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A thaw in the credit freeze, but the gales of November have come calling

Below, Michael Avery and Ryan Caldwell, portfolio managers of Ivy Asset Strategy Fund, reflect on global market volatility since the end of September, discuss the Fund's current positioning and provide an outlook for the coming months.

Credit markets have gradually improved even as global equity markets have remained within a volatile trading range. For now, domestic stocks, as measured by the S&P 500 Index, seems stuck below the 1,000 mark. Pre-U.S. general election optimism has faded amid the sober realities of a deep recession, rising unemployment, plummeting retail sales and enormous fiscal challenges. October was the 13th month of bear market conditions for stocks.

For **Ivy Asset Strategy Fund**, the current environment has provided an opportunity to augment our fixed-income positions and use futures contracts to fine-tune our overall exposure to stocks and gold bullion. We generally like select large-cap, dividend-paying stocks of companies with resilient global brands and solid free cash flow. However, we are very mindful of many headwinds, including:

The likelihood of a protracted period of economic contraction The worst of the credit crisis may be behind us, but problems still remain for the U.S. economy, and for corporate balance sheets. We think we are likely to see more significant corporate defaults such as Circuit City's recent bankruptcy. Problems in the credit card and auto loans segments of consumer finance abound.

Lack of liquidity in the housing market. The government's focus appears to weigh too heavily on preventing foreclosures rather than reducing the massive inventory of unsold, distressed properties. In our view, the political urge to provide forbearance to overextended property owners who cannot make payments may prolong home price stabilization and market recovery.

CONSIDER ALL FACTORS. International investing involves additional risks, including currency fluctuations, political or economic conditions affecting the foreign country, and differences in accounting standards and foreign regulations. These risks are magnified in emerging markets. ● Fixed income securities are subject to interest rate risk and, as such, the net asset value of the fund may fall as interest rates rise. ● Investing in high-income securities may carry a greater risk of nonpayment of interest or principal than higher-rated bonds. ● Holdings information is not intended to represent any past or future investment recommendations. Holdings and allocations can and do change frequently.

Investors should consider the investment objectives, risks, charges and expenses of a fund carefully before investing. For a prospectus containing this and other information for the Ivy Funds, call your financial advisor or visit us online at www.ivyfund.com. Please read the prospectus carefully before investing.

Ivy Asset Strategy Fund

Thinking Beyond Boundaries

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Weak corporate earnings The recession is likely to weigh on 2009 S&P 500 profits, making accurate valuation of individual stocks a challenging task. We think historical P/Es (price-to-earnings ratios) are of limited value for stock-picking. At the time, however, we believe individual security selection will be highly important in the months ahead. We are focusing on metrics other than P/E to evaluate equities.

A stronger U.S. dollar. The greenback's rebound against major currencies since the summer has reflected its perceived status as a safe haven amid the credit crunch. Should we see further strength, it will likely continue to hurt earnings of U.S.-based multinational corporations and negatively affect emerging market economies.

Deleveraging on a massive scale We faced a near implosion of the global financial system in October. While government aid has stabilized the situation, we think much of the global economy will continue to focus on paying down/resolving debt in the quarters ahead, with the possible exception of Asia. In our view, hedge fund selling across the globe, distressed liquidity of equities, and the unwinding of complex derivative positions among institutions and professional investors has not fully played out. This may continue to put downward pressure on prices across asset classes.

What then are the positive signs?

The revival of interbank lending through early November is welcome. Overnight Libor (the interest rate global banks charge each other) has fallen to about 0.35 percent, compared to the 5.00 percent range in October. Three-month Libor has retreated to levels not seen since the summer. Corporate borrowing in the U.S. commercial paper market has been revived since the Federal Reserve began buying debt directly from issuers.

Another favorable development in recent weeks is that around the world, central bankers have been cutting short-term interest rates and providing liquidity through a multitude of actions that included the following:

- The International Monetary Fund came to the rescue of several emerging market countries, including Iceland, Hungary, Belarus, Pakistan and Ukraine.
- The Fed created a \$120 billion U.S. dollar currency swap program with Singapore, Brazil, Mexico and South Korea.
- China said it will allow its citizens to transfer real property usage rights, financial empowering some 800 million people. (Unlike the U.S., only the government owns real estate in China).

Another important positive event is China's recently stated nearly \$586 billion commitment to maintaining economic growth at an eight percent to eight and a half percent annual level. China's planned infrastructure spending on highways, rail and rebuilding in earthquake-affected areas should help offset declining cyclical demand for natural resources in many western economies. In addition, China recently reported that foreign direct investment in the world's fourth largest economy climbed 35.1 percent to \$81.1 billion in the first 10 months of 2008 from a year earlier

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These positive signs are coming after a horrible October. Global headwinds created an awful month for both stocks and bonds:

- The S&P 500 was hurt severely by the global credit crunch. The index dropped more than 16 percent last month, the most since 1987.
- Corporate non-financial bonds in Europe lost 3 percent, the biggest decline since 1999. U.S. industrial investment-grade bonds lost 9.4 percent. U.S. investment-grade bonds lost 7.4 percent, the worst month in about 35 years, as measured by the Merrill Lynch U.S. Corporate Master Index.

In managing the Fund's portfolio in this environment over the past six weeks, we have:

Increased our weighting in municipal and high-yield bonds.

Both categories of bonds appeared in recent weeks to have offered exceptional total return opportunities relative to Treasuries. This has boosted our total bond position to about 11 percent of assets, up from 6 percent at Sept. 30, 2008.

Reduced the Fund's cash position to approximately 30 percent of assets from 37 percent at Sept. 30, 2008.

Used short future contracts to hedge our gold bullion

position. This has effectively brought the Fund's net exposure to gold down from approximately 13 percent at Sept. 30, 2008 to 5 percent of assets.

Outlook

We remain cautious about new equity positions. Given our belief that earnings on the S&P 500 may be roughly \$60 a share for 2009, and applying a 15 price-to-earnings (P/E) ratio (stock price divided by earnings per share), we may be near fair value for domestic stocks. Still, several market factors could push stocks higher in the coming months, including:

- An abundance of cash on the sidelines;
- Increased prospects for fiscal stimulus in the U.S.; and
- A halo effect from the changeover in Washington following the general election.

In fact, we could be setting up for an intermediate-term rally to the 1100 to 1200 level on the S&P 500 in the coming months, in our view. At that level, we would need to re-assess the extent of our commitment to equities.

For now, the domestic economic news still remains troubling. The U.S. employment picture is bleak. The jobless rate could easily move to 8.5 percent in our view (from 6.5 percent currently). The reported decline in payrolls in October was much weaker than most economists expected, and current conditions suggest no improvement until at least second half of 2009. The U.S. has lost 1.2 million jobs in 2008, and could very well lose another 1.5 million as the recession unfolds. The situation may be as severe as the 1974-1975 recession, in our view.

Past performance cannot guarantee comparable future results.

Opinions expressed are those of the portfolio managers and are current as of November 11, 2008. All views are subject to change at any time, based on market and other conditions, and no forecast can be guaranteed.

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Why Ivy Funds?

Ivy Funds is an exceptional combination of investment managers that offers global reach and capabilities to advisors and their clients. Ivy seeks to enable its fund shareholders to remain comfortably committed to their long-term goals. We are:

Proven: We're part of an organization whose roots date to 1937, with an investment style emphasizing participation in positive markets and, especially, seeking to manage risk.

Focused: We do our own work, believe in our own research and act on our own ideas. Our steady approach is guided by a belief in fundamentals over fads.

Constant: We say what we mean, and do what we say. What we value most, and remember every day, is the trust that we have earned, and must continue to earn, from our shareholders.

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