

New Professional – Paul Chenault

We are excited to announce the newest addition to Madison's professional team, Mr. Paul Chenault. Paul brings with him over 45 years of investment industry experience and joins the firm's Cincinnati office as Senior Relationship Manager.

Paul started his investment career in 1961 as an equity analyst for the Sentry Insurance Group of Stevens Point, Wisconsin. Over the next ten years, he held various positions and ultimately became VP-Treasurer in charge of investment operations.

Armco, Inc. of Middletown, Ohio, hired Paul in 1971 as Director-Investments. There he was responsible for the pension assets and portfolios of the various subsidiaries. In 1982, Paul and two other investment professionals left Armco to form C-S Capital Advisors, a firm that managed pension assets for companies such as 3M, Delta, and Xerox.

A Bermuda based international company, XL Capital Ltd., recruited Paul in 1990 as Senior VP and Chief Investment Officer. For the next six years, he was in charge of the asset diversification of their \$5 billion portfolio. A portion of these investments were managed internally and the remainder handled by sub-advisors. Since returning to the US in 1996, Paul has provided investment consulting and held several directorships. Most recently (2000-2006) he was a trustee for the IXIS – Loomis Sayles Group, a \$20 billion mutual fund family in Boston.

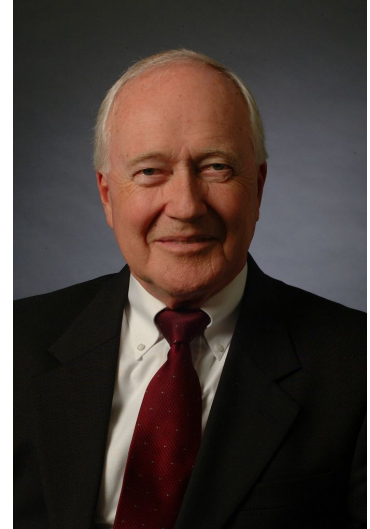
Paul's other experiences include working as a crime statistician clerk for the FBI and serving two years in the US Army, XVIII Airborne Corps. He has a BA degree from the University of Iowa (where he lettered in tennis) and completed one year of graduate school in finance at the University of Wisconsin. Paul and his wife, Barbara (an oil painter), reside in Maineville, Ohio. They have six children and nine grandchildren residing in various locations. In addition to visiting family, Paul enjoys golf, tennis, and bridge. Please join us in welcoming Paul to the firm.

"Men are wise in proportion, not to their experience, but to their capacity for experience."
James Boswell

2006 – Market Review

In the final analysis, 2006 was a good year for most equity markets. After bouncing around for the first six months, equity markets began an ascent in July that continued throughout the fourth quarter. The Dow Jones Industrial Average rose to new all-time highs and most major equity indexes finished in solid double digit territory for the year.

Large company stocks, as measured by the S&P 500 Index, were up 15.8% in 2006. Of course, index averages tend to veil some of their internal nuances. One example of this is the performance of the



“Growth” and “Value” styles within the S&P 500 Index. In general, the Growth portion of an index tends to include more rapidly growing companies, while the Value portion usually includes companies that are more cheaply priced. Last year, the Value portion of the S&P 500 rose 20.8%, while the Growth portion only managed an 11.0% return. Over the last five years, the Value index has produced an annualized return almost triple that of the Growth index, up 9.1% vs. 3.3%, respectively. For the five years prior, Growth stocks had the edge.

We highlight the distinction between the performance of “growth” and “value” stocks because it is important to view index performance through an appropriate lens. There are many ways of measuring the performance of large company stocks (or any other area of the market). Some of the more common indices include the Dow Jones Industrial Average (30 stocks), the S&P 500, the S&P 100, the Russell 1000, the Russell Top 200, the Russell Top 50, and the FTSE RAFI US 1000. All of these indices have pros and cons (too numerous to discuss here), and no single index should be considered the definitive measure of large company stock returns. Over short periods of time, the disparity of results between these indices can be very large, making it challenging for investors to determine which index is the most suitable to compare their portfolios’ performance against.

In 2006, small and mid-sized companies rose 18.4% and 15.3%, respectively. Just like their large-cap brethren, small and mid-sized companies have seen an extreme difference in the performance of “growth” and “value” styles over the last ten years. For example, small-cap growth stocks have gained 4.9% per year over the last ten years, while small-cap value stocks rose 13.3%.

Real Estate Investment Trusts (REITs) continued their multi-year ascent, gaining 9.5% during the fourth quarter and finishing up 35.1% for the year. REITs are likely the best performing domestic equity area over the last five years, producing an average annual return of 23.2%.

Foreign stocks, as measured by the MSCI EAFE Index rose 26.3% for the full year. Had the U.S. dollar not declined versus a basket of other currencies in 2006, the returns on foreign stocks would have been similar to domestic stocks (in the 16% range). Stocks in Europe rose 33.7% in 2006, while Asian stocks rose 8.8%. Stocks in Spain gained 49.4% in 2006, while stocks in Japan only managed a 6.2% return. Emerging market stocks had a very strong 2006, gaining 26.5%. In China stocks rose 59.6%, in India 46.4%, Indonesian stocks soared 65.1% and in Argentina stocks climbed 58.7%. Not all emerging markets were on such a tear, however, as stocks in Jordan fell 29.7%, Turkish stocks dropped 12.0% and stocks in Israel fell 5.7% in 2006.

Bond market indices produced mixed results in 2006. The Lehman Brothers Aggregate Bond index (a mix of government and corporate bonds) rose 4.3%, inflation adjusted bonds rose 0.4% (as measured by the Lehman Brothers U.S. TIPS index), and international bonds, aided by a falling dollar, gained 8.4% (as measured by the Lehman Brothers Global Credit index). Returns on cash continued to improve in 2006, as the Federal Reserve continued to increase short-term interest rates early in the year, allowing U.S. Treasury Bills to produce a return of 4.8%.

While the long-term growth potential for many emerging markets appears to be attractive, there is also considerable risk. Investing in such markets must be approached with caution. As a general rule, we’d prefer to initiate investments in areas that have not participated in recent surges. Just as in shopping, investments that are reasonably priced or are “on sale” often produce better deals (returns) than those priced at premium levels. When existing investments in a portfolio experience rapid gains over a short-term period, we often rebalance back to targets and redeploy monies into other areas that may now be under-weight in the portfolio. These actions may improve performance results and certainly reduce risk.

“No one rings a bell when things change but change inevitably occurs.” Shelby M.C. Davis