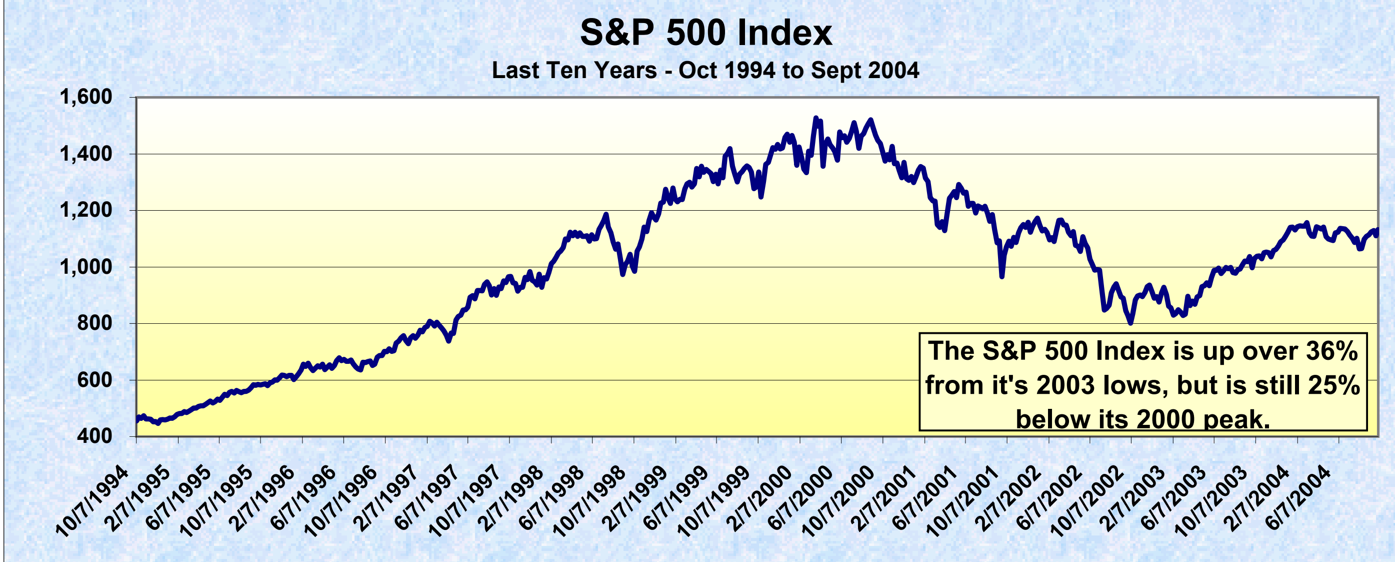
October 2004 Commentary

MADISON FINANCIAL ADVISORS



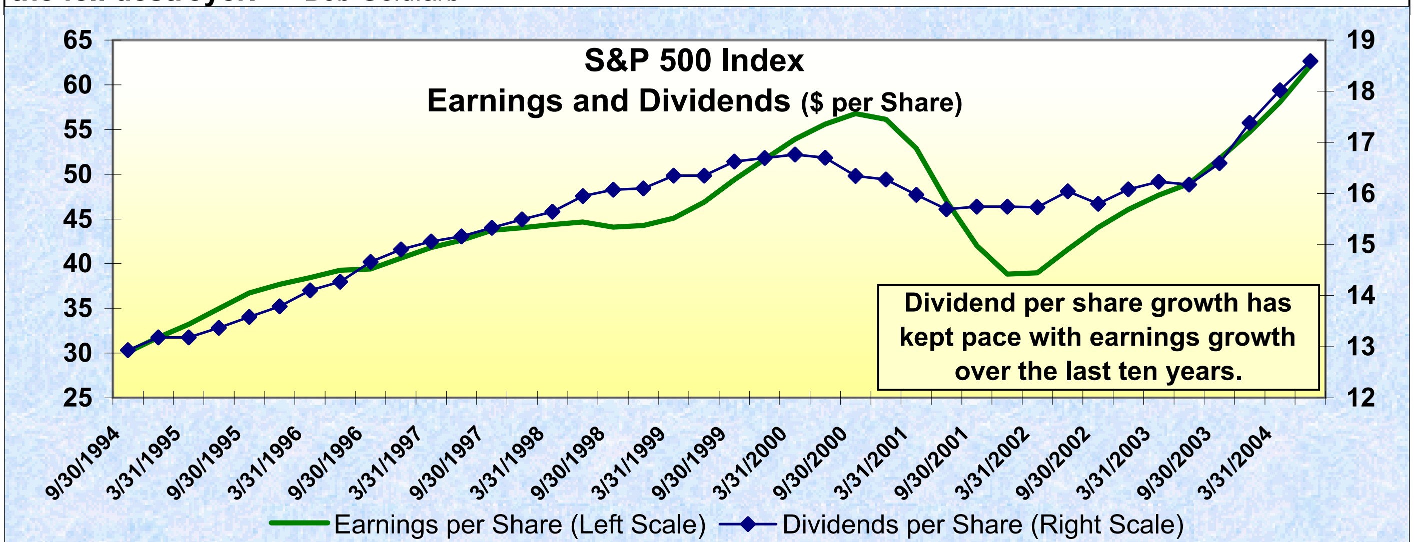
Third Quarter 2004 - Stocks, the Economy and Interest Rates

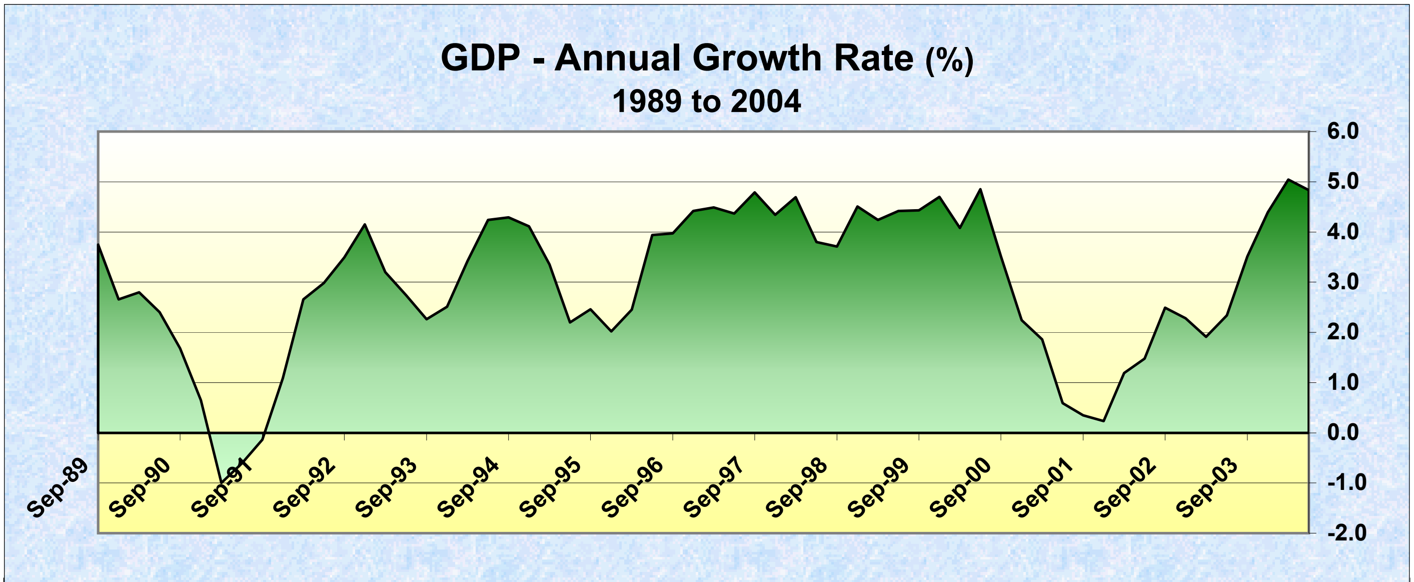
"**The art of being wise is the art of knowing what to overlook.**" - William James

After a strong recovery in 2003, the stock market has just bounced along in 2004. That said, many market observers are once again pointing to a discrepancy in the market. Pat Dorsey of Morningstar noted that "investors are paying more for lower-quality companies than they are for higher-quality companies. The same thing is happening with regard to risk: Lower-risk companies are, in general, cheaper than higher-risk companies."

Morningstar's analysts cover more than 1,400 stocks and for each one they publish 'fair value' estimates. In general, they've found that high-quality companies are currently trading for about 5% less than their estimates of fair value. By contrast, low-quality companies are trading for about 17% more than what Morningstar analysts believe they are worth. While we don't know when high quality will shine in the marketplace again we continue to focus on investing in high-quality companies that we believe are attractively priced.

"**Time is the friend of the wonderful business…Over time, the price you paid for a terrific company looks cheaper and cheaper. For the inferior business at the cheap price, time may turn out to be the fell destroyer.**" - Bob Goldfarb



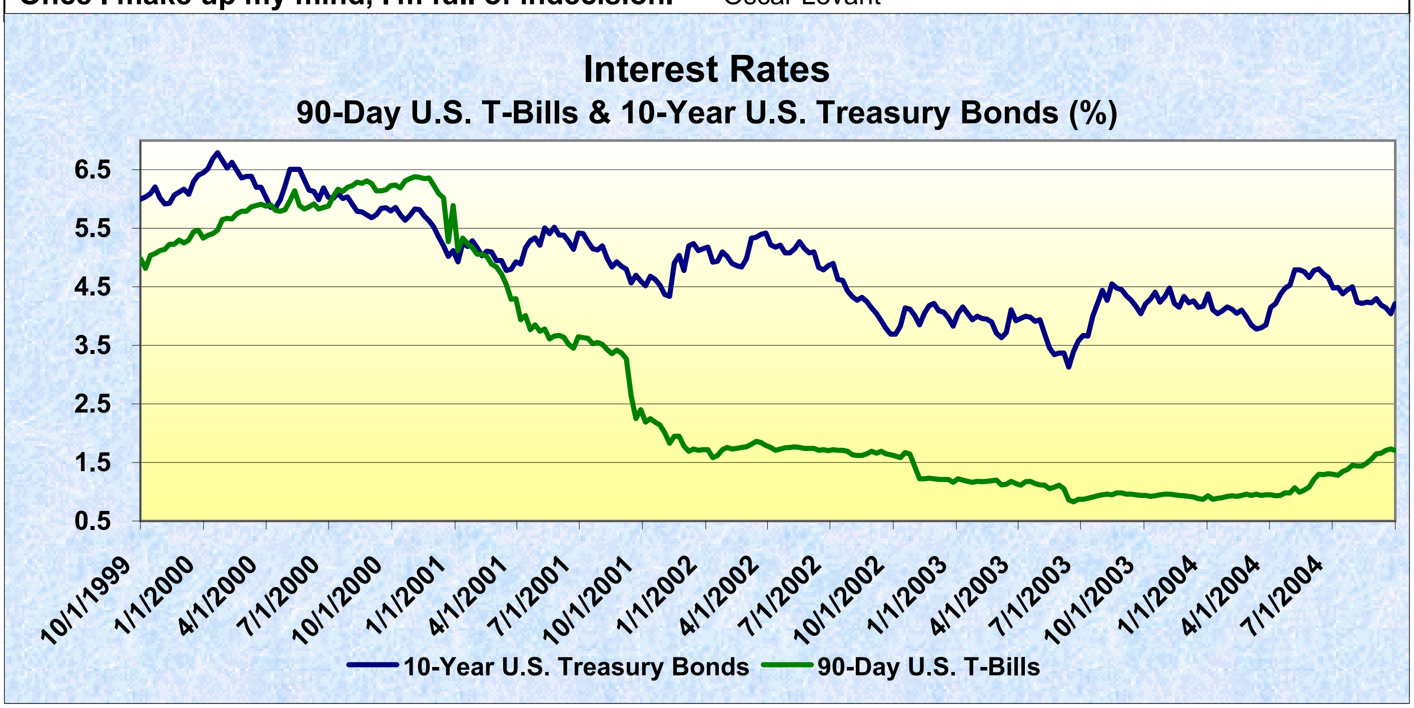


"The soft patch has ended. Tentative signs suggest that Q3 2004 GDP growth could exceed 4%" - Joseph Abate, Lehman Brothers

After experiencing a very shallow recession in 2001, the U.S. economy is growing steadily again (see chart above). Looking ahead, one of the biggest challenges the economy faces may be the impact of $50+ per barrel oil. A rise in the price of oil is, in effect, a tax on the consumer. It reduces consumers' real expenditures and that in turn reduces GDP growth. Recently Wal-Mart's CEO, Lee Scott stated that, "If 100 million customers (Wal-Mart's weekly customer count) are spending an extra $10 a week on gas, that's $1 billion in revenue that no longer exists." So clearly, higher energy prices impact consumer spending. Even so, perhaps not all is lost. The higher revenue earned by energy companies and foreign oil producers will filter back into the global economy. These oil producers will eventually spend their extra revenues. Nevertheless, in the short-term, higher energy prices could certainly cause the economy to lose some momentum.

As for interest rates, short-term interest rates are treading higher, but longer term rates can't decide which way to go. In June the Federal Reserve began an interest rate tightening program and 90-Day U.S. T-Bill rates have moved from 0.90% at the beginning of the year to 1.70% at the end of the third quarter. Longer-term rates, however, have fluctuated between 3.8% and 4.8% this year, and ended the quarter at about the same level as they began the year.

"**Once I make up my mind, I'm full of indecision.**" - Oscar Levant



Madison Financial Advisors
Cincinnati - Washington, DC - Tel: (888) 943-4198 - www.madisonadvisors.com