

### Third Quarter 2009 – Market Review

Surprising on the upside! Just as the financial markets can surprise us on the downside, they are also capable of delivering better than anticipated results. How many of us would have said in March of this year that the U.S. stock market would climb over 50% by the end of September? Few, if any. There was a lot to be concerned about during those dark days in March, yet the equity markets found a bottom and have rallied impressively since then. Yet, today concerns still remain. It just demonstrates that the financial markets sometimes have a mind of their own and do not wait for things to be “resolved” before they move.

The third quarter continued the second quarter’s momentum. After a 16% rise in the second quarter, the U.S. equity market rose another 16% in the third, confounding those pundits who incessantly chatter about an imminent dip down. They will be right one day, but until then the markets continue to show some strength. During the third quarter the Federal Reserve all but called the recession over, as the equity markets continued to rally despite continuing job losses and tight credit. U.S. stock indexes rose 15% to 20%. Stocks in foreign markets did even better, as international developed markets and emerging markets each gained 20%. In fact, emerging market stocks, having gained 61% so far this year, have advanced over 16% for the last 12 months.

Bonds have also continued to post solid returns. Government and Corporate bonds are up almost 12% year-to-date, while municipal bonds have advanced 14%, and riskier High Yield bonds have risen nearly 50%. These results are somewhat astounding, given the dire situation of just six months ago.

Asset Class Returns - Before the Impact of Inflation						
	Investment Type (Index)	3rd Qtr	1 Yr	3 Yr	5 Yr	10 Yr
<b>Equity</b>	Large Cap (S&P 500)	16.3%	-6.4%	-5.1%	1.6%	0.7%
	Broad-Market (Russell 3000)	15.6%	-6.9%	-5.4%	1.0%	-0.2%
	Large Cap Growth (Russell 1000 Growth)	14.0%	-1.9%	-2.5%	1.9%	-2.6%
	Large Cap Value (Russell 1000 Value)	18.2%	-10.6%	-7.9%	0.9%	2.6%
	Mid Cap (Russell Mid-Cap)	20.6%	-3.6%	-4.1%	3.9%	6.1%
	Small Cap (Russell 2000)	19.3%	-9.6%	-4.6%	2.4%	4.9%
	International Equities (MSCI EAFE)	19.5%	3.2%	-3.6%	6.1%	2.6%
	International Emerging Markets (MSCI EMF)	20.1%	16.2%	5.5%	14.5%	8.9%
	Commodities (Dow Jones UBS)	4.3%	-23.7%	-4.9%	-0.7%	6.3%
	Real Estate Investment Trusts (NAREIT)	33.3%	-28.4%	-12.4%	1.4%	9.5%
<b>Bonds</b>	Gov't & Corporate Bonds (Barclays Gov/Credit)	4.2%	11.5%	6.3%	4.9%	6.3%
<b>Cash</b>	Cash (T-Bills)	0.1%	0.4%	2.8%	3.1%	3.1%
	Inflation (CPI) - <i>estimate</i>	0.2%	-1.1%	2.2%	2.6%	2.6%
Asset Class Returns - After Inflation						
	Investment Type (Index)	3rd Qtr	1 Yr	3 Yr	5 Yr	10 Yr
<b>Equity</b>	Large Cap (S&P 500)	16.1%	-5.3%	-7.2%	-1.1%	-1.9%
<b>Bonds</b>	Gov't & Corporate Bonds (Barclays Gov/Credit)	3.9%	12.6%	4.1%	2.3%	3.7%
<b>Cash</b>	Cash (T-Bills)	-0.2%	1.5%	0.7%	0.5%	0.5%

Important Note: Past performance is no guarantee of future results. Please do not assume that any information contained in this Insight serves as the receipt of, or as a substitute for, personalized investment advice from Madison Wealth Management.

*“Success is not final, failure is not fatal: it is the courage to continue that counts.” Winston Churchill*

## Reflections on the Last Twelve Months

Just one year ago we wrote our “Bear Market Survival Guide – 2008”. (It can be found on our website in the Insight archive.) Today, while the 14 points we promulgated in the guide are still relevant, we are pleased that the high level of anxiety and uncertainty has diminished.

In reflecting on the events of the last 12 months, we wish that we could have seen all this coming (we had our share of concerns) and boldly taken action in our clients’ portfolios to completely sidestep the declines in the financial markets. While that would have been a much more pleasant experience for all, we know that would be unrealistic. We are not soothsayers. And, the events that unfolded over the last year did not have to transpire the way they did.

This doesn’t mean that we resign ourselves to mere participants on the markets’ rollercoaster ride. On the contrary, we use it to our advantage. Volatility enables us to take advantage of peaks in one area and dips in another to rebalance portfolios, to create “tax assets” by harvesting losses, and to capitalize on the fears or forced selling of others. None of these actions would be possible without some market volatility. So, we want to make the most of it.

While we didn’t expect the financial markets to recover so quickly, we did write in our April Insight: “One must be invested in the markets (stock and bond) all the time to enjoy the positive returns, whenever they do come.” The markets’ actions since then have certainly reinforced this point. Concerns about the worldwide economy and the political process were real. And, circumstances did look gloomy. But, as professional advisors, we work hard to detach ourselves from the “current fears” and take actions we believe are in the best long term interests of our clients.

Looking ahead, we still see lots of issues to be worried about. They are political and economic, local, national and global, and they have the potential to be long lasting. Rather than rehash them here (we find the media does a good job of bringing most of them to our attention), we would prefer to just acknowledge they exist, and temper them by saying that many positive forces are at work too. We realize that many of today’s issues will be resolved one way or another, only to be replaced by future unknown issues. Rather than waiting for a perfect world, we work to help our clients live comfortably in our always uncertain world.

Speaking of positives, as we head into our firm’s tenth year we recently announced the addition of Mark Hogan to our Madison team. Mark is a veteran Cincinnati wealth advisor of the highest integrity. His experience and knowledge will strengthen our already deep team of advisors. We welcome Mark and his clients to our Madison family, and we look forward to the next decade and beyond. No doubt we will help our clients face and conquer many challenges together.



***“A person should set his goals as early as he can and devote all his energy and talent to getting there. With enough effort, he may achieve it. Or he may find something that is even more rewarding. But in the end, no matter what the outcome, he will know he has been alive.”***  
***Walt Disney***