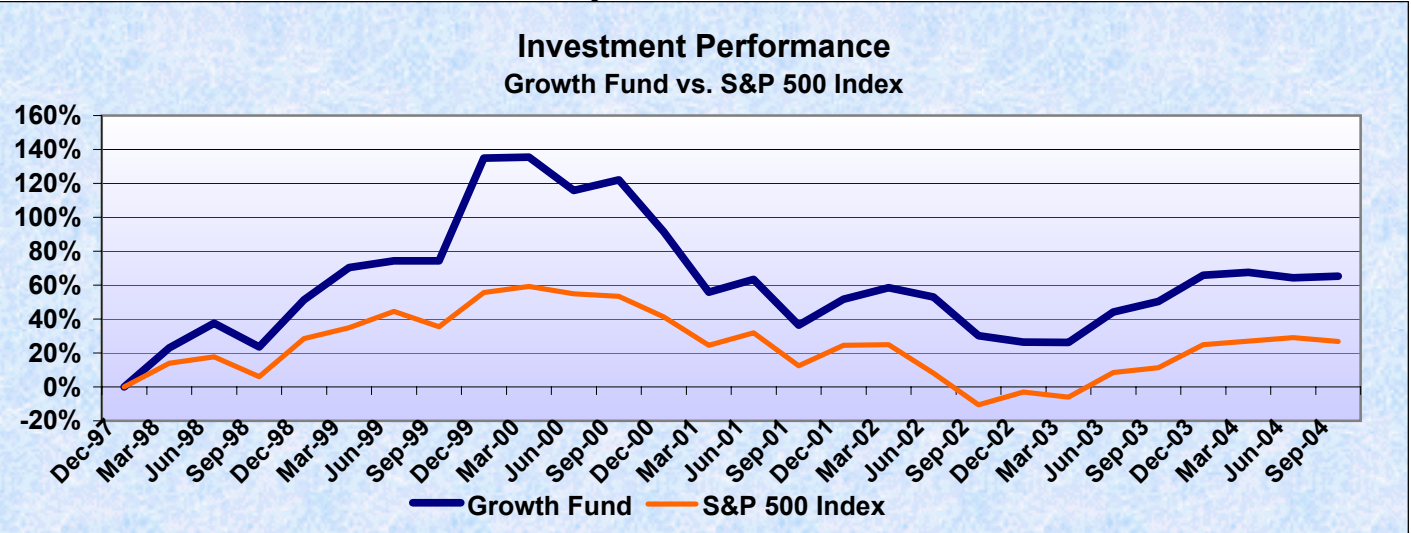


# November 2004 Commentary



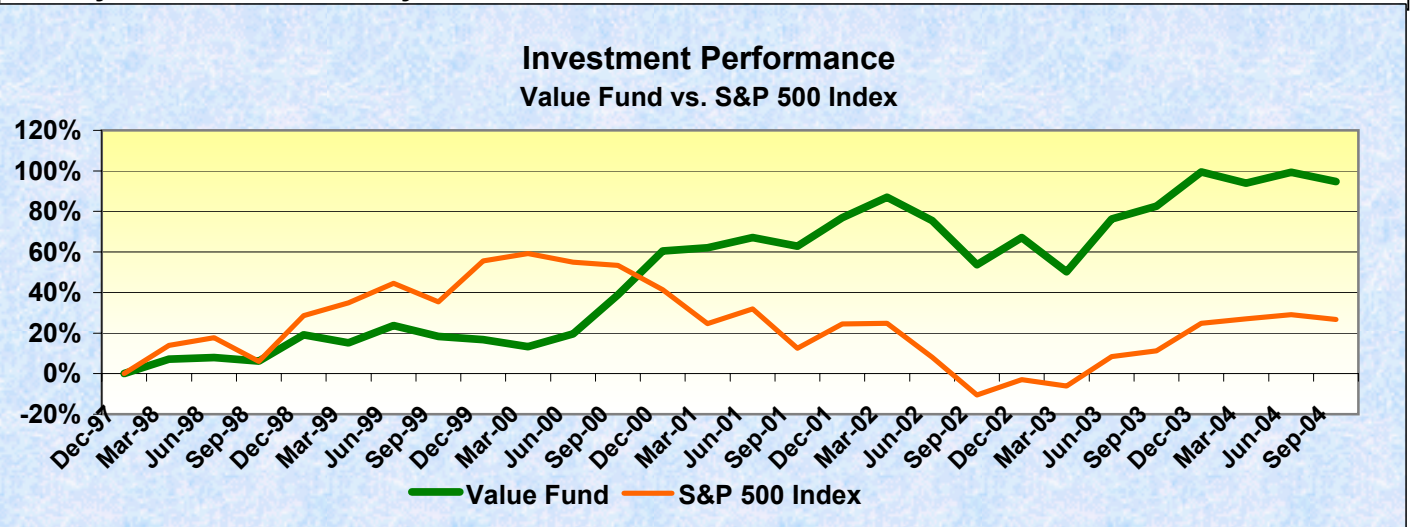
## Using Stock Market Volatility to Your Advantage

**"All growth is a leap in the dark, a spontaneous unpremeditated act without the benefit of experience."** - Henry Miller

The challenge with investing in stocks is that they are unpredictably volatile. And when returns are especially volatile, human nature can wreak havoc on investors' returns. History has shown that when investments under-perform for even a short period, people tend to feel discouraged and uncertain, and often decide to take their losses or shift to a style that seems to be working better. When a certain investment style enjoys a period of good short-term results, people often feel a renewed confidence and optimism and money pours in.

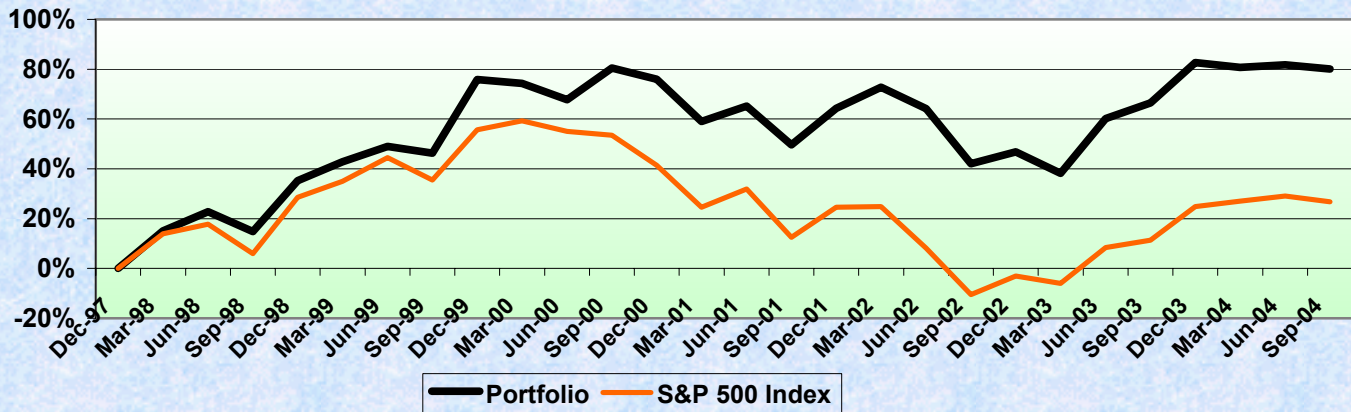
The two charts on this page illustrate the investment performance results for two different investment styles since 1998. The above chart shows the performance of a top-rated growth fund and the chart below displays the path of a top-rated value fund. Both funds have outperformed the stock market over the whole time period, but each followed a very different path. The growth fund did extremely well from 1998 to early 2000, far outpacing the S&P 500 Index, while the value fund lagged the market during the same time period. Then fortunes reversed as the value fund soared while the growth fund and the stock market declined. Over this time period, investors in both funds enjoyed market beating performance while suffering prolonged periods of underperformance.

**"What you risk reveals what you value."** - Jeanette Winterson



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### Portfolio Investment Performance Growth and Value Portfolio vs. S&P 500 Index



**"What I dream of is an art of balance." - Henri Matisse**

Often it seems it's not poor returns that hurt investors but rather the impact of volatility. Chasing after good performance results and frequently switching between investments harms returns. This observation is illustrated by the following data: Dalbar, a Boston based financial research firm, found the average stock fund delivered an average annual return of 10.2% from 1984-2002, while the average stock fund investor earned only 2.6% per year! Investors weren't buying low and selling high but rather doing the opposite.

One way to use the market's volatility to your benefit is to combine investments with different characteristics. The chart above shows how the combined investment portfolio of equal percentages in the growth and value fund previously presented would have performed. The 'portfolio' performed well when either the growth or value style was in favor and most importantly overall volatility was reduced. The result is a much smoother investing experience and improved likelihood that an investor stays on track with his/her investment plan.

Another tool that investors can use to make volatility their friend is rebalancing. By targeting specific percentages to invest in each fund and periodically rebalancing back to those targets it may be possible for investors to gain some additional return. In our example (chart below), rebalancing the same portfolio twice a year resulted in an additional return of just over 1% per year and further decreased the portfolio's volatility. Rebalancing helps investors buy low and sell high, and avoid the temptation of chasing after yesterday's hot returns.

**"Science is organized knowledge. Wisdom is organized life." - Immanuel Kant**

### Investment Performance with Semi-Annual Rebalancing Growth and Value Portfolio vs. S&P 500 Index

