Recent Comments from Our Sub-Advisors

January – March 2010
Emphasis by Madison

Madison
WEALTH MANAGEMENT

Bill Gross – Managing Director, Pimco Total Return Bond Fund

~ "Bonds have seen their best days. Real (inflation adjusted) interest rates are moving higher. Bonds face a future bear market as central banks eventually normalize their policies and 0% yields."

~ "We face an uncertain and lower growth environment. The uncertainty comes from a number of structural headwinds in PIMCO's analysis: deleveraging, reregulation, and the forces of deglobalization – most evident now in the markets' distrust of marginal sovereign credits such as Iceland, Ireland, Greece and a supporting cast of over-borrowed lookalikes. All of them now force bond and capital market vigilantes to make more measured choices when investing long-term monies. Even though the government's fist has been successful to date in steadying the destabilizing forces of a delevering private market, investors are now questioning the staying power of public monetary and fiscal policies. **2010 promises to be the year of choosing "which government" can most successfully substitute the governments' fist for Adam Smith's invisible hand and for how long?**"

~ "The passage of health care reform represents a continuing litany of entitlement legislation that will add, not subtract, to future deficits and unfunded liabilities. No investment vigilante worth their salt or outrageous annual bonus would dare argue that current legislation is a deficit reducer as asserted by Democrats and in fact the Congressional Budget Office. Common sense alone would suggest that extending health care benefits to 30 million people will cost a lot of money and that it is being "paid for" in the current bill with standard smoke, and all too familiar mirrors that have characterized such entitlement legislation for decades. Front-end loaded revenues and back-end loaded expenses promote the fiction that a program that will cost $950 billion over the next 10 years actually reduces the deficit by $138 billion. After all the details are analyzed, Mr. Holtz-Eakin's numbers affirm a vigilante's suspicion – it will add $562 billion to the deficit over the next decade. Long-term bondholders beware."

Gordon Crawford – Portfolio Counselor, American Funds

~ "When I survey my investment opportunities today, it's not as exciting as it was in March, 2009. But even though things are recovered quite a bit, there are still lots of opportunities out there. The first step for me is getting the forest right before I worry about the trees. For me right now, the forest is: We live in a world in which there are vast changes going on in the global economy. The biggest one is just that the United States and Japan and parts of Western Europe are in secular decline in relative terms in the global economy. And the emerging markets – Brazil, India, China, the rest of Southeast Asia, Russia – are going to take major market share in the global economy. If I had to pick in the next – pick your time period, five or 10 or 20 years – **I think as much as 70% of the incremental growth in the global economy is going to be in the emerging markets. It's where the people are; it's where the unmet needs are. So, in the broadest of senses, it's where you should look to hunt**."

Brad Barrett – Investment Analyst, American Funds

~ "The most exciting thing that's going on is the growth of the global internet. What you're seeing is a really significant acceleration in how fast products can arise and reach a massive global audience. **It's interesting to think that a child born in India today can have access to more or less the entire globe's information** – not only the Library of Congress, but what is inside billions of people's minds and the world's news and information. When you think about how powerful a trend that is, you grasp that we've really just seen the beginning of how transformative this technology's going to be and how many really huge companies are going to be built on the back of it – Google being the first, most prominent example. So, the global internet is probably the most exciting opportunity in 2010 and beyond."