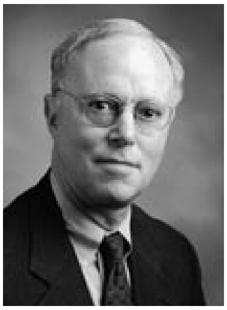
Annualized Total Return in U.S. Dollars

Index	1970s	1980s	1990s	2000s*
U.S. (S&P 500 Index)	5.9%	17.5%	18.2%	-1.6%
International Developed Markets (EAFE Index)	10.1	22.8	7.3	1.4
World ex-U.S.	10.9	21.5	7.4	1.8
Pacific ex-Japan	9.4	12.9	10.0	8.8
Japan	17.4	28.7	-0.7	-3.4
Europe	N/A	N/A	14.5	2.2
Emerging Markets	N/A	N/A	11.0	9.5

*As of September 30, 2009.

Source: Morgan Stanley Capital International indexes.

The Market Recovery and Outlook for Small-Cap Stocks



Jack Laporte, a 40-year veteran in the investment business who has managed the New Horizons Fund since 1987, will turn over management of the fund next March to focus more on other investment responsibilities with the firm. In this interview, he discusses the market environment, the outlook for small-company stocks, and some fundamental insights about investing.

Q: After suffering its steepest decline since the 1930s, the stock market surged 58% from its March 9 low to the end of the third quarter. Is the worst behind us?

A: Well, I thought the markets went too far on the downside and so the unexpectedly sharp recovery makes sense. I strongly feel the market low is behind us. The government pulled out all the stops on both monetary and fiscal policy to create a stimulus and did whatever it could to unfreeze the financial markets. That has worked quite well. I never would have expected the credit markets and the financial markets to have become as frozen as they were in late 2008. It's highly unlikely that we will return to those kinds of stressful financial markets.

The economy appears to have bottomed and should show positive growth again in the next quarter or two. The big question for investors concerns the trajectory of the recovery in 2010 and in 2011. The average person in this country was scared to death by what happened last year. So I expect the consumer to continue to be relatively cautious over the next couple of years. I don't expect a double-dip recession, but the economic recovery may not be as sharp beyond its initial phase as many prior recoveries have been.

Q: Given its surprising ascent already, can the market make further progress in such a sluggish economic scenario?

A: Yes, but I don't think we are going to have a repeat over the next decade of the era of 12% to 15% annual returns in the equity market that we enjoyed for most of the period from 1982 through 2007—25 years. I think we will have a positive return, but investors are going to have to get used to less-than-double-digit returns in the equity markets.

Q: What are the biggest wild cards now?

A: One wild card is the consumer. The other is the credit markets. I feel strongly that things have stabilized, but given last year's experience one has to think about the risk that the credit markets could freeze up again. What happens in the rest of the world is important. We are more connected globally as an economy than we have ever been, and there are encouraging signs that growth in other parts of the world—particularly emerging markets—is going to be pretty robust. That would be really positive and drag us along, if you will.

Small-Cap Stocks

Q: After getting crushed in the bear market, small-cap stocks have led the rebound, rising almost 78% from March 9 to September 30 (based on the Russell 2000 Index). Can that leadership continue?

A: Small-cap stocks had underperformed by quite a wide margin in the downturn, so it's not surprising

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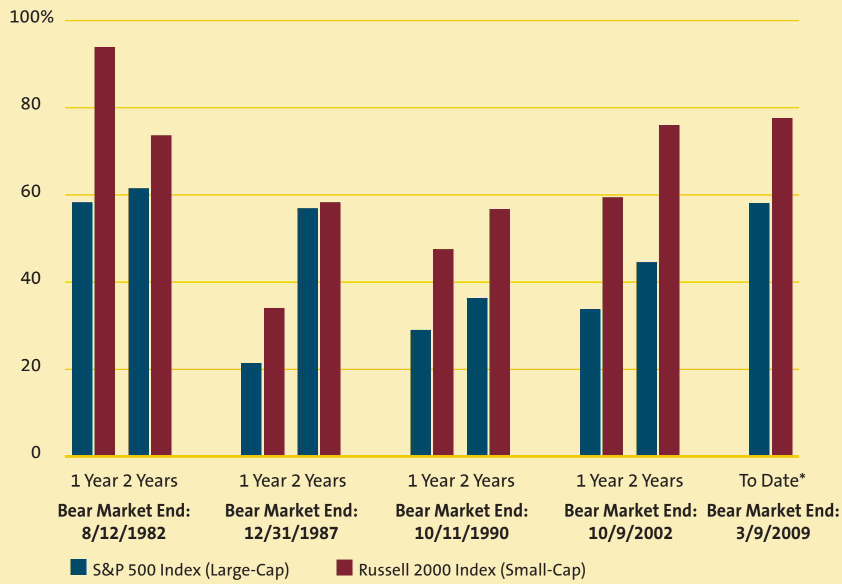
Small-Cap Stock Outperformance Following Bear Markets
Total Return



*As of September 30, 2009.
Source: T. Rowe Price. Data provided by Strategas Research Partners.

Continued from page 7

they have led the market on the way back, and that is the typical pattern, historically, after bear markets. I am generally constructive on the overall market, and if it continues to advance in the next few months, I think small-caps will continue to outperform. But I think the bulk of the outperformance has been achieved. It's a dicier bet than usual to suggest that small-caps will outperform over the next two to three years.

There are two things working against small-cap stocks now—their valuations relative to large-caps and their very weak earnings. This is the worst earnings recession I have seen in my career, and small companies have borne the brunt of it.

Q: How do you view small-company valuations in general?

A: Small-caps really had a long run of strong outperformance from 1999 to May 2006. So even though they got killed toward the end of the bear market, small-cap relative valuations compared with large-caps were not as depressed at the lows in this cycle as they normally are.

On a price/earnings (P/E) basis, small-caps are selling above their historical averages and at a record P/E premium to large-caps. Typically, over long periods of time, small-caps tend to sell at a very modest P/E discount to large-cap stocks. And even though relative valuations look about average on other measures, the P/E-based relative valuations worry me a little.

Q: Do you see the trend in relative earnings for small companies improving as the recovery takes hold?

A: That's the $64,000 question. Historically, small-company earnings get hurt much more in economic downturns because they have fewer buffers than larger companies. They are less diversified and more domestically oriented. But in a domestic recovery, they tend to rebound more rapidly. So yes, I think that they will have a stronger advance than large-cap earnings from the lows, but they darn well need that to justify their premium P/E valuations and to continue to outperform.

Investment Strategy

Q: Technology represents the fund's largest sector weighting and has rebounded strongly. What is your current view of the sector?

A: We were adding to tech last year, and that turned out to be premature. But I felt that tech would be a better way to play the eventual cyclical recovery in the economy than the consumer side. Tech has more fundamental growth drivers and tailwinds, whether it is Internet adoption and all the related ripple affects of that or PC growth or mobile computing. There are a lot of smaller technology companies that are playing off of those growth themes.

What made the sector even more compelling is that relative valuations for technology last year got to their most attractive levels that I had seen in probably 15 years. Investors had the rare opportunity to participate in the faster growth potential that technology offers without paying a premium for it.

With the robust recovery in most tech companies, the relative valuation argument isn't quite as compelling, but it remains an attractive area. I have more confidence in the earnings outlook for technology companies versus other sectors.

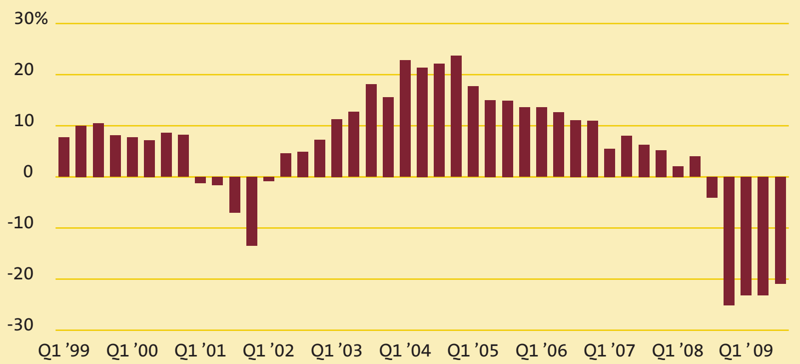
Q: With the uncertainty over health care reform, that sector has underperformed the market this year, but it represents your second-largest sector. How are you navigating it?

A: Well, it's challenging, but my bet is that the bite of health care reform, if it comes, will not be as dire as the market is assuming. Second, given the declines in the stocks, the relative valuations of many health care companies are quite appealing. There are opportunities in companies that have been under pressure but don't face as much risk as investors think, such as health care distribution companies like Henry Schein, my largest holding.

I also like companies that could benefit from some potential changes. It's clear that technology spending in just about every segment of health care could increase dramatically, so

Small-Company Earnings Suffer Steep Declines

Small-Cap Earnings Have Turned Even More Negative Than Large-Caps



This chart shows the quarterly percentage change in median operating earnings over the prior year for 1,200 small-cap companies with market capitalizations ranging from $195 million to $950 million.
Source: The Leuthold Group.

companies that offer innovations in technology are well positioned, such as Eclipsis and MedAssets. Companies that serve the Medicaid market should also benefit because, in just about any scenario, one way to help reduce the number of uninsured people is to boost the number eligible for Medicaid programs through the states. Amerigroup and Centene should be big beneficiaries.

Q: Are you finding any opportunities in the consumer sector?

A: A lot of damage has been done in that sector, and I have struggled to find companies that have significant organic growth opportunities over the next five to seven years. I don't see as many exciting new retailing businesses. But I do like the for-profit educational sector. A clear priority of President Obama and the country is higher education. So I have built up a sizable position in companies that stand to benefit from bringing more people into post-secondary education—primarily through online education. Several public companies offer high-quality online programs for college and graduate degrees, such as Apollo Group, Capella Education, and Corinthian Colleges.

Let Your Winners Run

Q: Your investment approach throughout your career has been to hold some growth companies for extended periods, often many years. Why is this so important?

A: Finding true growth companies is not an easy task. But when we're fortunate enough to find companies that have the potential to grow their earnings at well-above-average rates for five to 10 years or even more, the thing that distinguishes a great growth investor is having the steel will not to trade out of those winning investments too soon. Let your winners run, and let the compounding of earnings growth work in your favor. I think we do best for our clients being long-term investors and not short-term traders. The real way for investors to make money is to find outstanding companies and own them for a long time, even if in the short run the valuation looks somewhat extended. If you have high compound earnings growth working for you, that will overcome any short-term overvaluation.

Q: The fund's investment in Wal-Mart Stores exemplifies that.

A: There are several investments that have been in the fund for a long time, but the Wal-Mart experience shows the value of letting your winners run when you find a unique growth company. The fund bought the stock at its initial public offering in 1970 and held it until 1983 when we sold it because it had outgrown our small-company charter. Of course, Wal-Mart continued to be a very successful company and remains one of the largest retailers in the world.

Q: Do you think investors tend to sell their winners prematurely?

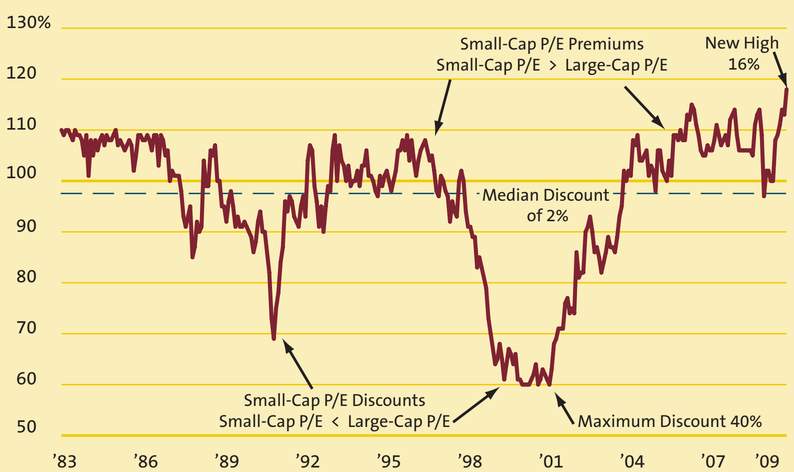
A: I do think that's a trap many investors fall into. You may have an investment that has gained 50% or 100% and you say, wow, I better move on to something else. Well, if it's a company with a superior management and business model, the worst thing you can do is trade out of it because you think it looks 10% overvalued in the short run.

The pressure in our business to be short-term oriented and to get caught up in quarterly earnings is a trap that is hard even for many portfolio managers and analysts to avoid. You certainly can't ignore quarterly earnings, but it's far more important to think longer term about what are the great businesses that you want to own, and not to let the short-term noise disrupt a good long-term philosophy.

The securities mentioned in this article composed 3.9% of the New Horizons Fund as of September 30, 2009.

Small-Caps Remain Expensive

Historical Ratio of Small-Cap to Large-Cap Price/Earnings (P/E) Ratio
January 31, 1983, to September 30, 2009



Source: The Leuthold Group.

Perspectives

The Perils of Prolonged, Spiraling U.S. Budget Deficits

By Alan Levenson, T. Rowe Price Chief Economist

The near-term outlook for the federal budget has deteriorated sharply over the last year. Only a year ago, even as the deficit for the 2008 fiscal year came in at a record $458 billion, the Congressional Budget Office (CBO) projected that the budget shortfall would narrow to $174 billion in 2017 and that the ratio of debt to gross domestic product (GDP) would slip roughly two percentage points to 36%, compared with a long-term average of 31%.

At about the same time, of course, the U.S. economy plunged into a deep recession. Projected tax revenues were marked down in tandem with the five-year economic assessment, as well as to reflect last winter's tax relief measures.

Meanwhile, near-term spending estimates rose to reflect the impact of the $787 billion stimulus package and increased income support payments in a weaker economic environment.

After peaking at roughly $1.4 trillion in fiscal year 2009, the budget deficit is still projected to narrow over the next eight years but would nonetheless exceed $600 billion in 2017, according to the CBO. By these projections, the debt-to-GDP ratio would rise to 68%.

Large and persistent budget deficits are a legitimate cause for concern. The federal budget balance is a component of national saving; a budget deficit reduces national saving. And because saving equals investment, budget deficits reduce the pool of funds available for investments that underpin productivity growth and rising standards of living.

Indeed, the greater growth potential made possible by such capital investments increases the government's revenue-generating capacity, capping future deficits in turn.

If the budget deficit reduces domestic saving relative to domestic investment, then interest rates may rise as government borrowing competes with the private demand for credit to finance private investment. And to the extent that domestic saving falls short of domestic investment, foreign saving flows must fill the gap.

Increased dependence on foreign capital inflows puts the exchange value of the dollar at risk. If the U.S. need for foreign funding exceeds foreign demand for dollar-denominated assets, then the value of the dollar will tend to decline. This raises the cost of imports and reduces the U.S. standard of living.

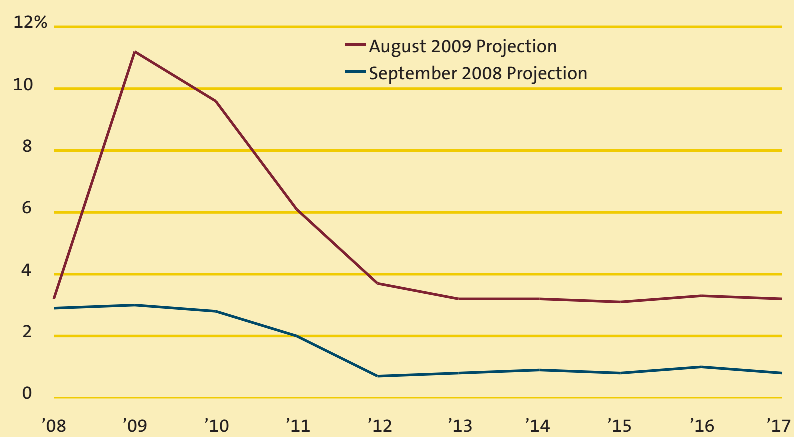
Notwithstanding these legitimate concerns, even as U.S. debt outstanding has surged from $4.9 trillion a year ago to $6.9 trillion currently, interest rates are lower now than they were a year ago, and the value of the dollar is essentially unchanged relative to a broad basket of currencies. How is this possible?

More Savings, Less Investment

While government borrowing (or dissaving) has soared, an increase in private saving, particularly in the form of a higher personal saving rate, has provided an offset. And while total domestic saving has nonetheless declined because of government borrowing, so too has domestic investment—housing construction, business plant and equipment purchases, and inventory levels—so that the need for foreign capital inflows has actually declined over the past year.

Beyond these short-term business cycle developments, the U.S. Treasury benefits from the dollar's status as the world's leading reserve currency. Even as the U.S. economy plunged last fall and Treasury borrowing soared, interest rates on Treasury securities fell sharply and the dollar rallied as foreign investors sought the safe haven of dollar-denominated assets.

Budget Deficit Projections
Percent of GDP



Source: Congressional Budget Office.

Over time, there is a natural demand for U.S. Treasury debt: 65% of the world's foreign exchange reserves are denominated in U.S. dollars. In this context, a U.S. budget deficit of some magnitude is beneficial to the world financial system, sustaining a steady supply of risk-free assets (Treasury securities) in which to hold dollar reserves.

These factors may delay the impact of mounting debt on the U.S. credit markets and economy but cannot eliminate them. As the economic recovery gains strength, investment demand will rise, while personal and business saving rates will stabilize. If the budget deficit—federal dissaving—does not decline, the current account trade deficit will begin to widen again.

This dynamic would result in upward pressure on interest rates and downward pressure on the dollar. To be sure, the Treasury would continue to tap into an underlying foreign demand for dollar assets. But, while this source may support a budget deficit of 2% to 3% of U.S. GDP, the current 8% to 10% range is likely beyond the pale.

Of course, it is possible that the economy will recover more quickly than the CBO projects. The rebound forecast for 2010–2012 is mild relative to the depth of the recession that preceded it. A stronger recovery would generate stronger tax revenues, reduce income support payments, and yield narrower budget deficits in the near term.

Yet this seemingly felicitous scenario would carry its own dangers, because it could reduce the sense of urgency with which policymakers need to address long-term budget challenges.

The Big Issues

The big challenges facing the federal budget do not emanate primarily from the impact of the 2007–2009 recession. To be sure, the recession and the fiscal policy response to it have boosted debt and added to interest costs. Yet even as the projected cumulative seven-year budget deficit through 2015 has risen to $6.1 trillion from $1.8 trillion a year ago, interest costs to service that debt in 2015 are projected at just 3% of GDP (up from 1.9% projected a year ago).

In contrast, Medicare, Medicaid, and Social Security payments are slated to rise from $1.3 trillion in 2008 to $1.9 trillion in 2015, or from 8.9% to 10.6% of GDP. The CBO projects that an aging population and increased expenditures per Medicare/Medicaid beneficiary will quicken the pace of growth in these programs in absolute terms and relative to the size of the economy.

Under current law, these three entitlement programs will account for 13% of GDP in 2025 and 15.6% in 2035. All other non-interest expenditures are projected to fall from 9.2% in 2015 to 8.5% in 2025 and to hold at that level through 2035.

Thus, as the CBO put it in a June report, "reducing overall government spending relative to what would occur under current fiscal policy would require fundamental changes in the trajectory of federal health spending. Slowing the growth rate of outlays for Medicare and Medicaid is the central long-term challenge for federal fiscal policy."

An Unsustainable Path

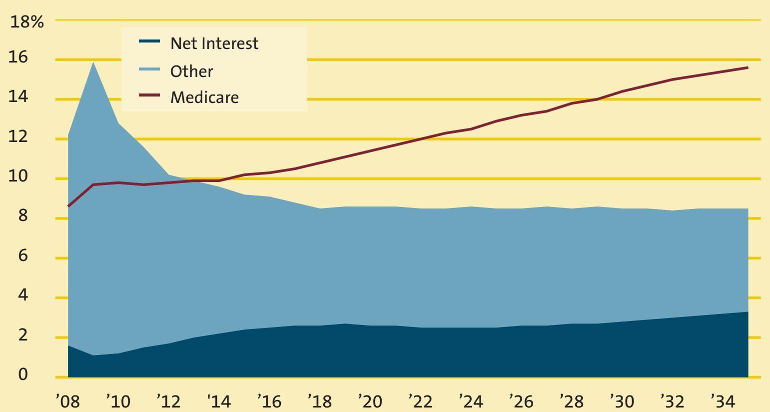
The United States may be able to skirt the dangers associated with swollen budget deficits over the next year or so because private investment plans and borrowing needs are so restrained. And the budget need not be balanced. The dollar's reserve currency status creates a steady world market for U.S. Treasury debt, plus interest costs are relatively low.

But, over the longer term, current commitments to an aging population, particularly for medical care, put the budget on an unsustainable path, with debt continuing to grow faster than the economy.

This specter threatens to reduce national saving and domestic investment and to increase borrowing from abroad, all of which would depress income growth in the U.S. Just as the problem is likely to grow over time, steps taken now to rein in costs would gather force over time and could thus be less onerous than if action is delayed until an even bigger crisis than the current recession emerges.

Medicare Driving Projected Budget Deficits

Deficit Components as % of GDP



Source: Congressional Budget Office.

Evaluating the New Roth IRA Conversion Opportunity

Starting next year and in subsequent years, investors will have the option of converting all or part of their money from a Traditional individual retirement account (IRA) into a Roth IRA regardless of how much they earn. Currently, such conversions can be done only by those with modified adjusted gross incomes of $100,000 or less.

This change is especially timely, given the growing number of baby boomers retiring in the near future and likely rolling over their nest eggs from their 401(k) accounts into IRAs. Whether you are years from retirement or approaching retirement, you may find it worthwhile to consider a Roth IRA conversion—either for yourself or to potentially leave tax-free assets to heirs.

The advantages include: (1) the converted assets—"the principal"—in the Roth IRA can be withdrawn tax-free at any time, (2) any future earnings in the account are also tax-free (with some limitations), and (3) the account owner will not be required to take any minimum distributions in retirement.

However, the taxable amount of a Traditional IRA (earnings plus

Keeping Assets in a Traditional IRA vs. Converting to a Roth IRA

				In Retirement			
		Pretax Value at Retirement (Age 65)		Cumulative After-Tax Value of Withdrawals (Age 65–95)		After-Tax Remaining Balance (Age 95)	
		Traditional IRA	Roth IRA	Traditional IRA	Roth IRA	Traditional IRA	Roth IRA
Example 1		$114,366	$114,366	$178,235	$217,641	$51,046	$120,834
45 year old $25,000 IRA Taxes: $7,188	Taxable Side Account*	24,755	N/A	40,674	N/A	6,281	N/A
	Total	**139,121**	**114,366**	**218,909**	**217,641**	**57,327**	**120,834**
				Total Roth Advantage in Retirement			***$62,238***
Example 2		$105,947	$105,947	$165,114	$201,619	$47,288	$111,939
55 year old $50,000 IRA Taxes: $14,375	Taxable Side Account*	26,475	N/A	45,950	N/A	6,718	N/A
	Total	**132,422**	**105,947**	**211,064**	**201,619**	**54,006**	**111,939**
				Total Roth Advantage in Retirement			***$48,489***
Example 3		$100,000	$100,000	$155,846	$190,302	$44,634	$105,655
65 year old $100,000 IRA Taxes: $28,750	Taxable Side Account*	28,750	N/A	59,929	N/A	8,147	N/A
	Total	**128,750**	**100,000**	**215,774**	**190,302**	**52,781**	**105,655**
				Total Roth Advantage in Retirement			***$27,402***

Assumptions: The examples assume no additional IRA contributions are made, an 8% annual rate of return before retirement at age 65 and a 6% rate thereafter, and an ordinary federal income tax rate of 25% before and after retirement with a state tax rate of 5% for a combined effective rate of 28.75%. The conversion pushes the 65-year-old investor into a higher tax bracket in the year of conversion only. Net income and long-term gains in the taxable side account are subject to a federal tax rate of 15% and a state rate of 5% for a combined effective rate of 19.25%. All Roth IRA withdrawals are free of taxation; all Traditional IRA withdrawals are subject to federal and state taxes. Withdrawals are made over a 30-year period with 4% withdrawn the first year and the annual withdrawal amount increased by 3% each year for inflation. Withdrawals from the Traditional IRA take into account required minimum distributions. Also, all Traditional IRA contributions are deductible, and therefore the entire conversion amount is subject to taxes.

*We assume that the taxes due on the amount converted are paid from a separate taxable account. Therefore, to do a valid comparison, the taxable side account reflects the value of keeping the "tax savings" that would have been paid in the IRA conversion invested in this separate taxable account, growing at the same rates of return and withdrawals as noted above. The advantage of a Roth IRA would be considerably greater, of course, if these "tax savings" had been spent rather than invested.

Source: T. Rowe Price.

deductible contributions) converted to a Roth IRA is subject to current taxation. So investors must examine whether it is worthwhile to go through this tax tollbooth today so they can withdraw earnings from a Roth IRA income tax-free during retirement or perhaps leave those assets to heirs who would avoid taxes on the earnings as well.

Given that the values of many IRAs are depressed by the recent financial crisis and that some investors expect tax rates to increase, a Roth conversion could pay off in the long run.

Among the general findings of a new T. Rowe Price analysis of this Roth IRA conversion opportunity:

- "As a general rule of thumb, the further you are away from drawing down from your IRAs—for income or required minimum distributions—the more advantageous prepaying taxes to convert to a Roth IRA will be because there are more years to potentially grow and compound earnings tax-free," says Christine Fahlund, a senior financial planner for the firm.
- The investor's potential tax bracket in retirement is also important. If the investor's tax rate drops significantly after retirement, it may not be as beneficial to convert since the investor would be paying taxes on any earnings (and deductible contributions) at a higher rate now. But if the tax rate rises, converting now may be more attractive since taxes due as a result of the conversion would be paid at the lower current rate, while withdrawals from the Traditional IRA in retirement would be taxed at a potentially higher rate. In this sense, Ms. Fahlund says a partial conversion made today could be viewed as a hedge against possible increases in income tax rates later, or as a "tax diversification" strategy.

> ***"Investors must carefully weigh the upfront tax costs against the long-term tax advantages."***

- For investors who convert Traditional IRA assets to a Roth IRA and do not intend to take retirement withdrawals from the Roth IRA unless needed for late-in-life emergencies, a conversion provides the opportunity to turn a relatively small amount of savings into a surprisingly sizable bequest to their heirs.
- In any case, for the Roth IRA conversion to be most advantageous, any taxes due on the amount converted should be paid from a separate taxable account and not from the IRA itself.

To Convert or Not to Convert

To examine the potential benefits of a Roth IRA conversion, here are some hypothetical cases of investors who are planning for or entering retirement.

The chart on page 12 summarizes the results for three investors, ages 45, 55, and 65, planning to convert $25,000, $50,000, and $100,000, respectively, to a Roth IRA. In each case, the investor expects to rely on withdrawals from the accounts for income in retirement.

When converted, the Traditional IRA assets are subject to taxation because they consist of deductible contributions and earnings, and the taxes due on the conversion are paid from a separate taxable account.

Assuming tax rates remain the same after retirement, all three investors would modestly benefit overall from the conversion in the long run—and the more years from retirement, the greater the benefit.

The assumptions used in this model result in a long-term after-tax advantage of about 10% for the retiree converting at age 65. However, the 55- and 45-year-old individuals could achieve long-term after-tax advantages of about 18% and 22%, respectively.

Keep in mind that the taxable amount converted into the Roth IRA is considered taxable income, so it is possible that a large conversion could push the investor into a higher tax bracket for a particular year, increasing the tax due on the converted amount.

Continued on page 14

Building a Tax-Free Nest Egg for Yourself

Value that could be accumulated in a Traditional IRA versus a Roth IRA by a 45-year-old investor who converts $25,000 to a Roth IRA by paying $7,188 in taxes from a taxable account

Age of IRA Owner	Value of Traditional IRA*	Balance in Roth IRA	Roth IRA Advantage Over Traditional IRA
75	$175,448	$204,812	$29,364
80	219,677	274,085	54,408
85	267,295	366,788	99,492
90	316,359	490,844	174,486

Assumptions for tax rates and rates of return are the same as those used for the exhibit on page 12.

*Value of the Traditional IRA includes the sum of cumulative after-tax required minimum distributions, the after-tax value of the account, and the after-tax value of the taxable side account.

This taxable side account was funded with the taxes that would have been paid if the investor did the Roth conversion.

Source: T. Rowe Price.

Evaluating the New Roth IRA
Continued from page 13

The 65-year-old investor in this example, for instance, saw her combined marginal federal/state tax rate jump from 28.75% to 31.60% for one year as a result of the $100,000 conversion.

> *"A Roth IRA is one of the most valuable assets people can leave their children or grandchildren."*

That is one reason investors might prefer to convert portions of their Traditional IRA over several years, rather than doing it all in one year. This approach may enable investors to avoid a big jump in tax liability in a single year. (See article on page 15 for special 2010 tax rules.)

Building a Tax-Free Nest Egg

While a Roth IRA conversion may not provide substantial additional benefits for investors who consider their IRAs a source of steady income in retirement, it could prove extremely worthwhile for those who can afford to accumulate a fund for possible emergency expenses later in retirement or possibly leave tax-free assets to their beneficiaries.

For example, what if the 45 year old making a $25,000 Roth IRA conversion (as detailed in the chart on page 12) made no withdrawals from the account? (A Roth IRA is exempt from required minimum distributions (RMDs), which the owner of a Traditional IRA must take upon reaching age 70½ and for each year thereafter.)

By age 85, the balance in the Roth IRA would have grown to more than $366,000 (See chart on page 13), or about $100,000 more than the balance in the Traditional IRA if the conversion had not been made.

Passing on a Roth IRA to Heirs Could Reap Huge Benefits

In this example, the owner of a Roth IRA who converted $100,000 from a Traditional IRA at age 65 by spending $28,750 in income taxes passes away at age 85.

Since she took no distributions, the balance in the account grew to $320,714, which she leaves to her son, age 55, in the year following the year of the owner's death.

The table shows the total benefits to the beneficiary at various ages from the inherited Roth IRA.

The analysis assumes the beneficiary only withdraws required amounts each year, though he may always withdraw more than the required minimum distributions (RMDs) at any time. The other assumptions are the same as in the exhibit on page 12.

Age of Roth IRA Beneficiary	Cumulative Tax-Free Distributions	Remaining Roth IRA Balance	Total Roth IRA Benefit	Advantage Over After-Tax Traditional IRA*
65	$183,446	$477,225	$660,672	$296,619
70	329,132	475,564	804,696	360,776
75	528,318	413,498	941,816	426,990
80	804,481	244,452	1,048,932	482,105
85	1,086,191	0	1,086,191	510,964

Dollar amounts have not been adjusted for inflation to reflect current purchasing power.

Note: While RMDs are required from inherited Roth IRAs, the amounts distributed are not taxable.

*Reflects sum of cumulative after-tax withdrawals and balances.

The value of the Traditional IRA includes the earnings in a separate taxable account funded by the tax savings, or the amount that would have been paid in taxes if the conversion was not made. This taxable account is not subject to RMD rules but such withdrawals were made for this comparison.

The assumed tax rates and rates of return are the same as in the exhibit on page 12.

This money could provide a comfortable cushion for unexpected expenses late in retirement.

A Bonanza for Beneficiaries?

The Roth IRA could provide a significant advantage over a Traditional IRA if it turns out the owner did not need the money and leaves it to beneficiaries.

Non-spouse beneficiaries of an inherited Roth IRA are required to take RMDs from the account over their own remaining actuarial life expectancy (certain conditions apply). But such distributions over this extended period may be income tax-free, whereas all earnings and deductible contributions withdrawn from an inherited Traditional IRA are taxable to the beneficiary. Beneficiaries can take more than the minimum amount at any time.

If the 45-year-old investor used in previous examples died at 85 and bequeathed the $366,000 accumulated in the Roth IRA to a 55-year-old child beneficiary, the total Roth IRA benefit could be more than $1 million by the time this beneficiary reached 75 (assuming only RMDs were taken from the account and using the same return assumptions noted in the chart on page 12). This would be almost double the amount left in the Traditional IRA.

If the money were left to a 25-year-old grandchild instead of the 55-year-old child, it could grow to as much as $4.6 million by the time the grandchild reached 65 compared with $2.3 million from a Traditional IRA, applying the same assumptions.

This strategy could also prove extremely worthwhile even for older investors entering retirement who may be much more certain they want to carve out a tax-free bequest for heirs.

Consider the hypothetical 65-year-old investor who converts $100,000 to a Roth IRA and pays the $28,750 in taxes from a separate account. If she takes no distributions, she will have an account balance of more than $320,000 by age 85 (using the same return assumptions as in the chart on page 12).

If she dies at that age and leaves the money to a 55-year-old child, for example, it could provide more than $1 million in cumulative tax-free distributions and the remaining account balance after 25 years. That would be more than twice as much as if the money had remained in the original Traditional IRA. The potential benefit, at various ages of the beneficiary, is reflected in the chart on page 14.

"A Roth IRA is one of the most valuable assets people can leave their children or grandchildren," Ms. Fahlund says. "The investments are tax-sheltered, the income can be tax-free, and, after the death of the Roth IRA account owner, those who inherit the assets can make withdrawals based on their life expectancies, generally to age 80 or older."

While the benefits of a Roth IRA conversion could be considerable, investors must carefully weigh the upfront tax costs against the long-term tax advantages. Those considering a conversion should consult their tax advisors for the best strategy.

For more information about Roth IRAs and Roth IRA conversions, please see troweprice.com/rothira. The Morningstar IRA calculator tool available at troweprice.com/IRA also can help investors gain perspective as to whether a Roth IRA conversion may be worthwhile.

Online With Niall Ferguson

T. Rowe Price will sponsor a free, interactive online lecture and live Q&A with renowned financial historian and award-winning author Niall Ferguson on November 24 at 6:00 p.m. ET at www.thirteen.org/troweprice. The program, open to anyone, will feature a discussion on the U.S. economy in a global context.

Dr. Ferguson, a professor at Harvard Business School, is the author of several widely acclaimed books, including "The Ascent of Money," which was adapted for a series that aired on the Public Broadcasting System and was sponsored by T. Rowe Price.

Roth IRA Conversion Basics

If you are considering converting assets from a Traditional IRA to a Roth IRA, here are some nuts and bolts to keep in mind:

- A key advantage is that the amount converted from a Traditional IRA and any future earnings in the Roth IRA can be withdrawn tax-free in retirement (after age 59½) if the account has been established for at least five years. Beneficiaries inheriting a Roth IRA also may be able to take distributions tax-free.
- The investor must pay income taxes on the taxable amount of the Traditional IRA (earnings plus any deductible contributions) converted to a Roth IRA. In 2010 only, investors who complete a Roth IRA conversion will have the option of paying taxes due on the conversion for that tax year or spreading these taxes equally between the 2011 and 2012 tax years. If tax rates remain the same or decline after 2010, it would most likely be advantageous to delay the tax payment for a Roth IRA conversion completed in calendar year 2010. If tax rates rise modestly after 2010—as they are set to do unless Congress passes a new tax law next year—it may be better to pay the tax for a 2010 conversion for the 2010 tax year, assuming the conversion itself does not push the investor into a higher tax bracket in 2010. Because taxes due on a Roth IRA conversion completed in 2010 would not be payable until April 15, 2011, the investor should know by then what new tax rates, if any, are in effect and make the decision about when to pay the tax at that time. (The actual conversion must take place on or before December 31, 2010.)
- The taxable portion of the amount converted from a Traditional IRA is calculated based on all the investor's Traditional IRAs—not just the one that may be tapped for conversion. So if the investor had made any nondeductible contributions to a Traditional IRA, the portion of any conversion that is not subject to tax would be the total of after-tax contributions to all her Traditional IRAs divided by the total value of all the Traditional IRAs at the time the conversion is made. The same rule applies to any additional Roth IRA conversions made in subsequent years.
- To minimize the tax impact in any one year, the investor can do several partial conversions spread out over different tax years, but only conversions in 2010 are eligible for a delay in paying taxes due on conversion.
- Those who make a Roth IRA conversion can later nullify it and "recharacterize" the amount converted to a Traditional IRA (certain restrictions apply).
- No required minimum distributions (RMDs) must be made from a Roth IRA during the account owner's lifetime. In a Traditional IRA, RMDs must be taken beginning the year the investor reaches age 70½ and each year thereafter.

Global Stocks and Bonds Rally on Economic Recovery Hopes

U.S. stocks stormed higher in the third quarter, extending the extraordinary rally that started in early March. Markets benefited from indications that the U.S. economy could soon emerge from the longest and deepest recession since the Great Depression. Investors were also encouraged by signs of stabilizing residential real estate markets in some cities and by corporate earnings reports that were generally better than expected.

Equity Review

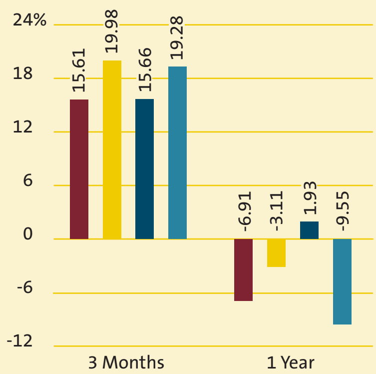
Higher-Risk Securities Pace the Advance

Mid- and small-cap shares outpaced their large-cap counterparts. As measured by various Russell indexes, value stocks fared better than growth across all market capitalizations, particularly among small- and mid-caps. Since reaching their lows in early March, most major U.S. stock indexes have jumped roughly 50% to 75% through September 30. The major indexes are about 25% to 35% below their 2007 highs, however.

In the U.S. stock market, as measured by the Wilshire 5000 Total Market Index, all major sectors produced gains, led by materials, financials, consumer discretionary, and industrials and business services. These sectors were perceived as benefiting significantly from an economic recovery. Stocks in defensive sectors such as consumer staples and health care lagged somewhat as investors continued to seek cyclical shares as well as riskier investments with greater return potential. Utilities and telecommunication services shares trailed with relatively mild gains.

Non-U.S. stocks rose sharply in the third quarter, helped in part by the U.S. dollar's weakness versus most other currencies. Emerging markets outperformed developed markets, led by countries in emerging Europe. Among developed markets, European bourses produced excellent returns, but Japanese shares lagged with relatively mild gains.

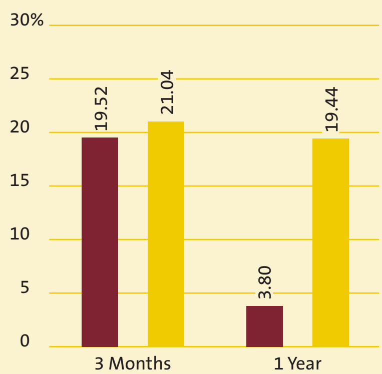
U.S. Stock Market Performance



Total Returns for Periods Ended September 30, 2009

- S&P 500 Stock Index
- S&P MidCap 400 Index
- Nasdaq Composite Index
- Russell 2000 Index

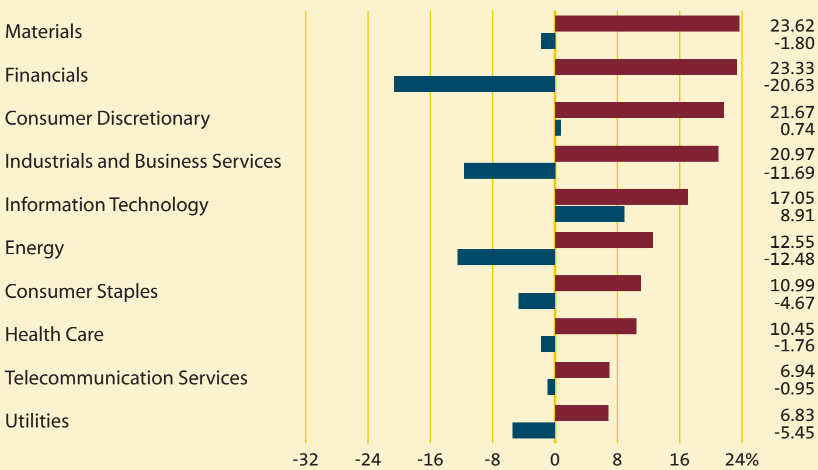
International Stock Market Performance



Total Returns for Periods Ended September 30, 2009

- MSCI EAFE Index (Europe, Australasia, Far East)
- MSCI Emerging Markets Index

Performance of Wilshire 5000 Series



- 3 Months
- 1 Year

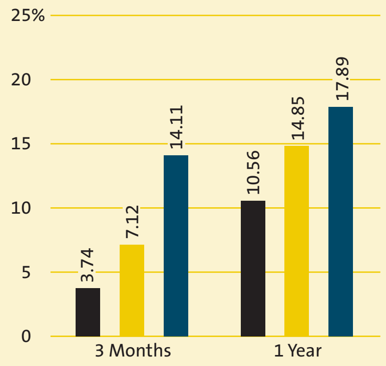
Total Returns for Periods Ended September 30, 2009, Ranked by Highest to Lowest Quarterly Return

Investors Embrace Credit Risks, Seek Higher Yields

Domestic bond returns were favorable as U.S. Treasury interest rates declined across all maturities and investors continued to show interest in fixed income sectors with a significant yield advantage over securities with less credit risk. High yield bonds fared best, and commercial mortgage-backed securities produced strong returns due to support from federal government programs designed to increase liquidity in the sector. Long-term investment-grade corporate bonds and municipal securities also did very well. Agency mortgage-backed securities and shorter-term U.S. Treasuries trailed with relatively modest gains.

Non-U.S. bonds performed very well in the third quarter. Emerging markets debt did best as investors continued to seek higher yields and higher returns from riskier asset classes. High-quality bonds issued in developed countries lagged somewhat but still performed well in dollar terms as returns to U.S. investors were boosted by the dollar's weakness versus other currencies.

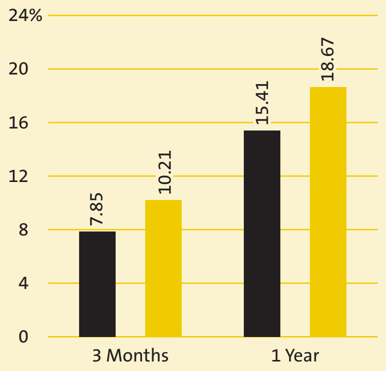
U.S. Bond Market Performance



Total Returns for Periods Ended September 30, 2009

- Barclays Capital U.S. Aggregate Index
- Barclays Capital Municipal Bond Index
- Credit Suisse High Yield Index

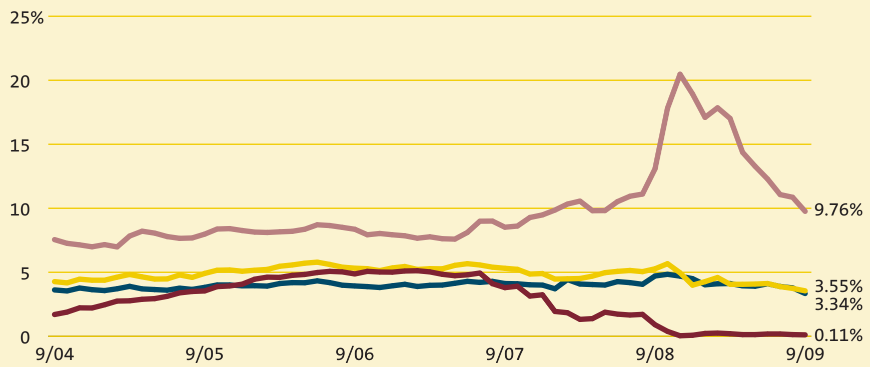
International Bond Market Performance



Total Returns for Periods Ended September 30, 2009

- Barclays Capital Global Aggregate ex U.S. Dollar Bond Index
- J.P. Morgan Emerging Markets Bond Index–Global

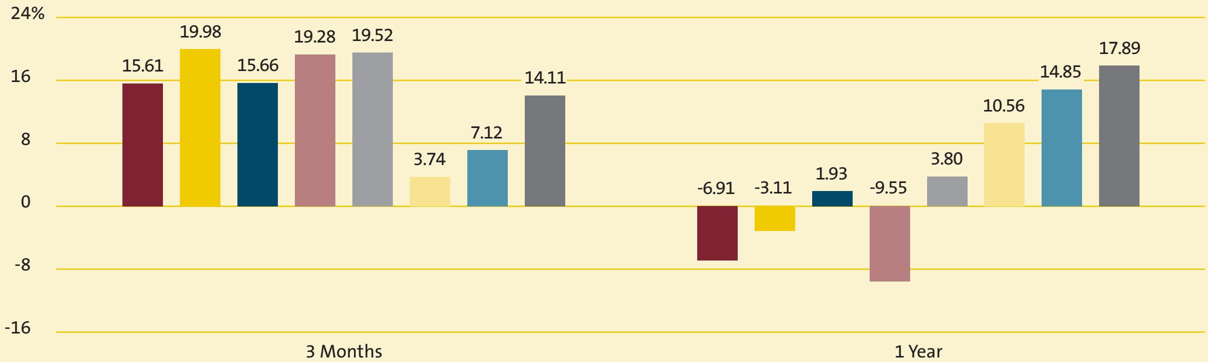
Trends in Interest Rates



- Credit Suisse High Yield Index*
- Barclays Capital Municipal Bond Index*
- 90-Day Treasury Bills
- Barclays Capital U.S. Aggregate Index*

* Yield-to-worst.

Stock and Bond Market Performance



Total Returns for Periods Ended September 30, 2009

Unlike stocks, U.S. government bonds are guaranteed as to the timely payment of interest and principal.

- S&P 500 Stock Index
- S&P MidCap 400 Index
- Nasdaq Composite Index
- Russell 2000 Index
- MSCI EAFE Index
- Barclays Capital U.S. Aggregate Index
- Barclays Capital Municipal Bond Index
- Credit Suisse High Yield Index

The performance information presented here includes changes in principal value, reinvested dividends, and capital gain distributions. *Current performance may be lower or higher than the quoted past performance, which cannot guarantee future results. Share price, principal value, yield, and return will vary, and you may have a gain or loss when you sell your shares. To obtain the most recent month-end performance, call us at 1-800-225-5132 or visit our Web site.* Funds are placed in alphabetical order in each category. To learn more about each fund's objective and risk/reward potential visit troweprice.com/mutualfunds. There is no assurance past trends will continue.

Stock Funds — Domestic

	Ticker Symbol	3 Months	1 Year	3 Years	5 Years	10 Years or Since Inception	Inception Date	Redemption Fee	Redemption Fee Period	Expense Ratio	Expense Ratio As of Date
Blue Chip Growth	TRBCX	13.66%	-0.60%	-3.07%	1.79%	0.41%	(6/93)			0.80%	12/31/08
Capital Appreciation	PRWCX	11.06	2.73	0.74	4.95	8.66	(6/86)			0.74	12/31/08
Capital Opportunity	PRCOX	15.06	-4.77	-4.31	1.59	1.04	(11/94)			0.79	12/31/08
Diversified Mid-Cap Growth	PRDMX	17.69	-0.40	-1.66	3.54	3.27	(12/03)			1.23	12/31/08
Diversified Small-Cap Growth	PRDSX	18.60	-2.95	-1.43	3.21	2.04	(6/97)	1.0%	90 days	1.38	12/31/08
Dividend Growth	PRDGX	12.82	-5.11	-3.00	2.43	2.32	(12/92)			0.73	12/31/08
Equity Income	PRFDX	17.94	-7.16	-5.27	1.44	3.67	(10/85)			0.71	12/31/08
Equity Index 500	PREIX	15.48	-6.96	-5.61	0.79	-0.40	(3/90)	0.5	90 days	0.37	12/31/08
Extended Equity Market Index	PEXMX	19.48	-4.33	-3.07	3.82	3.72	(1/98)	0.5	90 days	0.41	12/31/08
Financial Services	PRISX	21.33	1.41	-9.28	-0.80	5.60	(9/96)			1.00	12/31/08
Growth & Income	PRGIX	14.37	-4.04	-3.71	1.45	1.40	(12/82)			0.73	12/31/08
Growth Stock	PRGFX	14.00	0.27	-3.71	2.45	2.03	(4/50)			0.73	12/31/08
Health Sciences	PRHSX	13.33	0.65	3.70	7.36	9.45	(12/95)			0.86	12/31/08
Media & Telecommunications†	PRMTX	23.67	15.86	4.44	12.67	7.89	(10/93)			0.90	12/31/08
Mid-Cap Growth	RPMGX	19.08	3.63	1.27	6.27	7.10	(6/92)			0.83	12/31/08
Mid-Cap Value	TRMCX	22.36	6.45	0.00	5.82	10.16	(6/96)			0.83	12/31/08
New America Growth	PRWAX	14.67	4.58	1.36	3.95	0.79	(9/85)			0.91	12/31/08
New Era	PRNEX	18.32	-8.77	2.76	9.69	10.83	(1/69)			0.66	12/31/08
New Horizons	PRNHX	18.54	1.37	-1.83	4.15	5.42	(6/60)			0.84	12/31/08
Real Estate	TRREX	33.73	-25.95	-13.26	1.89	10.19	(10/97)	1.0	90 days	0.75	12/31/08
Science & Technology	PRSCX	17.69	16.12	2.44	4.62	-5.80	(9/87)			1.00	12/31/08
Small-Cap Stock	OTCFX	20.38	0.48	-2.69	3.52	7.15	(6/56)			0.93	12/31/08
Small-Cap Value	PRSVX	17.04	-9.51	-2.42	4.10	10.65	(6/88)	1.0	90 days	0.92	12/31/08
Tax-Efficient Equity Fund††											
Returns before taxes	PREFX	15.27	-3.52	-3.12	1.67	0.47	(12/00)	1.0	365 days	1.46	2/28/09
Returns after taxes on distributions		—	-3.52	-3.12	1.67	0.47					
Returns after taxes on distributions and sale of fund shares		—	-2.29	-2.64	1.43	0.40					
Total Equity Market Index	POMIX	16.58	-6.16	-4.82	1.70	0.71	(1/98)	0.5	90 days	0.40	12/31/08
U.S. Large-Cap Core	TRULX	13.49	—	—	—	13.60	(6/09)			†††	6/26/09
Value	TRVLX	19.29	-4.14	-4.99	2.29	4.34	(9/94)			0.90	12/31/08

†Formerly the closed-end New Age Media Fund; converted to open-end status on 7/28/97 under a different expense structure. ††The returns presented reflect the return before taxes; the return after taxes on dividends and capital gain distributions; and the return after taxes on dividends, capital gain distributions, and gains (or losses) from redemptions of shares held for 1-, 5-, and 10-year or since-inception periods, as applicable. After-tax returns reflect the highest federal income tax rate but exclude state and local taxes. The after-tax returns reflect the rates applicable to ordinary and qualified dividends and capital gains effective in 2003. During periods when a fund incurs a loss, the post-liquidation after-tax return may exceed the fund's other returns because the loss generates a tax benefit that is factored into the result. An investor's actual after-tax return will likely differ from those shown and depend on his or her tax situation. Past before- and after-tax returns do not necessarily indicate future performance.

†††Note about the U.S. Large-Cap Core Fund's expense ratio: To limit the fund's expenses during its initial period of operations, T. Rowe Price contractually obligated itself (through April 30, 2012) to waive its fees and/or bear any expenses that would cause the fund's ratio of expenses to average net assets to exceed 1.15%.

Benchmarks — Domestic Stock

	3 Months	1 Year	3 Years	5 Years	10 Years
S&P 500 Index	15.61%	-6.91%	-5.43%	1.02%	-0.15%
S&P MidCap 400 Index	19.98	-3.11	-1.40	4.53	7.48
Nasdaq Composite Index	15.66	1.93	-2.05	2.27	-2.54
Russell 2000 Index	19.28	-9.55	-4.57	2.41	4.88
Lipper Indexes					
Large-Cap Core Funds	15.27	-5.47	-4.64	1.17	-0.27
Equity Income Funds	15.76	-6.56	-5.80	1.24	2.10
Small-Cap Core Funds	18.93	-4.09	-2.98	2.86	6.61

Performance Summary

T. Rowe Price Mutual Funds

Past Quarter, Year, and Average Annual Total Returns
Periods Ended September 30, 2009

	Ticker Symbol	3 Months	1 Year	3 Years	5 Years	10 Years or Since Inception	Inception Date	Redemption Fee	Redemption Fee Period	Expense Ratio	Expense Ratio As of Date
STOCK FUNDS — International/Global											
Africa & Middle East	TRAMX	21.55%	-20.09%	—	—	-11.58%	(9/07)	2.0%	90 days	**1.32%**	10/31/08
Emerging Europe & Mediterranean	TREMX	30.62	-8.52	-9.58%	9.57%	8.88	(8/00)	2.0	90 days	◆	10/31/08
Emerging Markets Stock	PRMSX	21.72	12.54	4.94	16.06	12.52	(3/95)	2.0	90 days	**1.24**	10/31/08
European Stock	PRESX	22.51	7.34	-0.45	7.40	3.72	(2/90)	2.0	90 days	**1.01**	10/31/08
Global Large-Cap Stock	RPGEX	17.85	—	—	—	73.30	(10/08)	2.0	90 days	▲	10/31/08
Global Real Estate	TRGRX	22.62	—	—	—	37.73	(10/08)	2.0	90 days	‡	12/31/08
Global Stock	PRGSX	15.19	-9.56	-5.24	5.24	2.37	(12/95)	2.0	90 days	**0.87**	10/31/08
Global Technology	PRGTX	21.31	27.51	5.14	8.58	-3.54	(9/00)			**1.32**	12/31/08
International Discovery	PRIDX	19.35	12.78	-0.52	10.30	9.41	(12/88)	2.0	90 days	**1.24**	10/31/08
International Equity Index	PIEQX	19.49	2.58	-3.18	6.26	3.24	(11/00)	2.0	90 days	**0.50**	10/31/08
International Growth & Income	TRIGX	21.43	3.41	-3.73	6.45	4.76	(12/98)	2.0	90 days	**0.90**	10/31/08
International Stock	PRITX	19.24	6.90	-1.82	6.19	1.54	(5/80)	2.0	90 days	**0.87**	10/31/08
Japan	PRJPX	9.17	-7.99	-12.45	-0.88	-4.25	(12/91)	2.0	90 days	**1.07**	10/31/08
Latin America	PRLAX	27.66	19.93	14.88	29.53	21.03	(12/93)	2.0	90 days	**1.22**	10/31/08
New Asia	PRASX	17.83	41.40‡‡	12.86	18.92	11.55	(9/90)	2.0	90 days	**0.96**	10/31/08
Overseas Stock	TROSX	19.72	4.24	—	—	-7.79	(12/06)	2.0	90 days	**0.93**	10/31/08
BENCHMARKS — International/Global Stock											
MSCI EAFE Index		19.52%	3.80%	-3.12%	6.57%	2.97%					
Lipper Averages											
Emerging Markets Funds		21.20	13.50	5.01	15.02	11.89					
International Large-Cap Growth Funds		17.40	-0.43	-3.53	6.13	2.92					
International Small-/Mid-Cap Growth Funds		20.08	8.98	-3.75	7.67	4.73					
BOND FUNDS — Domestic Tax-Free*											
California Tax-Free Bond	PRXCX	7.67%	13.12%	4.03%	4.16%	5.18%	(9/86)			**0.52%**	2/28/09
Georgia Tax-Free Bond	GTFBX	6.97	14.79	4.08	3.98	5.17	(3/93)			**0.62**	2/28/09
Maryland Short-Term Tax-Free Bond	PRMDX	0.88	4.42	3.66	2.88	3.24	(1/93)			**0.58**	2/28/09
Maryland Tax-Free Bond	MDXBX	7.22	14.21	4.38	4.19	5.30	(3/87)			**0.47**	2/28/09
New Jersey Tax-Free Bond	NJTFX	6.88	12.93	4.01	4.05	5.23	(4/91)			**0.56**	2/28/09
New York Tax-Free Bond	PRNYX	7.04	13.47	4.14	4.13	5.33	(8/86)			**0.54**	2/28/09
Summit Municipal Income	PRINX	8.44	14.47	4.17	4.52	5.67	(10/93)			**0.50**	10/31/08
Summit Municipal Intermediate	PRSMX	5.56	12.52	5.24	4.41	5.14	(10/93)			**0.50**	10/31/08
Tax-Free High Yield	PRFHX	13.13	10.66	1.27	3.43	4.52	(3/85)			**0.71**	2/28/09
Tax-Free Income	PRTAX	7.71	14.46	4.47	4.44	5.48	(10/76)			**0.53**	2/28/09
Tax-Free Short-Intermediate	PRFSX	2.94	8.40	4.73	3.63	4.08	(12/83)			**0.51**	2/28/09
Virginia Tax-Free Bond	PRVAX	6.80	15.50	4.63	4.38	5.47	(4/91)			**0.50**	2/28/09

* Some income from the tax-free funds may be subject to state and local taxes and the federal alternative minimum tax.

◆ Note about the Emerging Europe & Mediterranean Fund's expense ratio: The fund's expense ratio as of its fiscal year ended 10/31/08 was **1.32%**. Recent market declines have led to lower net assets in the fund, thereby increasing its expense ratio to **1.98%** as of 3/31/09. To protect the interests of shareholders, T. Rowe Price International will waive its fees and bear any expenses that would cause the fund's net expense ratio to exceed **2.00%** effective May 1, 2009. This contractual expense limitation expires on 2/28/11.

▲ Note about the Global Large-Cap Stock Fund's expense ratio: To limit this fund's expenses during its initial period of operations, T. Rowe Price International will waive its fees and bear any expenses that would cause the fund's net expense ratio to exceed 1.00%. As of its fiscal year ended 10/31/08, the Global Large-Cap Stock Fund's gross and net expense ratios were **4.43%** and **1.00%**, respectively. The fund operates under a 1.00% contractual expense limitation that expires on 2/28/11.

‡ Note about the Global Real Estate Fund's expense ratio: To limit the fund's expenses during its initial period of operations, T. Rowe Price will waive its fees and bear any expenses that would cause the fund's net expense ratio to exceed **1.05%**. As of its fiscal year ended 12/31/08, the fund's gross and net expense ratios were **4.73%** and **1.05%**, respectively. The fund operates under a **1.05%** contractual expense limitation that expires on 4/30/11.

‡‡ Investors should note that the fund's short-term performance is highly unusual and cannot be sustained.

All mutual funds are subject to market risk, including possible loss of principal. Funds that invest overseas generally carry more risk than funds that invest strictly in U.S. assets due to factors such as currency risk, geographic risk, and emerging markets risk. Funds that invest in fixed income securities are subject to credit risk and liquidity risk, with high yield securities having a greater risk of default than higher-quality securities.

Performance Summary

T. Rowe Price Mutual Funds

Past Quarter, Year, and Average Annual Total Returns
Periods Ended September 30, 2009

	Ticker Symbol	3 Months	1 Year	3 Years	5 Years	10 Years or Since Inception	Inception Date	Redemption Fee	Redemption Fee Period	Expense Ratio	Expense Ratio As of Date
BOND FUNDS — Domestic Taxable											
Corporate Income	PRPIX	8.91%	18.32%	4.54%	4.28%	6.11%	(10/95)			**0.75%**	5/31/09
GNMA**	PRGMX	2.68	9.10	6.41	5.11	5.80	(11/85)			**0.66**	5/31/09
High Yield	PRHYX	12.49	14.88	4.43	5.42	6.23	(12/84)	1.0%	90 days	**0.80**	5/31/09
Inflation Protected Bond	PRIPX	3.24	5.22	5.21	4.33	5.41	(10/02)			**0.69**	5/31/09
New Income	PRCIX	4.82	13.05	6.74	5.42	6.21	(8/73)			**0.71**	5/31/09
Short-Term Bond	PRWBX	2.56	8.15	5.28	4.27	4.87	(3/84)			**0.60**	5/31/09
Strategic Income	PRSNX	6.16	—	—	—	21.26	(12/08)			**1.51**	5/31/09
Summit GNMA**	PRSUX	2.86	9.18	6.56	5.20	5.87	(10/93)			**0.60**	10/31/08
U.S. Bond Index	PBDIX	3.73	11.24	6.59	5.10	5.90	(11/00)	0.5	90 days	**0.30**	10/31/08
U.S. Treasury Intermediate**	PRTIX	2.36	8.08	7.83	5.41	6.03	(9/89)			**0.52**	5/31/09
U.S. Treasury Long-Term**	PRULX	4.33	10.50	8.42	6.52	7.37	(9/89)			**0.58**	5/31/09

**The market value of shares is not guaranteed by the U.S. government.

BENCHMARKS — Domestic Bond	3 Months	1 Year	3 Years	5 Years	10 Years or Since Inception
Barclays Capital U.S. Aggregate Index	3.74%	10.56%	6.41%	5.13%	6.30%
Barclays Capital Municipal Bond	7.12	14.85	5.13	4.78	5.77
Credit Suisse First Boston High Yield Index	14.11	17.89	4.74	5.65	6.65
Lipper Averages					
Short Investment-Grade Debt	3.17	5.13	2.49	2.57	3.82
Corporate Debt Funds A Rated	6.59	11.47	3.97	3.47	5.25
GNMA	2.92	9.87	6.64	5.08	5.61
High Current Yield	13.05	13.11	2.58	4.15	4.54
Short Municipal Debt	1.36	3.58	2.59	2.42	3.18
Intermediate Municipal Debt	5.74	11.43	4.26	3.62	4.63
General Municipal Debt	8.65	13.29	3.10	3.43	4.56

BOND FUNDS — International/Global	Ticker Symbol	3 Months	1 Year	3 Years	5 Years	10 Years or Since Inception	Inception Date	Redemption Fee	Redemption Fee Period	Expense Ratio	Expense Ratio As of Date
Emerging Markets Bond	PREMX	12.65%	17.48%	6.60%	9.94%	13.12%	(12/94)	2.0%	90 days	**0.98%**	12/31/08
International Bond	RPIBX	7.76	14.84	8.17	6.01	6.07	(9/86)	2.0	90 days	**0.81**	12/31/08

BENCHMARKS — International/Global Bond	3 Months	1 Year	3 Years	5 Years	10 Years or Since Inception
Barclays Capital Global Aggregate ex U.S. Dollar Bond Index	7.85%	15.41%	9.10%	6.72%	6.34%
J.P. Morgan Emerging Markets Bond Index–Global	10.21	18.67	7.47	8.81	11.53
Lipper Averages					
Emerging Markets Debt Funds	11.38	15.30	6.19	8.21	12.01
International Income Funds	8.26	15.80	7.72	5.78	6.32

MONEY MARKET	Ticker Symbol	7-Day Yield	3 Months	1 Year	3 Years	5 Years	10 Years or Since Inception	Inception Date	Redemption Fee	Redemption Fee Period	Expense Ratio	Expense Ratio As of Date
Tax-Free***												
California Tax-Free Money	PCTXX	0.00%	0.00%	0.40%	1.87%	1.98%	1.75%	(9/86)			**0.63%**	2/28/09
Maryland Tax-Free Money	TMDXX	0.00	0.00	0.55	1.96	2.04	1.62	(3/01)			**0.54**	2/28/09
New York Tax-Free Money	NYTXX	0.00	0.00	0.50	1.92	2.01	1.84	(8/86)			**0.61**	2/28/09
Summit Municipal Money Market	TRSXX	0.08	0.02	0.64	2.10	2.17	2.05	(10/93)			**0.47**	10/31/08
Tax-Exempt Money	PTEXX	0.01	0.00	0.54	2.03	2.11	1.96	(4/81)			**0.50**	2/28/09
Taxable***												
Prime Reserve	PRRXX	0.00%	0.00%	0.71%	2.94%	3.04%	2.88%	(1/76)			**0.60%**	5/31/09
Summit Cash Reserves	TSCXX	0.05	0.03	0.85	3.06	3.17	3.03	(10/93)			**0.47**	10/31/08
U.S. Treasury Money	PRTXX	0.00	0.00	0.22	2.30	2.55	2.55	(6/82)			**0.46**	5/31/09

An investment in money market funds is not insured or guaranteed by the FDIC or any other government agency. Although the funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the funds. Money fund yields more closely reflect current earnings than do total returns.

***In an effort to maintain a positive net yield for the fund, T. Rowe Price has voluntarily waived all or a portion of the management fee it is entitled to receive from the fund. This voluntary waiver is in addition to any contractual expense ratio limitation in effect for the fund and may be amended or terminated at any time without prior notice. A fee waiver has the effect of increasing the fund's net yield; without it, the fund's seven-day yield would have been lower. Please see the prospectus for more details.

Performance Summary

T. Rowe Price Mutual Funds

Past Quarter, Year, and Average Annual Total Returns
Periods Ended September 30, 2009

	Ticker Symbol	7-Day Yield	3 Months	1 Year	3 Years	5 Years	10 Years or Since Inception	Inception Date	Redemp-tion Fee	Redemp-tion Fee Period	Expense Ratio	Expense Ratio As of Date
ASSET ALLOCATION												
Balanced	RPBAX		12.73%	4.15%	0.05%	4.02%	4.00%	(12/39)			0.69%	12/31/08
Personal Strategy Balanced	TRPBX		13.67	6.40	0.76	4.54	5.00	(7/94)			0.86	5/31/09
Personal Strategy Growth	TRSGX		16.05	1.87	-2.01	3.57	4.13	(7/94)			0.95	5/31/09
Personal Strategy Income	PRSIX		10.85	8.39	2.70	4.93	5.43	(7/94)			0.78	5/31/09
Retirement 2005	TRRFX		11.21	6.10	1.63	4.77	4.26	(2/04)			0.60	5/31/09
Retirement 2010	TRRAX		12.54	5.06	0.60	4.53	7.74	(9/02)			0.64	5/31/09
Retirement 2015	TRRGX		13.94	4.36	-0.11	4.37	3.90	(2/04)			0.69	5/31/09
Retirement 2020	TRRBX		15.02	3.45	-0.99	4.14	8.13	(9/02)			0.73	5/31/09
Retirement 2025	TRRHX		15.97	2.72	-1.64	4.00	3.53	(2/04)			0.76	5/31/09
Retirement 2030	TRRCX		16.57	2.01	-2.21	3.95	8.35	(9/02)			0.78	5/31/09
Retirement 2035	TRRJX		16.97	1.56	-2.59	3.70	3.19	(2/04)			0.79	5/31/09
Retirement 2040	TRRDX		17.07	1.58	-2.57	3.72	8.22	(9/02)			0.79	5/31/09
Retirement 2045	TRRKX		16.95	1.54	-2.57	—	2.15	(5/05)			0.79	5/31/09
Retirement 2050	TRRMX		17.05	1.58	—	—	-5.27	(12/06)			0.79	5/31/09
Retirement 2055	TRRNX		17.10	1.46	—	—	-5.31	(12/06)			0.79	5/31/09
Retirement Income	TRRIX		9.74	6.78	2.29	4.52	6.46	(9/02)			0.58	5/31/09
Spectrum Growth	PRSGX		17.54	0.16	-2.99	3.79	3.60	(6/90)			0.82	12/31/08
Spectrum Income	RPSIX		8.75	11.32	5.28	5.49	6.51	(6/90)			0.70	12/31/08
Spectrum International	PSILX		19.70	8.28	-1.05	7.70	3.78	(12/96)	2.0%	90 days	0.98	12/31/08
T. ROWE PRICE NO-LOAD VARIABLE ANNUITY												
Blue Chip Growth Portfolio			13.30%	-1.25%	-3.73%	1.12%	-1.82%	(12/00)			0.85%	12/31/08
Equity Income Portfolio			17.86	-8.10	-6.02	0.66	2.92	(3/94)			0.85	12/31/08
Equity Index 500 Portfolio			15.28	-7.89	-6.37	0.11	-1.99	(12/00)			0.40	12/31/08
Health Sciences Portfolio			13.08	-0.47	2.61	6.27	3.59	(12/00)			0.95	12/31/08
International Stock Portfolio			19.06	5.57	-2.84	5.24	0.54	(3/94)			1.05	12/31/08
Limited-Term Bond Portfolio			2.17	7.28	4.62	3.58	4.30	(5/94)			0.70	12/31/08
Mid-Cap Growth Portfolio			19.05	3.18	0.69	5.62	6.47	(12/96)			0.85	12/31/08
New America Growth Portfolio			14.47	4.46	0.93	3.47	0.28	(3/94)			0.85	12/31/08
Personal Strategy Balanced Portfolio			13.37	4.62	-0.24	3.72	4.36	(12/94)			0.90	12/31/08
Prime Reserve Portfolio		0.01%	-0.14	0.42	2.47	2.56	2.40	(12/96)			0.57	12/31/08

Indexes included in this update track the following: S&P 500—500 large-company U.S. stocks; S&P MidCap 400—stocks of 400 mid-size U.S. companies; Nasdaq Composite (principal only)—U.S. stocks traded in the over-the-counter market; Russell 2000—stocks of 2,000 small U.S. companies; Russell 2000 Growth—Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values; Russell 1000 Growth—stocks of the 1,000 largest companies in the Russell 3000 Index with higher price-to-book ratios and higher forecasted growth values; Russell 1000 Value—stocks of the 1,000 largest companies in the Russell 3000 Index with lower price-to-book ratios and lower forecasted growth values; Russell 2000 Value—Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values; MSCI EAFE—the stocks of about 1,000 companies in Europe, Australasia, and the Far East; Barclays Capital U.S. Aggregate—investment-grade corporate and government bonds; Barclays Capital Municipal Bond—tax-free investment-grade U.S. bonds; Credit Suisse High Yield—noninvestment-grade corporate U.S. bonds; Barclays Capital Global Aggregate ex U.S. Dollar Bond Index—tracks investment-grade government, corporate, agency, and mortgage-related bonds in markets outside the U.S.; J.P. Morgan Emerging Markets Bond Index–Global—U.S. dollar-denominated Brady Bonds, Eurobonds, traded loans, and local market debt instruments issued by sovereign and quasi-sovereign entities; Lipper averages—all funds in each investment objective category; and Lipper indexes—equally weighted indexes of typically the 30 largest mutual funds within their respective investment objective categories.

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Charts and examples in this issue showing investment performance (excluding those in the Performance Update section) are for illustrative purposes only and do not reflect the performance of any T. Rowe Price fund or security. A manager's view of the attractiveness of a company may change, and the fund could sell the holding at any time. This material should not be deemed a recommendation to buy or sell shares of any of the securities discussed. Past performance cannot guarantee future results.

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