

## Our Investment Philosophy

The recent financial crisis has tested every investor's resolve and faith in the financial markets. In this month's *Insight* we revisit Madison's Investment Philosophy which guides us in investing our clients' hard-earned funds:



**We focus on what is most important and knowable.** We focus on our clients and understanding their unique financial situations, goals and objectives. We craft portfolios to achieve these goals and objectives. Market movements won't dictate our actions, but changes to our clients' situations and needs will.

**We have faith in the future.** In the long-run, successful investing is essentially a battle that takes place in the investor's mind – a battle between faith in the future and fear of the future. The huge preponderance of all the medical, scientific, technological and economic progress which mankind has ever experienced has occurred in the last 100 years. We believe such progress will continue and that our children will live better than we do.

**We put the short-term in its place.** During times of panic, the world does not end; it only appears to be ending. Market declines have proven to be temporary, because the market – propelled by the economy which it reflects – has continued to grow over time. "This time" is never different. Panic is essentially a loss of faith in the future. We manage panic tomorrow by managing euphoria today.



**We have a long-term view.** Successful investing is goal-oriented and plan driven. Unsuccessful investing is market-oriented and performance-driven. Successful investing is not so much intellectual as emotional/behavioral. Successful investing requires patience and commitment. Our age of 24 hour journalism and around the clock markets place investors under constant pressure to do something – to react to the events of the moment rather than acting on the goals of one's lifetime and beyond. How we react, or more importantly, how we keep ourselves from reacting during times of stress is the true test of our resolve, and thus a key determinant of our clients' long-term success.

**We are disciplined advisors.** Discipline is the courage to keep doing the right things. The undisciplined advisor reacts, allowing a long-term investment plan to be derailed by some trend or event. When discipline fails, the plan fails. The disciplined advisor continues to act, regardless of the enthusiasms or terrors of the season. Discipline leads us to regularly re-balance portfolios to long-term targets.

**We believe in variety.** Variety or diversification is a key factor in preserving and protecting wealth. We diversify by asset class, asset category and investment thought process. "All-weather" portfolios are crafted with components that are expected to perform differently in most market environments.

**We seek to avoid unnecessary portfolio risk.** There's enough uncertainty and risk in investing without compounding it by over investing in single stock or sector positions, or by trying to time the market's highs and lows. For example, holding the preponderance (much less the totality) of a portfolio in one stock isn't investing. It's Russian roulette. Perhaps the revolver may have hundreds and even thousands of empty chambers in it, such that the trigger can be pulled with impunity, every trading day for years and years. But eventually, the unthinkable happens. If unnecessary risks can be identified in advance, they are best mitigated in advance.

**We take a global view.** Much of the economic growth and many of the investment opportunities exist outside the U.S. The U.S. economy does not operate in a vacuum and much of what we purchase as consumers increasingly comes from abroad.



**We are advisors, not prognosticators.** Unfortunately, we cannot foresee the future. We cannot predict the short-term direction of the economy or the markets. Nor can we invest only when the future is certain, for the future is never certain. And it is this very uncertainty that creates the opportunity for long-term reward. So we focus our energies on the variables that we can control and which have the most pronounced effect on long-term, real-life returns.

**We are independent thinkers.** While it is easy to follow the crowd, it can also be dangerous to do so. As a fiduciary and advocate, we perform our own research on the investment sub-advisors and individual securities we purchase on our clients' behalf. Because we are independently owned, our thinking is not compromised by other conflicting interests of a parent company. This independence positions us to do what is right for our clients each and every day.

**We invest our clients' money as if it were our own.** In fact, Madison's owners and employees have a significant co-investment alongside our clients. Sharing in the rewards and suffering during the challenging times, ensures that we are all working together.

**Investor behavior is the key to success.** We live in a timing and selection culture – one which holds that timing (when to be in and out of the markets) and selection (which stocks, funds or managers) are the critical variables. Timing and selection are not the key determinants of financial success. Behavior is. In an effort to outperform, the average investor figured out a series of behaviors to fritter away more than two-thirds of the return of the average mutual fund over the last 20-year period, massively underperforming not just the market but his own investment vehicles.

**We focus on the big picture.** We benchmark our efforts according to our clients' ability to meet their goals. Portfolio outperformance versus a market benchmark is not our goal as outperformance is neither a financial goal nor a financial plan. Generating an income that our clients won't outlive is a financial goal. We focus on earning the returns that are necessary to fund our clients' most important financial goals.



**Our role as advisors:** Our role is to help our clients realize their most important financial goals. We seek to help our clients make smart decisions with their money and avoid those based solely on impulse or emotion. We work with our clients to construct a plan for their financial success and build a portfolio to support their goals and personal values. Successful outcomes for our clients do not depend upon our ability to predict the future or influence government fiscal or tax policy. Instead we work with our clients to help prepare them for the market and policy environments with which we're presented. Please tell us if you or someone you care about would like greater clarity about your/their financial future.