

First Quarter 2010 – Market Review

The financial markets rewarded investors in the first quarter of 2010, in great contrast to the same period of one year ago. U.S. stock indexes rose between 4% and 9% during the quarter. Stocks in foreign markets also performed well, but adjusting for the surprising strength in the U.S. dollar, which gained 6% versus the Euro, the results lagged those in the U.S. For U.S. based investors International developed markets rose 1% and emerging markets gained 2%. Commodities, also helped by a stronger dollar, took a breather, falling 5% during the quarter, while U.S. Real Estate Investment Trusts rose nearly 10%.

The one-year equity returns appear to be stellar, and they are, but unfortunately still don't make up for the losses experienced during the recent bear market. For if an investor experiences a 50% loss, it takes a 100% gain to recoup it, so we still have some way to go to grow our way back to late 2007 levels.

The Federal Reserve continues to keep short-term interest rates at zero and appears comfortable leaving the stimulus in place for an "extended period" due to lack of observed inflation. Bonds rose 1.6% during the quarter, while absolute returns on cash were near zero. So while safe in the short-term and an important component of a diversified portfolio, cash should not be relied upon to generate competitive long-term investment results.

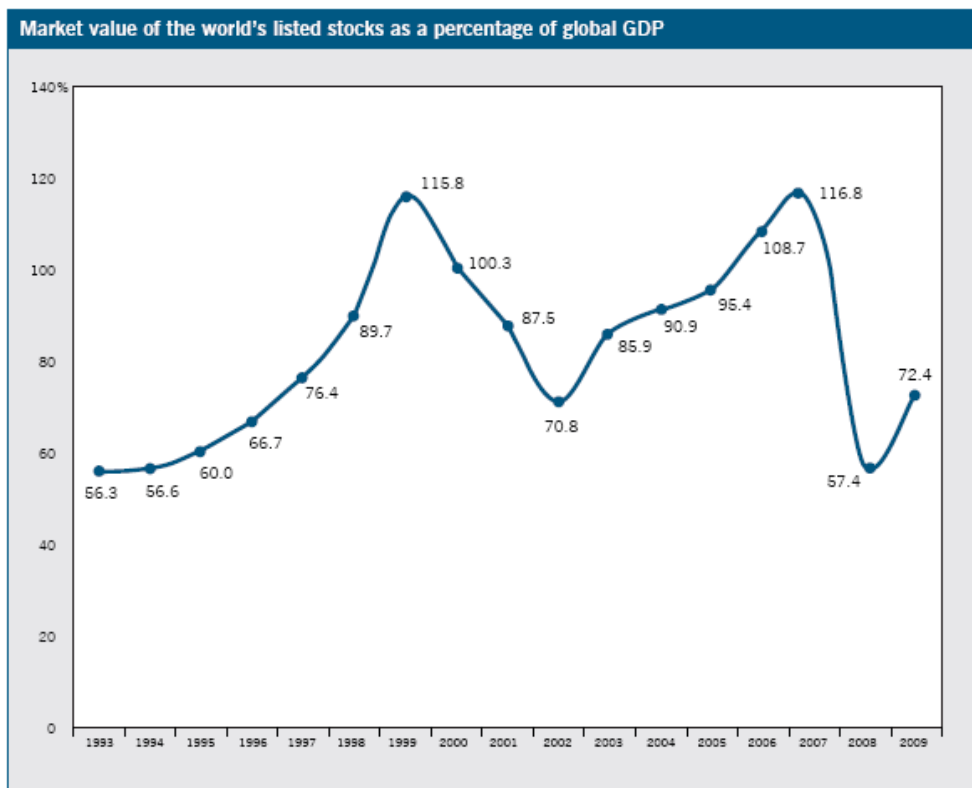
Asset Class Returns - Before the Impact of Inflation						
	Investment Type (Index)	1st Qtr	1 Yr	3 Yr	5 Yr	10 Yr
Equity	Large Cap (S&P 500)	5.4%	49.8%	-4.2%	1.9%	-0.7%
	Broad-Market (Russell 3000)	5.9%	52.4%	-4.0%	2.4%	-0.1%
	Large Cap Growth (Russell 1000 Growth)	4.7%	49.8%	-0.8%	3.4%	-4.2%
	Large Cap Value (Russell 1000 Value)	6.8%	53.6%	-7.3%	1.1%	3.1%
	Mid Cap (Russell Mid-Cap)	7.7%	63.0%	-2.0%	4.3%	-1.7%
	Small Cap (Russell 2000)	8.9%	62.8%	-4.0%	3.4%	3.7%
	International Equities (MSCI EAFE)	0.9%	54.4%	-7.0%	3.8%	1.3%
	International Emerging Markets (MSCI EMF)	2.1%	77.3%	2.8%	13.0%	7.3%
	Commodities (Dow Jones AIG)	-5.0%	20.5%	-6.9%	-1.4%	5.7%
	Real Estate Investment Trusts (NAREIT)	9.6%	98.9%	-11.0%	2.5%	11.0%
Bonds	Gov't & Corporate Bonds (Barclays Gov/Credit)	1.6%	7.5%	5.8%	5.2%	6.2%
Cash	Cash (T-Bills)	0.0%	0.2%	2.0%	2.9%	2.8%
	Inflation (CPI)	0.3%	2.3%	2.0%	2.4%	2.4%
Asset Class Returns - After Inflation						
	Investment Type (Index)	1st Qtr	1 Yr	3 Yr	5 Yr	10 Yr
Equity	Large Cap (S&P 500)	5.1%	47.5%	-6.1%	-0.5%	-3.1%
Bonds	Gov't & Corporate Bonds (Barclays Gov/Credit)	1.3%	5.2%	3.9%	2.8%	3.8%
Cash	Cash (T-Bills)	-0.3%	-2.1%	0.0%	0.5%	0.4%

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.

"It's good to have money and the things that money can buy, but it's good, too, to check up once in a while and make sure that you haven't lost the things that money can't buy." George H. Lorimer

A year ago, it would have been difficult for investors to imagine any positive news about the global economy or financial markets. But in recent months economic growth has picked up and corporate profits have been recovering. The economy still faces many challenges, including high unemployment, weak real-estate markets and rising government debt.

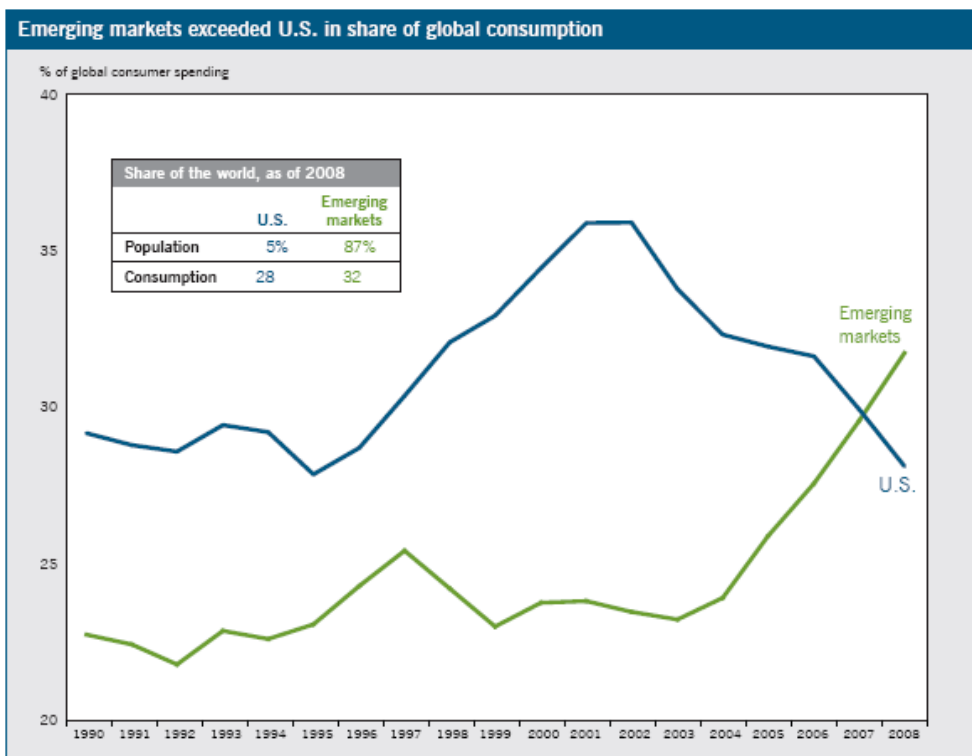
The world's stock markets saw strong recoveries in 2009. The chart to the left shows the market value of the world's listed stocks as a percentage of global GDP (economic output). At the peak of the market cycle the world's stocks traded at 116.8% of global GDP. At the trough, the ratio was 57.4%. While the recovery to 72.4% represents a large gain, this measure signals that world equity valuations look relatively reasonable by comparative measures.



Source: World Bank World Development Indicators and International Monetary Fund. Figure for 2009 is an estimate, based on preliminary data.

Integrating the world's economies creates opportunities and growth for many developing nations. As evidence of a big shift, countries in the developing world now account for a larger share of global consumption than the U.S. Where this is heading is anyone's guess, but developing nations now comprise 87% of the world's population, whereas the U.S. accounts for only 5%.

"My formula for success is rise early, work late and strike oil." J. Paul Getty



Source: J.P. Morgan Chase and United Nations. Consumption data based on nominal gross domestic product in U.S. dollars.