

## Recent Comments from Our Sub-Advisors

April – June 2010  
Emphasis by Madison

### Managers of the Dodge & Cox Stock Fund

- ~ **“The global economy is in the midst of what may be one of the greatest transformations in history.** Fueled by the adoption of free market economic principles and the flow of information via electronic communication, billions of people in the developing world are becoming active participants in a global, interconnected economy. The closest analogies to this transformation are the Industrial Revolution of the United States and Western Europe in the 19<sup>th</sup> century and the rebuilding of Germany and Japan after World War II. This process of emerging market growth started in the 1980s, with the opening of China and the fall of communism in the Soviet Bloc, and will likely continue for the next several decades. As we see in a number of countries like China, Brazil and India, industrialization and urbanization are progressing at a rapid pace and are accompanied by rising per capita incomes and living standards.”

### Calamos Research Team, Calamos Investments

- ~ “This was only the third time in the past 80 years when the trailing 20-year return on 10-year U.S. bonds has outpaced equities. But while noteworthy, on the few occasions when equities have lagged government bonds, the period of underperformance was brief and, more importantly, led to extended periods of equity outperformance.”
- ~ “The historical data paints a compelling picture for the future returns of equities over long-term U.S. government debt. More importantly, going forward we believe the current economic backdrop will provide an uphill battle for bond investors. The current high debt levels of the U.S. government and the tremendous growth in the monetary base suggest an environment of rising yields. **These factors couple with a federal funds rate near zero are ill omens for today’s fixed income investor.**”
- ~ “As of December 31, 2009, the S&P 500 had advanced nearly 70% from its lows, or about 51% of what was lost from peak to trough during the downturn. **Rallies following bear markets since the Great Depression have recouped a median of 186% of their losses.**”

### Carl Kawaja, Jonathan Knowles & Rob Lovelace – Portfolio Counselors, American Funds

- ~ “A lot of international market crises are applicable to this one. As dire as this one seems, I’ve definitely seen worse. And I’ve seen countries that are in much worse trouble than the countries in Europe are. I really do look upon these crises often as opportunities. People forget that as bad as these crises are for some companies, they are as good for other companies. Mexico and Brazil both encountered waves of devaluations until this decade. Some of the stronger companies got much stronger, post devaluation. They were able to buy their weaker competitors, export their way out of trouble and differentiate themselves.”
- ~ “Regionally, within Europe, you can see areas that are going to do well. A country like Germany that doesn’t have any of the fiscal issues, and doesn’t have any of the debt issues, is a direct beneficiary of a 15% depreciation of the currency, especially since many exporters are based there. Yields on stocks in Europe, on average, are now twice that in the United States, and the price/earnings multiples are trading at a 20% discount on average. So, there are some companies that are quite depressed in valuation that are pretty well-positioned, with good managements that have dealt with tough situations before.”
- ~ “Thailand was a real poster child for bad behavior in the 1990s, but if you’d bought Thailand back then, you’d have done very well. **I think the lesson for investors is, when things are desperate and everyone thinks the world is coming to an end, that’s usually quite a good time to invest.** It’s important to have a long-term view and realize that current conditions abate.”

## Jeff Auxier – Manager, Auxier Focus Fund

- ~ "Government bonds now appear to be mispriced in the other direction – too little return for the risk. **There is currently no such thing as a safe government.** I can't remember a time in my career when there was so little return for the risk of owning local, state and federal government securities."
- ~ "I had a recent discussion with David Coffman, author of a number of books on factors leading into bankruptcy. What is the number one reason for business failure I asked Coffman. He countered without hesitation: "Three letters, EGO." Lack of humility and decisions based on emotions, not facts, can sink the ship. We are seeing the dangers of unchecked egos in Washington, DC."

## Managers of the Tweedy, Browne Global Value Fund

- ~ "While the past 10 years has produced a rather dismal rate of return in general for equities, we would caution against a wholesale retreat from equity markets on the basis of what one reads in the financial media about the "lost decade of stock investing." It is a well established tenet in behavioral finance that many investors place far greater weight on a more recent set of factors and extrapolate them well into the future, often to their financial detriment. **Our point is that while a lot has been written about this period, we think it represents an incomplete picture and provides little guidance about the future.**"
- ~ "We believe there is good reason to be optimistic in the long-term despite the serious macroeconomic headwinds we are currently facing. The last time we faced a year like 2008 was in 1973-1974, when the prices of the "nifty fifty" growth stocks collapsed, sending equity markets into a tailspin that resulted in a loss of approximately 50%. Over the next 10 years, the S&P 500 and the MSCI EAFE Index compounded nominally at 14.8% and 13.5%, respectively, per year despite debilitating inflation during the Carter Administration that drove interest rates to as high as 21% in 1980. **Investors who are concerned about the economic headwinds we are currently facing should not lose sight of the fact that cheap valuations can often offset a lot of macroeconomic ills.**"
- ~ "While policy makers may stumble from time to time, we have great confidence in businesses, which are generally well ahead of governments in terms of rational behavior. One fact we find interesting is that in 1964, the S&P 500 earnings were \$4.76 per share. In 2009, the S&P 500 earnings were \$59.65 per share (a year in which S&P 500 profits declined substantially from the previous year). The interesting part, from our perspective, is that **despite enormous ups and downs in the economy and the world, businesses have done quite well over the years.** It is sometimes easy to forget just how adaptive and creative businesses are in a changing world and it is this adaptability and creativity that has enabled them to prosper."
- ~ "Dividend stocks are the "growth bonds" of the equity world. For example, Coca-Cola has increased its dividend every year for the last 48 years, and had grown its dividend at over 10% per year over the last five years. Emerson Electric has increased its dividend each year for the last 53 consecutive years, including during the peak of the financial crisis, and has grown its dividend at over 10% per year over the last five. Johnson & Johnson has raised its dividend every year for the last 47 years, and has grown its dividend at nearly 12% per year over the last five years. Conservatively, if our companies are able to grow their earnings at 3% to 5%, and continue to pay a dividend yield of approximately 4%, and the current P/E multiple remains constant, we may be able to generate total returns on these securities that are nearly double that offered by high grade corporate bonds held to maturity."
- ~ "A reporter recently asked us what the significance of co-investing with our clients was. We responded that it was a bit like going to a doctor who prescribed a course of action for you that was different from what he or she would prescribe for themselves or their family. We want the same medicine the doctor would take. **We do not have any other prescription for your money than we have for our own, and that will not change.**"