

2009 Economic and Stock Market Outlook

Please refer to Appendix – Important Disclosures and Analyst Certification

The Three D's and a Cautionary Tale about Perspective

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Outlook Summary

Prospects Favor Emergence of Cyclical Bull Market

Reward on S&P 500 to 1100

Recession Ends by Mid- 2009

Economy, Markets Undergoing Generational Change That Could Restrain Recovery

As 2008 comes to a close, the major stock indexes are trading near multi-year lows that are, in many cases 50% below the highs seen in late 2007 and the economy has been in recession for a full year. As financial market conditions and the economic data deteriorated over the course of the fall and into early winter, historical comparisons have abounded as context for the current period has been sought. Would 2008 be a replay of 1980 or perhaps 1974? The more dire comparisons focused on the Great Depression, with parallels being drawn between 2008 and 1929 or 1932. Those looking for international comparisons have suggested Japan or Sweden of the 1990's (the pessimists have pointed to Japan, the optimists, Sweden). In reality, however, overwhelming levels of debt, the construct of the modern financial system (including nearly \$600 trillion of notional amounts outstanding of over-the-counter derivative contracts), and aggressive actions by the Treasury department and Federal Reserve mean that 2008 is without precedent and is likely to prove to be a benchmark year for the future.

The events of the past year have introduced investors to a whole new lexicon, but the key words going forward, into 2009 and beyond, seem to be the three D's – Debt, De-leveraging, Deflation. 2008 has seen the bursting of the debt-bubble which has been a generation in the making, a system-wide de-leveraging process at both the household and corporate level, and a rising risk of deflation. It is our view that these forces are combining to produce a generational shift in the economy and the stock market. Gone are the days of financial companies leveraging up to make profits out of peanuts and households fueling consumption by extracting equity (the fancy way of saying borrowing) from their homes. Going forward, households are expected to shift away from consumption and towards savings (actually putting money away in the bank, not just assuming that home value appreciation will fund one's retirement), corporate balance sheets will shift towards equity and away from liabilities (thereby reducing profit margins), and the increased regulation that reduces risk will likely also reduce reward. The cautionary tale about perspective deals with making distinctions between cyclical developments, secular shifts and generational changes. Without the proper perspective, this generational change may be perceived (and reacted to) as nothing more than a cyclical development. Participants that grasp the magnitude of this change are likely to fare better than those whose view remains fixated on the previous paradigm. The good news is that the 2008 wash-out, while at times disorderly, has been an important first step in establishing a more firm foundation for the markets and the economy. The following outlook for 2009, ordered by our weight of the evidence classifications, suggests that economic prospects could stabilize in 2009 and that, at least for the first half of the year, stocks could be poised to work higher.

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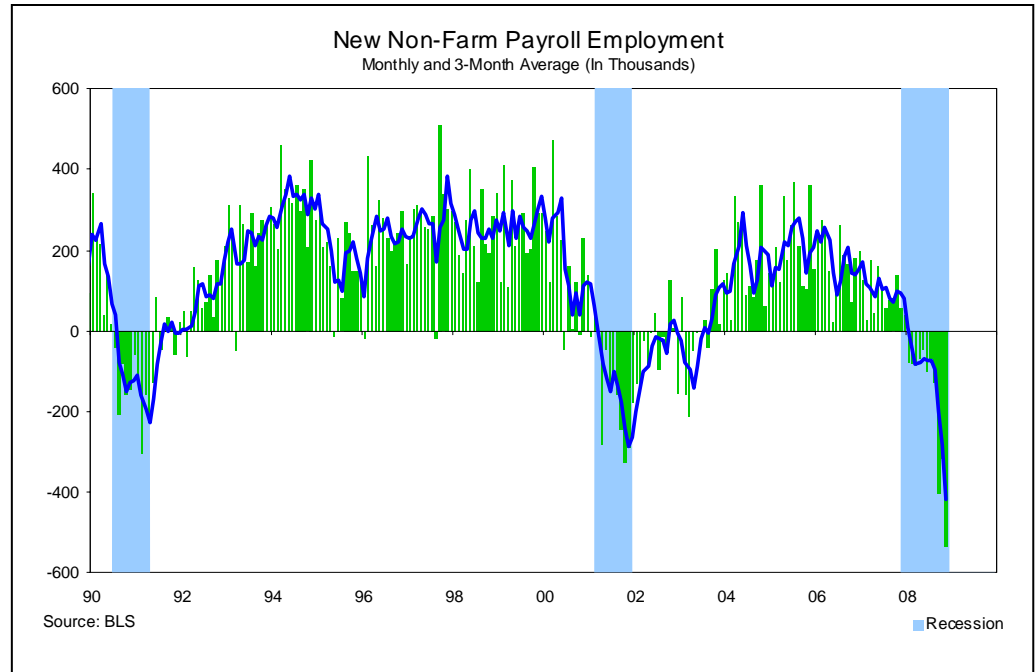
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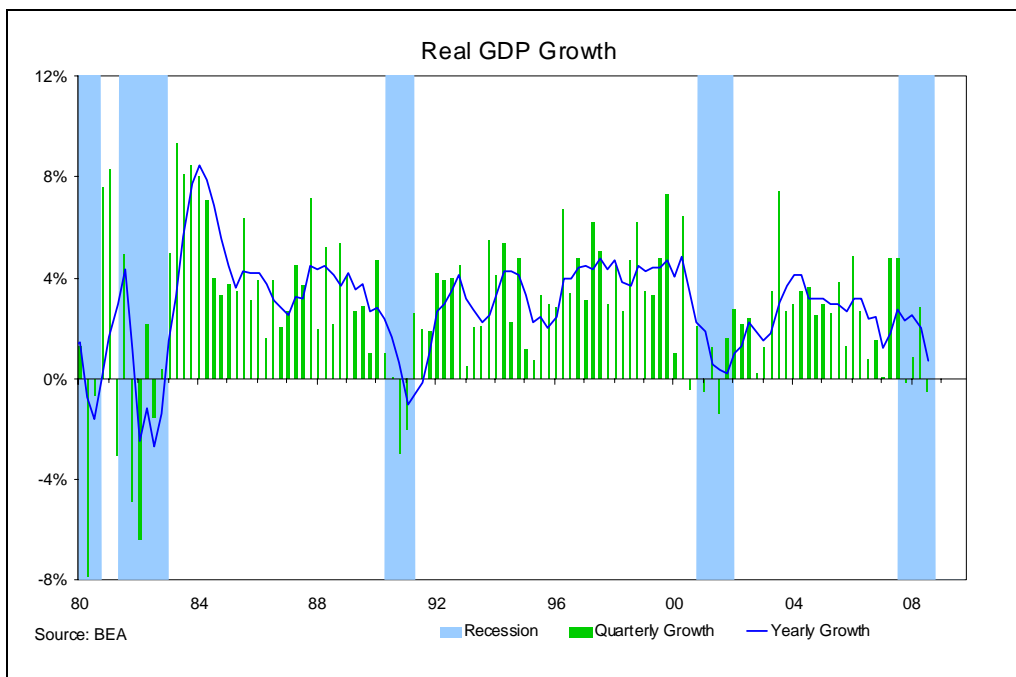
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Economic Fundamentals

The economic fundamentals deteriorated over the course of 2008. While employment peaked in December 2007 and has fallen every month since (the latest data showed a loss of more than half a million jobs in November alone), other indicators were more mixed. After showing a slight decline in the fourth quarter of 2007, GDP growth resumed in the first half of 2008, posting quarterly gains of 0.9% and 2.8% in the first and second quarters, respectively. Output fell at a 0.5% annual pace in the third quarter, with a much larger loss expected in the fourth quarter. Absent the second half weakness that accelerated as financial market conditions deteriorated, it is not clear that the current period would have garnered the recession designation. However, that weakness did emerge, and the National Bureau of Economic Research has now seen sufficient data to identify December 2007 as the beginning of the recession.



The 10 previous post-WWII recessions have lasted an average of 10 months and none of them have lasted longer than 16 months. This means that the 2008 recession is already longer (assuming, safely, that it did not end in October) than average, and if it persists into the second quarter of next year (which also appears to be a relatively safe assumption at this point) it will be the longest recession since the onset of the Great Depression in 1929. It remains possible that we are in the final stages of the recession, and that the job losses seen over the past three months (in excess of 1.2 million jobs have been cut) represent the peak in downside momentum. The unemployment rate is likely to continue to rise well into 2009 even if the recession soon ends (the unemployment rate is considered a lagging indicator and tends to peak well after the trough in economic activity). While the pace of the decline in output (and payrolls) seems likely to slow in coming months, the credit markets are only barely functioning, homes prices have shown little sign of stabilizing, and consumer

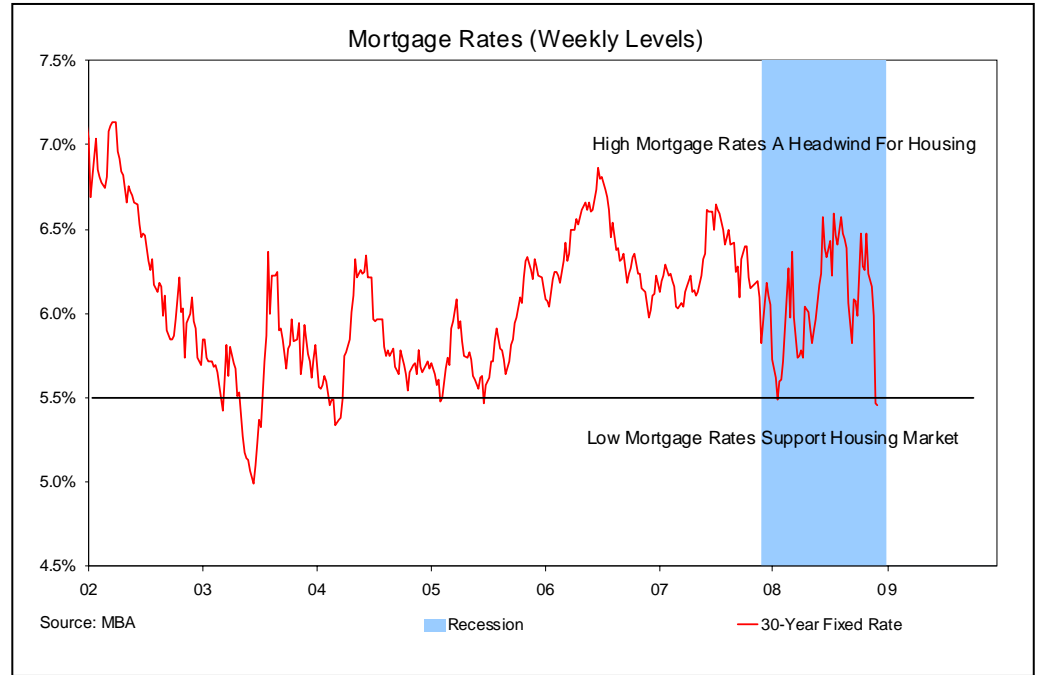


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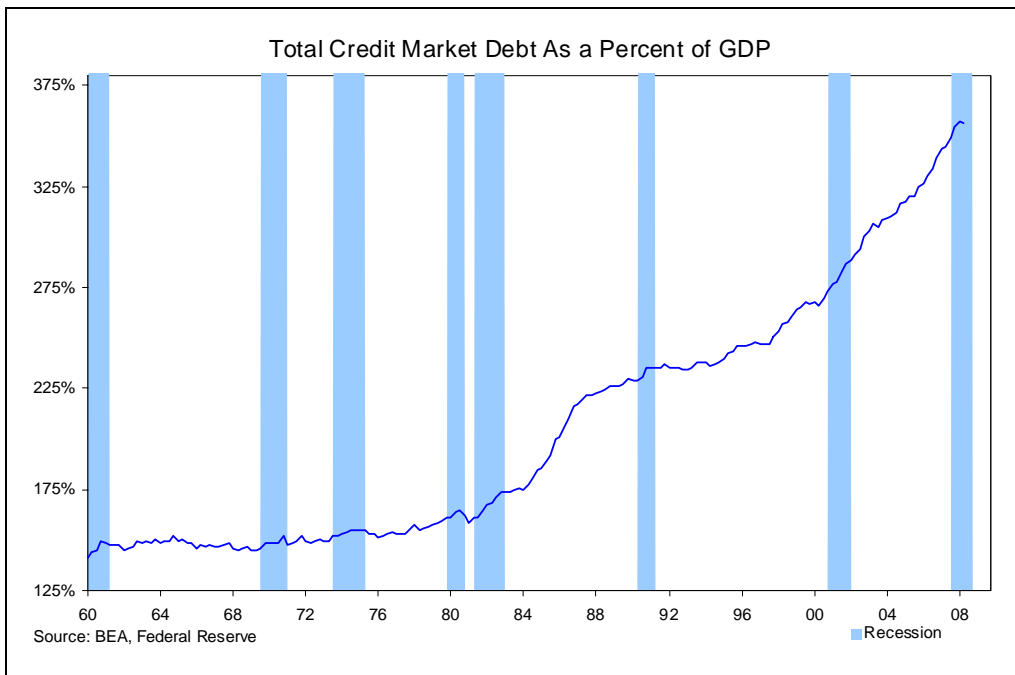
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debt loads remain burdensome. We likely need to see significant improvement in at least two of these three areas to gain conviction that an end to the recession is at hand.

We will address the credit markets and actions being taken to re-start activity there in the following section, but should note here that we are now seeing some improvement in an interest rate that matters to consumers- mortgage rates. The rate on the 30-year fixed rate mortgage (according to the MBA weekly survey) fell by more than 50 basis points (half a percent) to 5.47% in the final week of November, dropping to its lowest level since early 2004. Mortgage activity surged as a result, with re-financing activity doubling from the previous week and purchase application activity rising by 50%. Lending standards have become tighter, but declining mortgage rates (especially coupled with declining home prices) increase housing affordability, a necessary precondition to spurring demand and allowing for the emergence of



home price stability. With lower mortgage rates now being explicitly talked about by the Federal Reserve and Treasury, rates could drop further, perhaps into the 4.5%-5.0% range. Weakness, however, has spread beyond the housing market, and the lack of activity in the credit markets is choking activity in the business sector. Commercial paper (used by corporations to meet short-term funding needs) outstanding has expanded in recent weeks, but remains more than 25% below its mid-2007 peak.

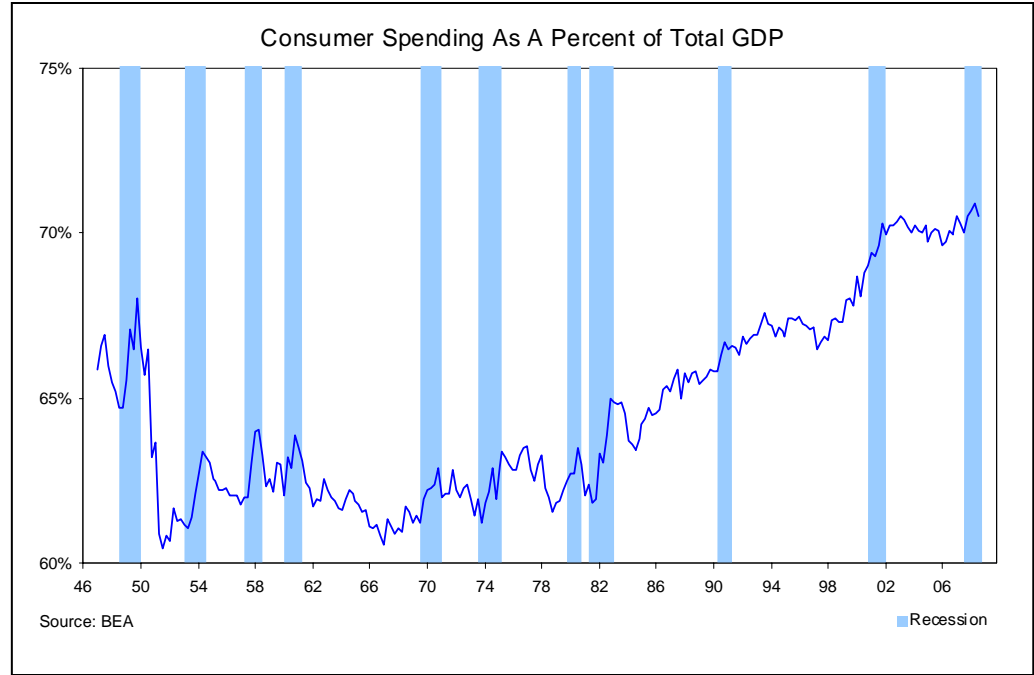


While restoring activity to the credit markets and facilitating the emergence of home price stability may be cyclical in nature, excessive consumer indebtedness has been a generation in the making. Total credit market debt has risen from the roughly 150% of GDP that persisted from 1960 through 1980 to 270% of GDP at the beginning of this decade to more than 350% this year. In periods of expansion, rising debt levels have worked as leverage, adding to overall growth. However, the benefits from this debt financing have diminished in recent decades. In the 1950's every dollar of

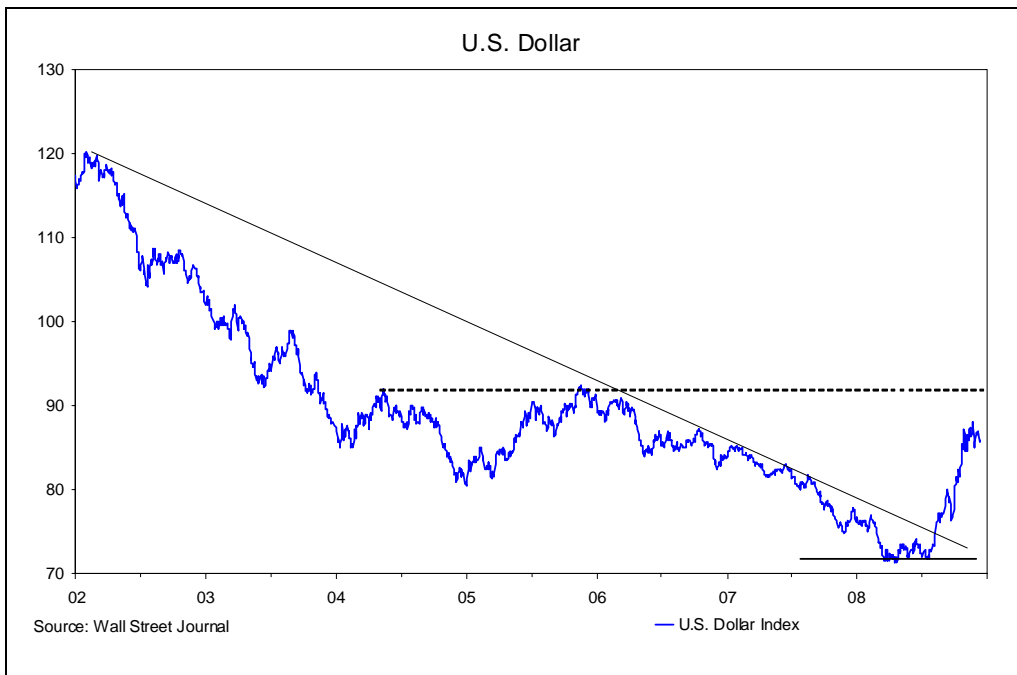
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new debt produced 73 cents of GDP, but in the current decade, every debt dollar has produced only 19 cents of growth. While the benefits were diminishing, they remained positive. With economic weakness now having emerged, however, the risk of indebtedness has become more visible and is adding to the downturn. Debt burdens typically represent a high fixed cost on households, reducing the budgetary flexibility that is needed in periods of weakness. Further, the corollary to high levels of indebtedness is that savings levels are low, leaving little or no cushion for consumption. Falling asset prices exacerbate the problem as credit availability falls. This leaves the consumer with little choice but to retrench. While a longer-term shift in this regard would improve the underpinnings of the economy (the consumption portion of GDP has risen to more than 70% in recent quarters versus the long-term average of less than 65%), the emergence of a thrift ethic now would prolong the current recession. Nonetheless, the emergence of a



longer-term trend towards savings would allow the U.S. to rebuild its capital base and provide a source of funding for the government, which will soon need to deal with the massive impending liabilities posed by Social Security and Medicare. The burst of the debt bubble, then, adds to the current economic weakness, but the far greater impact will be in coming years, as a shift from consumption to savings and investment would suggest a more muted economic recovery and slower growth going forward.

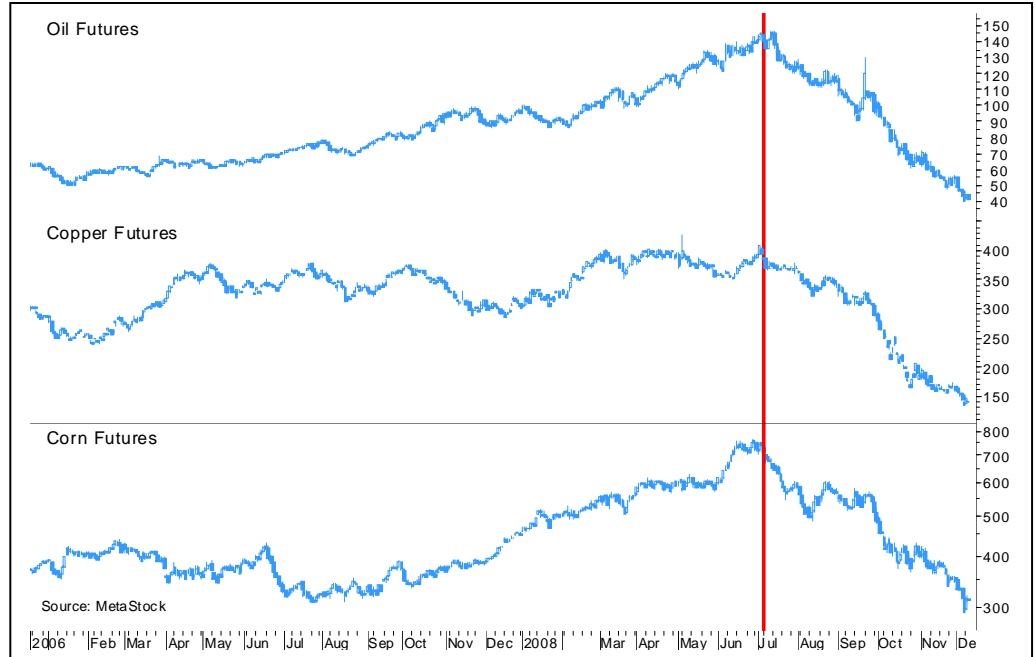


The bursting of the debt-bubble and the associated de-leveraging have combined to raise the spectre of deflation, to the point that it (deflation) has received mention at the FOMC meetings and is referenced in speeches by Federal Reserve officials. The foreign exchange value of the dollar has surged and commodity prices have plummeted. Just as a declining dollar has inflationary effects, a rapidly appreciating dollar adds to deflationary concerns. Our view is that the near-term strength in the dollar reflects a global flight to safety and

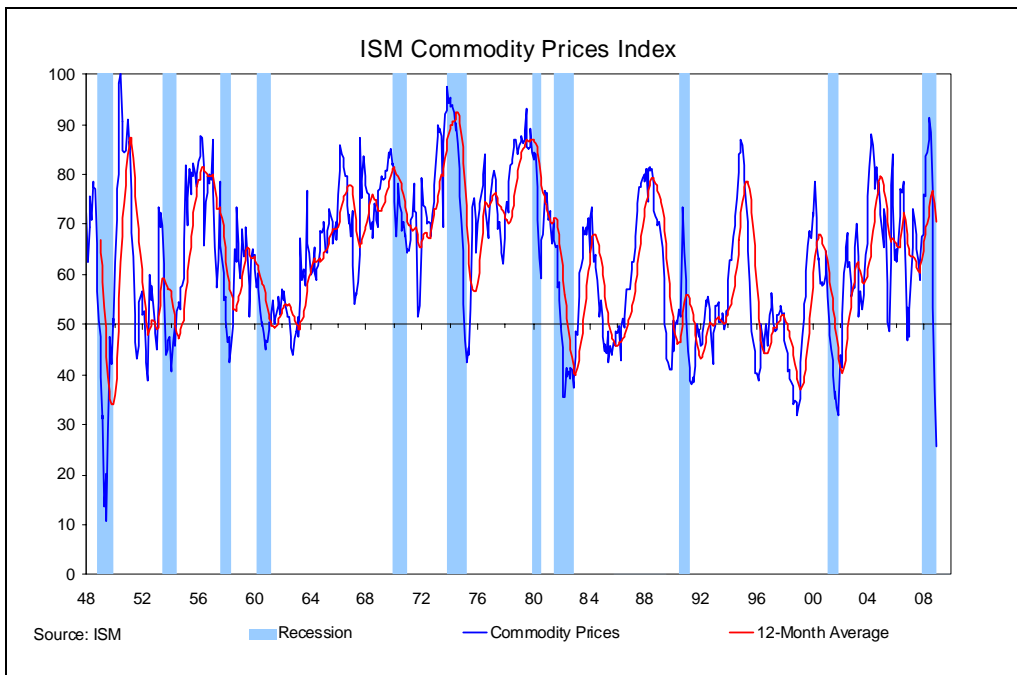
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further upside could be limited. Longer term, prospects for the dollar are more unfavorable, in large part due to the likelihood of heavy borrowing by the government to fund Medicare and Social Security in coming years, to say nothing of near-term budget deficits that could top \$1 trillion on an annual basis starting in 2009. Declining commodity prices are stoking fears of deflation. Oil has fallen from a mid-year high above \$145/bbl to a recent low (as of this writing in early December) below \$42/bbl, its lowest level in four years. Corn prices are nearly 60% below their peak and copper has lost nearly two-thirds of its value since mid-year. Gold is the exception and while gold prices have come off of their early-year highs, they are roughly where they were a year ago. The ISM Prices Paid Index for Manufacturing fell from 91.5 in June to 25.5 in November, its lowest level since 1949, the last time that yearly inflation was significantly below zero. While the possibility of deflation has certainly risen, the probability remains low and the Fed is acting aggressive to prevent the gathering deflationary forces



tightening their grip on the economy. The effects of deflation become particularly onerous in a debt-based economy and it appears that the Fed has at least in part taken to heart the lessons about Black Swans – rare (and seemingly unlikely) events can have significant impacts and may need to be accounted for. This has not been all bad, however, as plunging oil prices have provided drivers with relief at the pump.



Our view for the economic outlook for 2009 can be summarized thusly – the current recession is likely to persist into mid-year, with the steepest declines in output being seen in the fourth quarter of 2008 and the first quarter of 2009. The keys for ending the recession are home price stability, easing of household debt burdens, and a return of corporate borrowing. The massive liquidity injections by the Fed are being absorbed by the deleveraging process that is going on at the corporate and household level, suggesting that even if growth returns in the second half of 2009, it is likely to be relatively anemic. Inflation is easing, but a broad deflation is unlikely to take

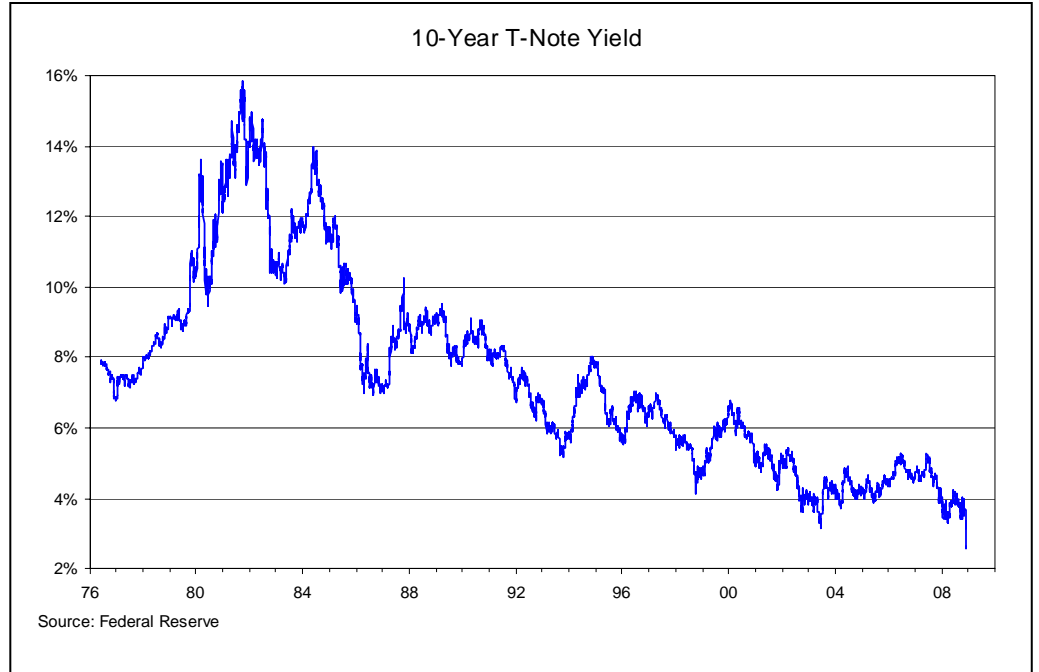
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hold. Dollar strength seems unsustainable over the longer term, and upward pressure on Treasury yields could emerge in 2009.

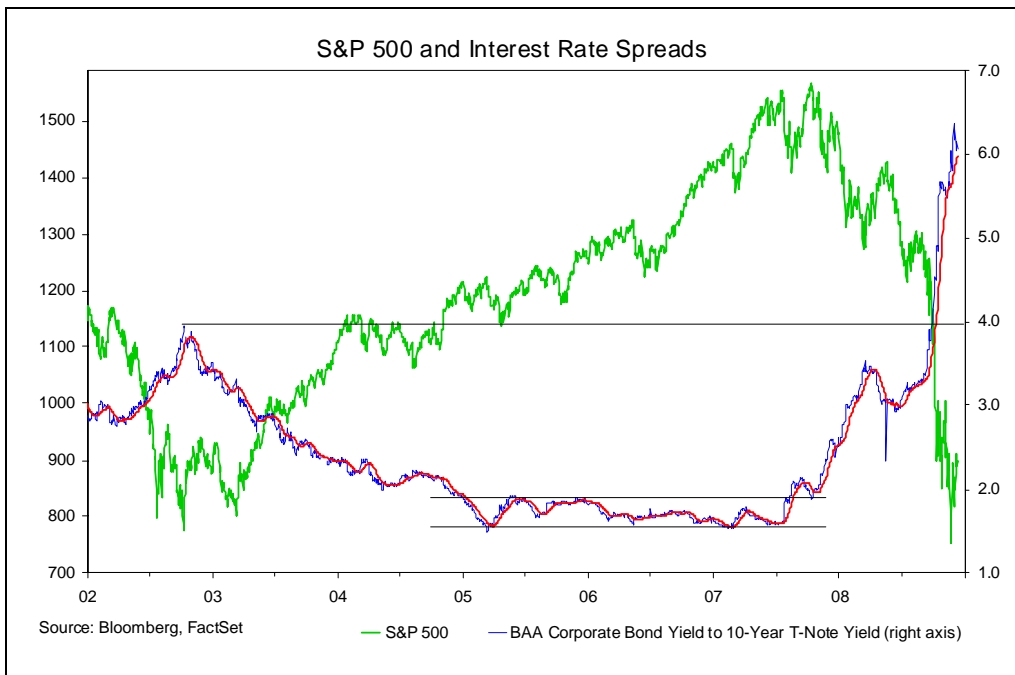
Federal Reserve Policy

To say that the Fed has responded aggressively to the economic and financial market developments of 2008 risks understatement. Under the leadership of Ben Bernanke, who as a scholar made his name studying responses to financial crises of the past, particularly the Great Depression, the Federal Reserve has moved from lowering the fed funds rate to paying interest on bank reserves, to instituting a number of lending facilities that have allowed it to buy an increasingly wide array of securities. These non-conventional approaches to monetary policy became necessary as the dislocations in the credit markets disrupted the transmission mechanisms for the monetary policy that work during normal times. This past year, however, has been anything but normal, and the



emergence of discrete risk as opposed to continuous risk (i.e. degrees of risk did not matter, any risk was deemed by the market to be too much risk) distorted credit spreads and led to a rush in to Treasuries. While Treasury yields fell, this did not translate into cheaper credit for companies or consumers. In fact, credit market conditions deteriorated to a point that credit became scarce for everyone except the federal government.

Bank lending has also declined, as de-leveraging in a down market has left banks woefully short of capital.

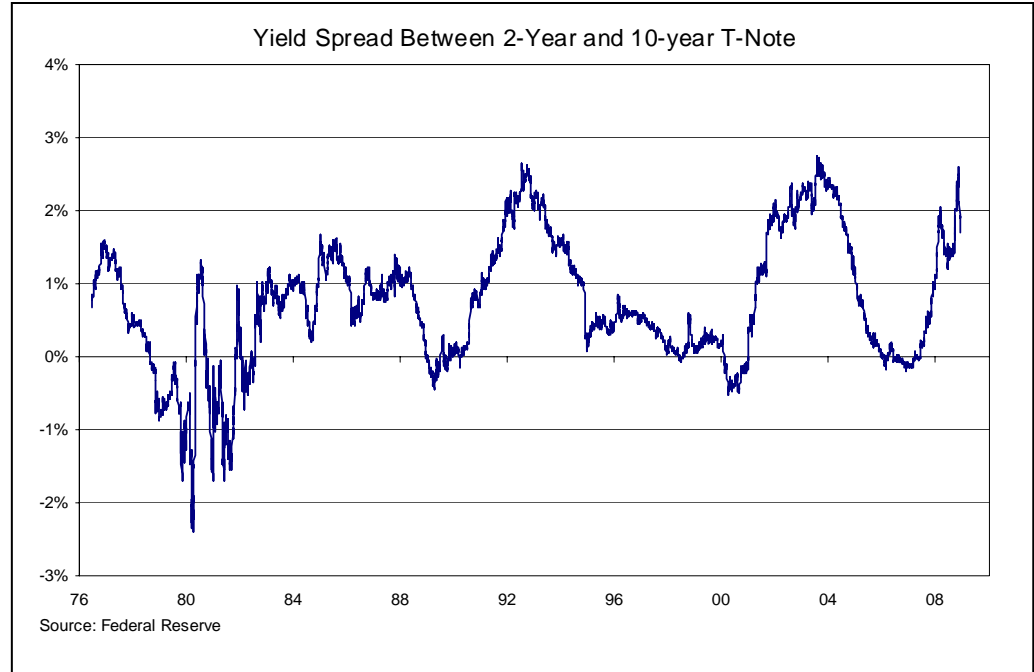


Recognizing their role as lender of last (only) resort, the Fed has embarked on an aggressive strategy to get money flowing in the credit markets and to re-capitalize banks. Over the past year, the Federal Reserve has instituted 11 lending facilities for terms ranging from overnight to at least a year. This has produced an expansion in the Federal Reserve's balance sheet over the past year from \$900 billion to \$2.2 trillion, with the Fed's leverage ratio expanding from 23 to 1 to more than 50 to 1. At the same time, the mix of

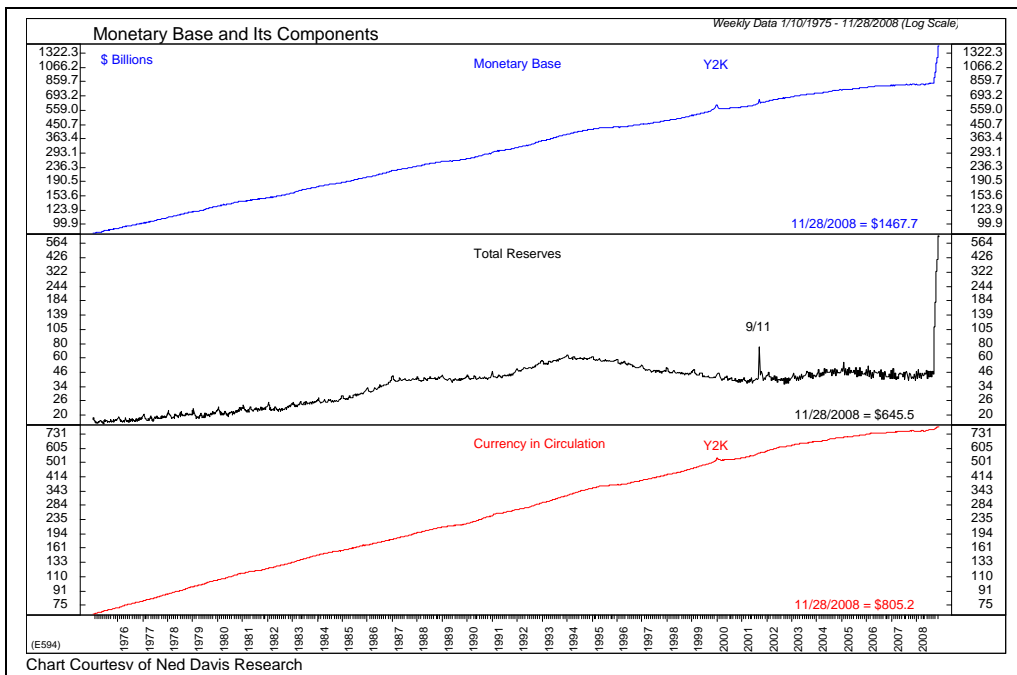
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assets has grown decidedly more risky, with government securities falling from 88% of assets to only 22%. New lending by the Fed and direct injections of capital into the banking system by the Treasury department under the TARP (Troubled Asset Relief Program) has led to a surge in bank reserves in recent weeks and months. Other bank re-capitalization efforts by the Fed include now paying interest in banking reserves and steepening the yield curve (which would allow banks to capture the spread between borrowing short and lending long). Prior to the late-November collapse in yields at the long-end of the Treasury curve, the spread between the yield on the 10-year T-Note and 2-year T-Note surged towards the 30 year highs seen in 1992 and 2003.



this seems two-fold. First, and perhaps most importantly, is that the capital position of banks had so badly deteriorated and the cost of borrowing from the Fed and capital injections by the Treasury was sufficiently cheap enough that banks lack incentive to lend. That so much of the "liquidity" that has been injected into the system has been absorbed directly by the banks suggests that concern about rampant inflation as a secondary effect of recent Fed policies may be overstated. To be sure, the continuation of an easy money policy, after conditions have stabilized and the deleveraging cycle has run its course, could lead to upside pressure on inflation, but given the degradation in the financial system, that point remains in the future. The second reason behind the lack lending is shorter term in nature. With economic conditions having deteriorated, lending standards have tightened. As is often the case in periods of weakness, those who could get loans, tend not to want them, and those who want loans, tend not to be credit-worthy enough. As the recession moves towards

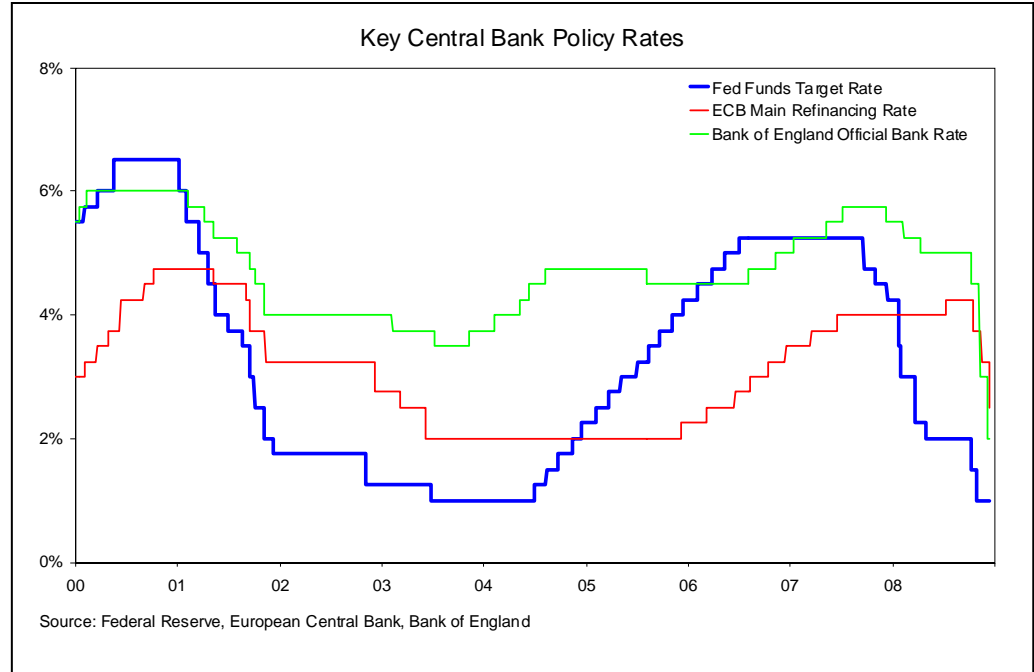


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completion in 2009, lending standards could ease and credit could again begin to flow. While banks are aggressively seeking to shore up their capital positions, they will soon, at least to a degree, have to again begin behaving like banks and making loans to households and corporations.

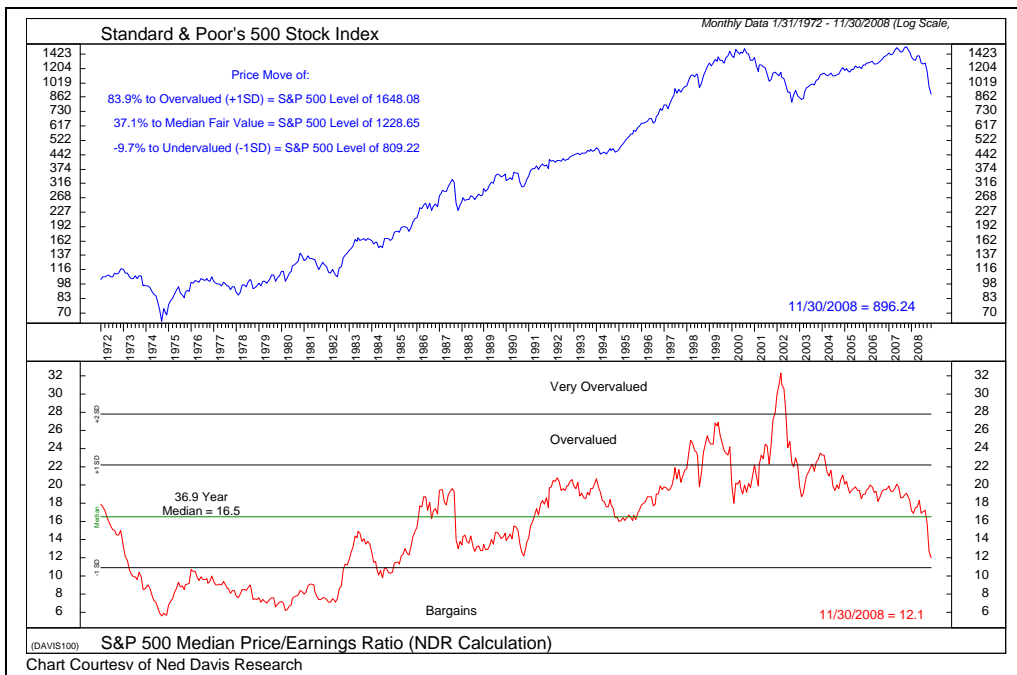
As credit begins again to flow, the effects of the recent actions by the Fed will be more easily recognized. However, the deflation risks brought on by the bursting of the debt bubble and the resulting de-leveraging are significant and are unlikely to be quickly resolved. This suggests that the Fed could remain accommodative for some time. While it took the Fed 17 steps over the course of two years to raise the fed funds rate from 1.00% to 5.25%, it took half as many steps and half as much time to drop rates back to 1.00%, and expectations are that the fed funds rate could be at 0.50% by year-end. Global central banks have joined the Fed in cutting interest rates. The mid-October coordinated move by six global central banks



was the first of its kind. The Bank of England has lowered its official bank rate by a total of 250 basis points at its last two meetings and the European Central Bank has lowered its main rate from 4.25% to 2.50%, after having raised rates earlier in the year. The lesson that the Fed will hopefully take from the 2001 recession is that once conditions have improved such that higher interest rates are warranted, significant initial rate hikes may be called for. For now, the bias is towards low rates and easy money as the Fed focus on slow growth and deflation risks rather than an inflation threat that looms some quarters into the future.

Valuations

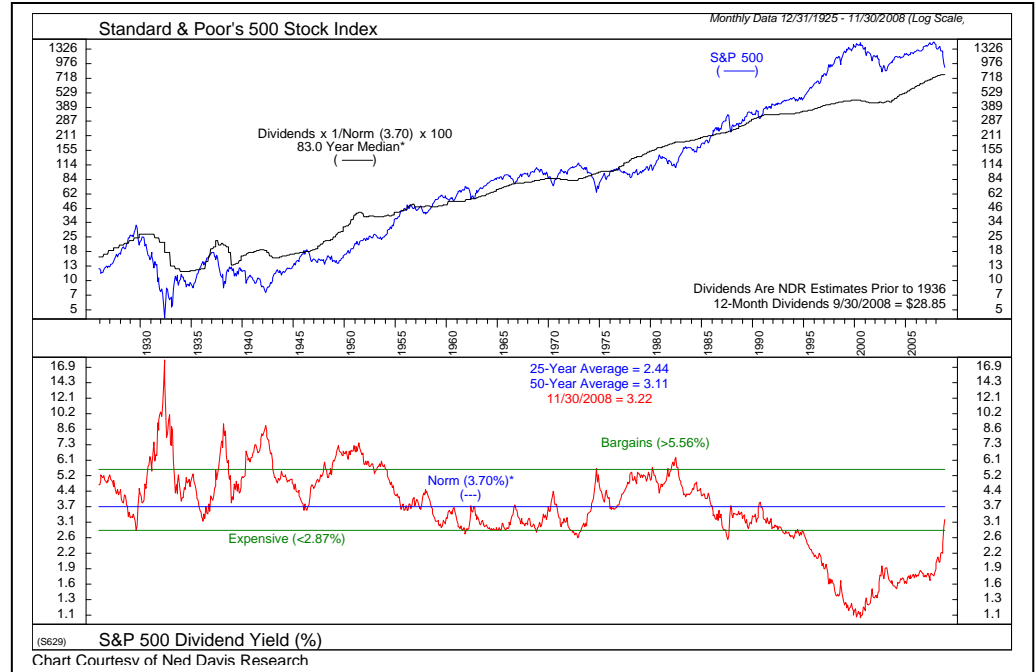
Stock market valuations have come down significantly over the past year, although a shift towards government and regulatory regime that reduces risk (and thereby reward) would argue for lower sustainable valuations going forward. While the S&P 500 index has fallen by more than 50% since its October 2007 peak, trailing 4Q reported earnings are 41% below their year-ago level and operating



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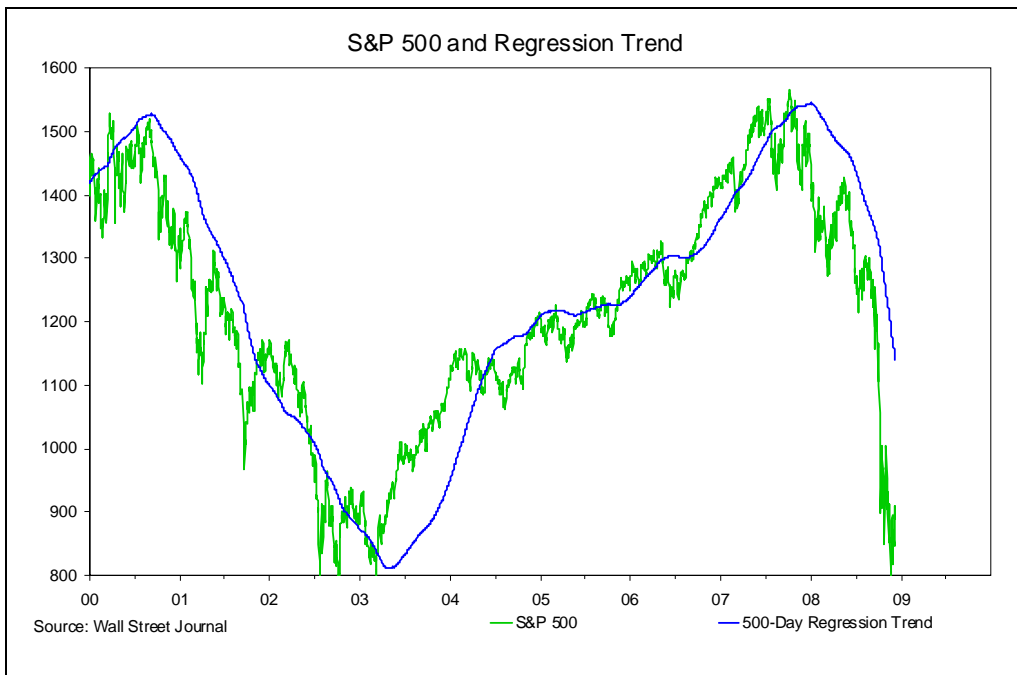
earnings have fallen by (only) 27%. The decline in price has outpaced the decline in earnings, sending price/earnings (P/E) ratios lower. The S&P 500 median P/E ratio has fallen to nearly 12, its lowest level since the 1980's. The S&P dividend yield has continued its multi-year rise and is at its highest level since the early 1990's. However, it remains shy of its long-term (83 year) median level, reflecting in part the distortions that have entered the stock market over the past generation. Not only is the regulatory and risk-taking regime changing (and potentially dampening stock market returns), but the transition from a consumption-based economy to a savings-based economy is likely to restrain economic growth going forward. Further, the financial engineering has driven a large part of the gains seen in earnings per share in recent years. While NIPA profits posted a 78% gain in the five years that ended in mid-2007, operating earnings for the S&P 500 were up 120% and reported earnings rose 243%. These gains were realized by



leveraging balance sheets by issuing debt and reducing equity. The de-leveraging process that has now begun suggests that even when the current cyclical downturn in profits turns, profitability (especially as measured on an earnings per share basis) may be slow to recover. The trend in growth going forward is likely to be appreciably slower than what has been seen in recent years. Overall, while valuation measures suggest that stocks may be cheaper than they have been for years, the shift from debt and leveraged-based growth to a new regime of more government regulation, slower economic growth, and corporate de-leveraging suggest that sustainable valuation levels themselves may be lower than in recent years.

Seasonal Tendencies and Trends

The longer-term trend in the stock market rolled over in 2008 and has been moving lower most of the year as a cyclical bear market emerged. The major indexes (specifically the Dow Jones Industrial Average and the S&P 500 Index) broke out to



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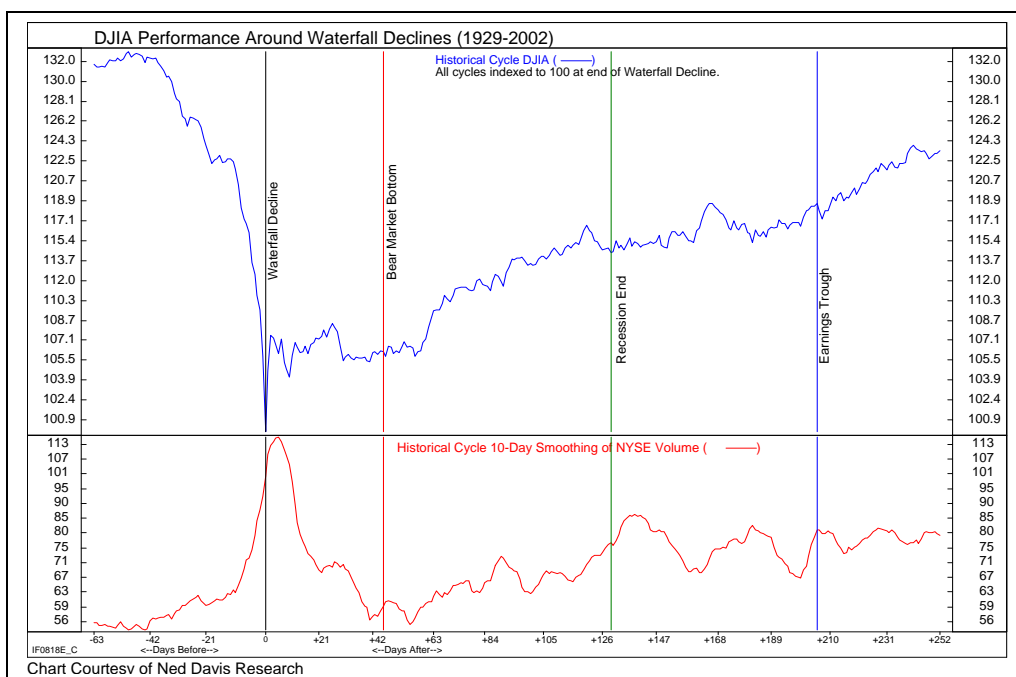
new highs in October of 2007, but from an inflation-adjusted perspective, they remained shy of their 2000 peaks, and so the secular bear market that emerged eight years ago is still intact. The persistence of a secular bear market has not in the past prevented the emergence of cyclical bull markets. In fact, since 1900, more than half of all cyclical bull markets have occurred within the context of a secular bear market, and while cyclical bull markets that emerge within secular bull markets have produced greater returns, this is largely a function of duration. When adjusted for length, cyclical bull markets within secular bear markets produce greater returns than those that emerge within secular bull markets.

While the downtrend that emerged in 2008 remains yet intact, the severity of the sell-off has resulted in significant deviation from the trend. This leaves open the strong possibility of a significant counter-trend rally, which could develop over the first half of 2009 into a



cyclical bull market. The yearly seasonal pattern argues strongly for healthy gains into May of 2009, as virtually all of the gains in the stock market over the past 57 years have been accumulated in the November 1 to April 30 time-period. Further, stocks have historically tended to bottom roughly six months ahead of the overall economy, meaning that if economic conditions are going to improve by mid-year, stocks could rally in the first part of the year. Our concern from this perspective is that if the economic recovery proves relatively lackluster, an early rally by stocks could prove overly optimistic and leave room for some retracement in the second half of the year.

Finally, the recent trends in the stock market have been consistent with a bottoming process, which, when concluded necessarily leads to a rally. The hallmarks of a bottoming process are such, a waterfall decline that climaxes on a surge in volume (we saw this with the 28% decline on the S&P 500 between mid-September and mid-October that ended with a record 11-billion-share-day for NYSE-listed stocks), an initial rally,



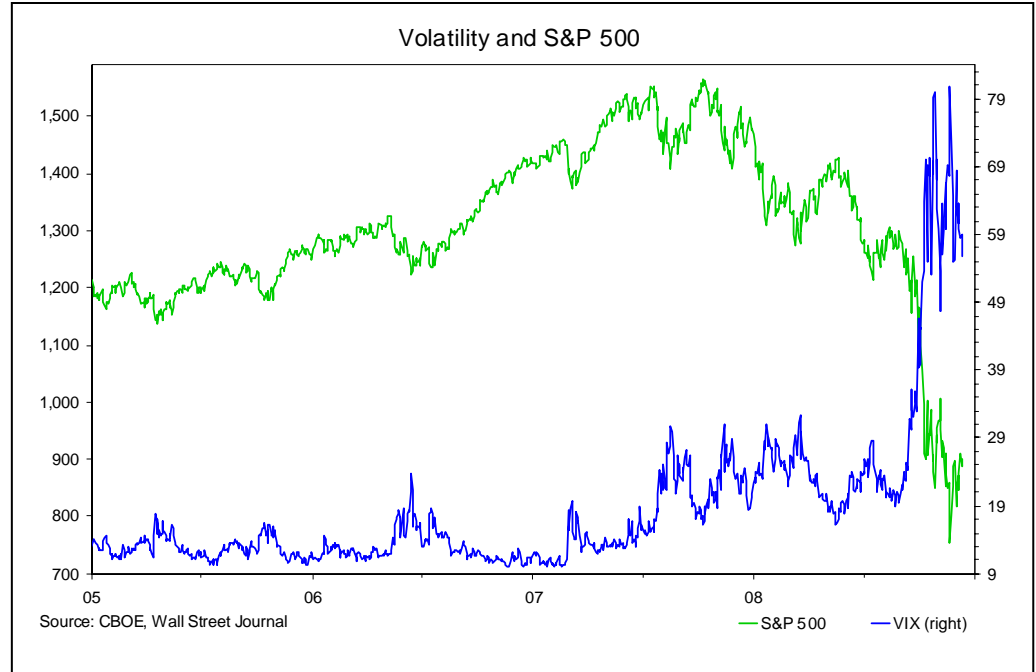
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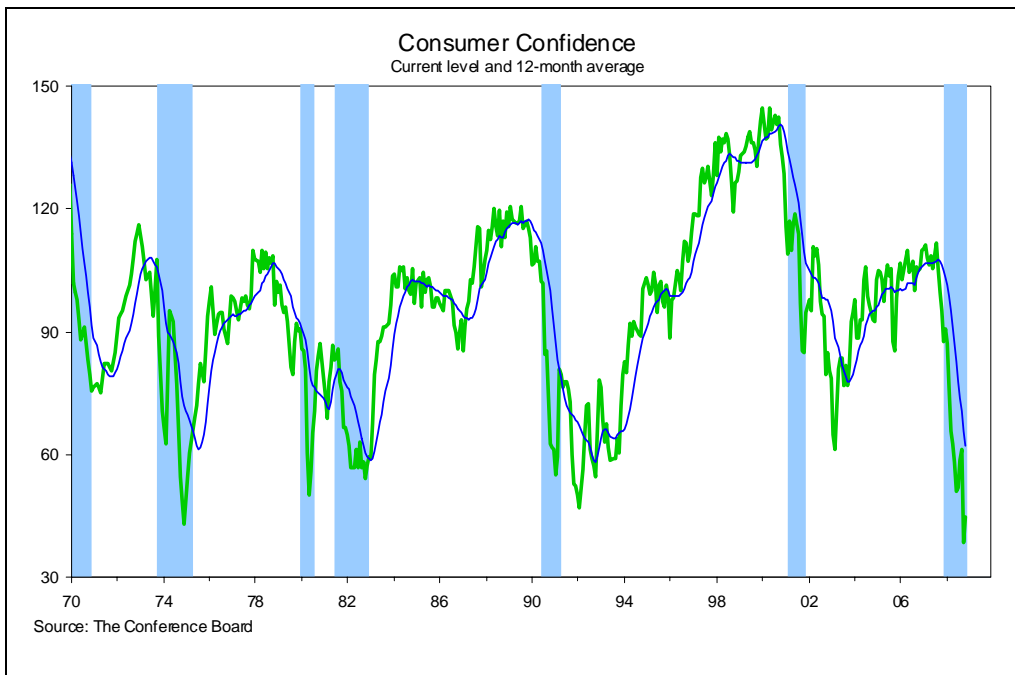
and a re-test of the index lows that not infrequently makes a new low, but must see improving breadth trends. The character of the broad market will be discussed in another section, but the broad market trends are consistent with a bottoming process in the indexes – a bottoming process that appears to be yielding to a cyclical bull market (within the context of a secular bear market) that is expected to persist into mid-2009 and could carry the S&P 500 index towards 1100.

Sentiment

Fear and uncertainty soared as stocks sank in 2008. The VIX volatility index, which had already risen from an all-time low below 10 in early 2007, settled into a range between 16 and 32 for the first half of 2008 before surging above 80 as weakness in the equity markets intensified in the latter part of the year. Just as, in retrospect, periods of low volatility tend to be poor times to buy stocks, periods of high volatility (particularly peaks in volatility) have historically proven to be profitable times to increase



equity exposure. A break in the VIX below 50 would suggest that fear is subsiding and that stocks may be poised for a protracted rally. Fear and skepticism have also emerged on an anecdotal basis. At one point this fall, quotes from the CDS market implied that it cost more than \$10 million to insure \$10 million loaned to General Motors. At two different points in late 2008, indicated yields on Treasury bills fell into negative territory.



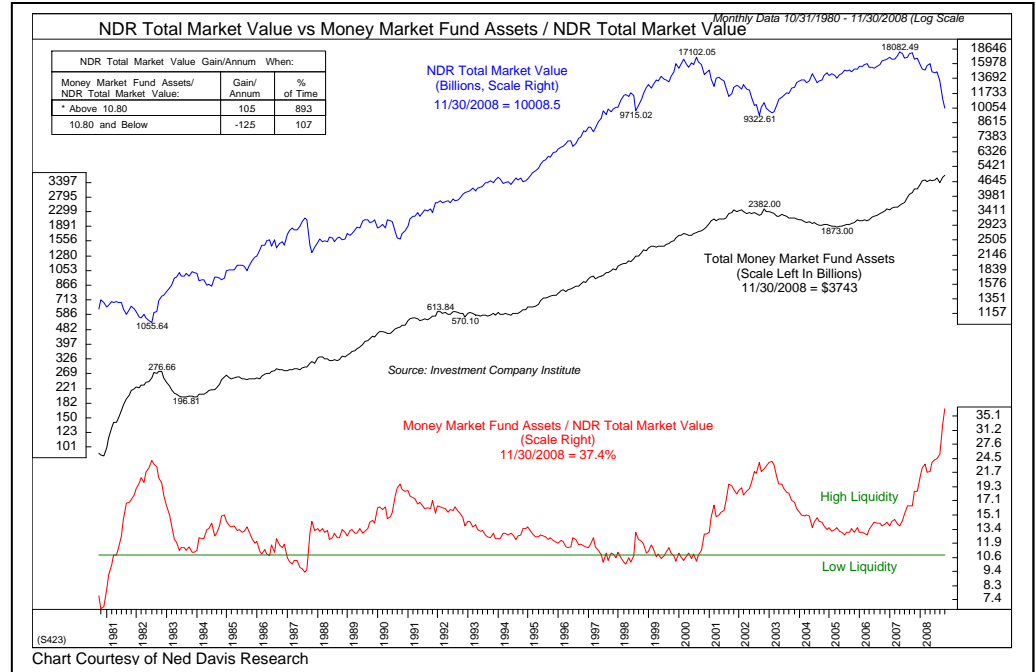
The investor sentiment surveys from the American Association of Individual Investors (AAII) and Investors Intelligence (which measures sentiment among Wall Street letter writers) showed that as the waterfall decline was climaxing in October, bearish sentiment soared and bulls went into hiding. On both surveys, bears outnumbered bulls by more than two to one. The Conference Board's monthly measure of consumer confidence fell in October to its lowest level in the 40-plus year history of the survey. However, the initial rally off the October lows brought a surge in optimism that was particularly evident in the

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more volatile AAll survey. As 2008 moves to a close, bulls have again receded and bears have become more prominent, supporting the first leg of a rally that is expected to materialize into a cyclical bull market.

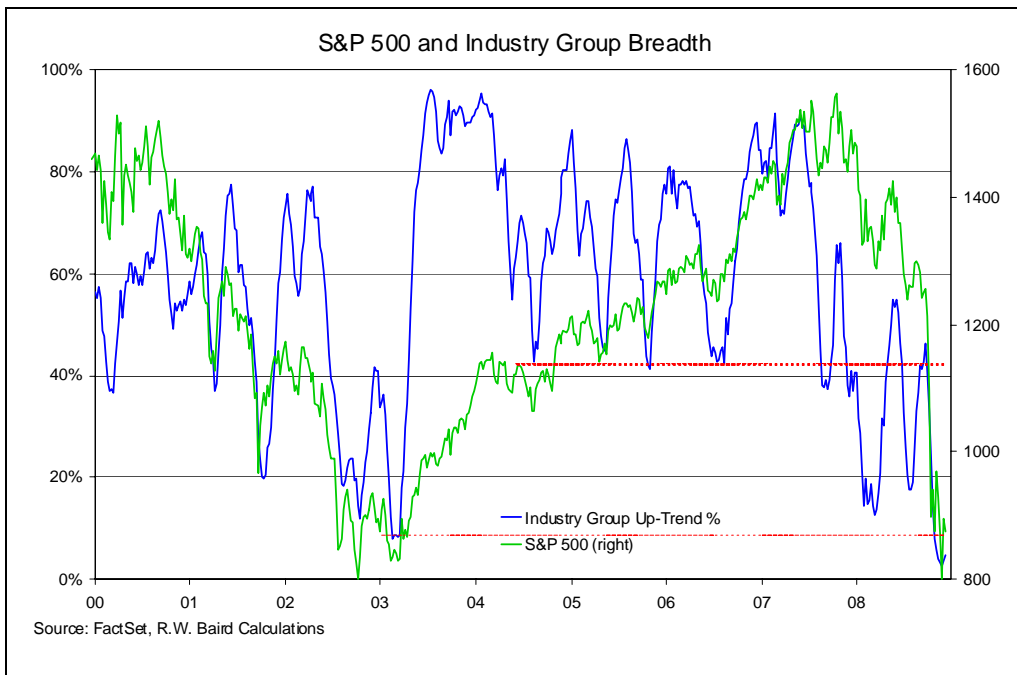
It is not only investor attitudes that display a sense of caution and fear. Investors have moved funds out of equities and cash is accumulating on the sidelines. The AAll Asset Allocation survey showed that investors moved from 64% stocks in December 2007 to 46% stocks as of November 2008, which reflects a shift away from stocks even net of relative performance. Based on this survey, equity exposure has moved to the low levels seen in 2002 and 1991. Similarly, investors have now accumulated \$3.7 trillion in money market funds, which represents 37% of the total value of the stock market and is the highest percentage in the nearly 30 years of available data. With ample cash on the sidelines and pessimism still running high, the sentiment indicators support a continuation of the rally in stocks



that began in late-November.

Broad Market Trends

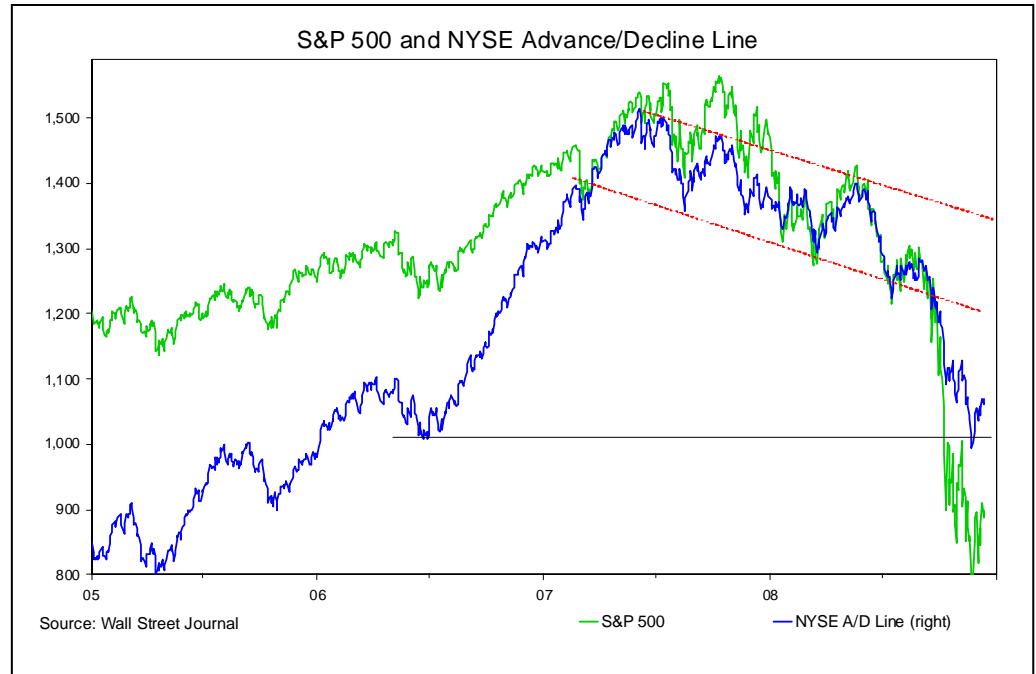
Broad market trends remained poor over the course of 2008 – the percentage of international indexes in uptrends approached zero (of the 50 countries we track, none currently have 40-week averages that are rising and but one has a 10-week average that is rising), as did the percentage of domestic industry groups in uptrends. The cumulative advance/decline lines, which peaked in early 2007, continued to trend lower in 2008, with the second-half sell-off seeing a break below the downtrend channel that had formed. The emergence of a cyclical bull market would be expected to produce substantial improvement in both the percentage of industry groups in uptrends as well as a new uptrend in the advance/decline lines. These breadth gains are longer term by nature and can be used to confirm the sustainability of gains in the indexes.



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Other, shorter-term breadth indicators can be used to suggest that the character of the broad market is changing, put in place conditions that could anticipate a decisive turn higher by the popular averages. In fact, the rally in the indexes off of their November lows has been notably from the improvement seen in these short-term breadth indicators. The 10-day advance/decline ratio for the NYSE has surged to its highest level since early 2004 and the 10-day number of total (NYSE + NASDAQ) new highs less new lows has rallied sharply and is threatening to break through a downtrend that has persisted since early 2007 (which then indicated a deterioration in the broad market even as the indexes moved to new highs in late 2007). Additionally, the November low in the number of net new highs was significantly above the October low – a positive breadth divergence which is typical in the late stages of a bottoming process. Volume flows have also begun to shift in favor of the bulls. The 30-day up/down volume ratio for the NYSE has made a sequence of

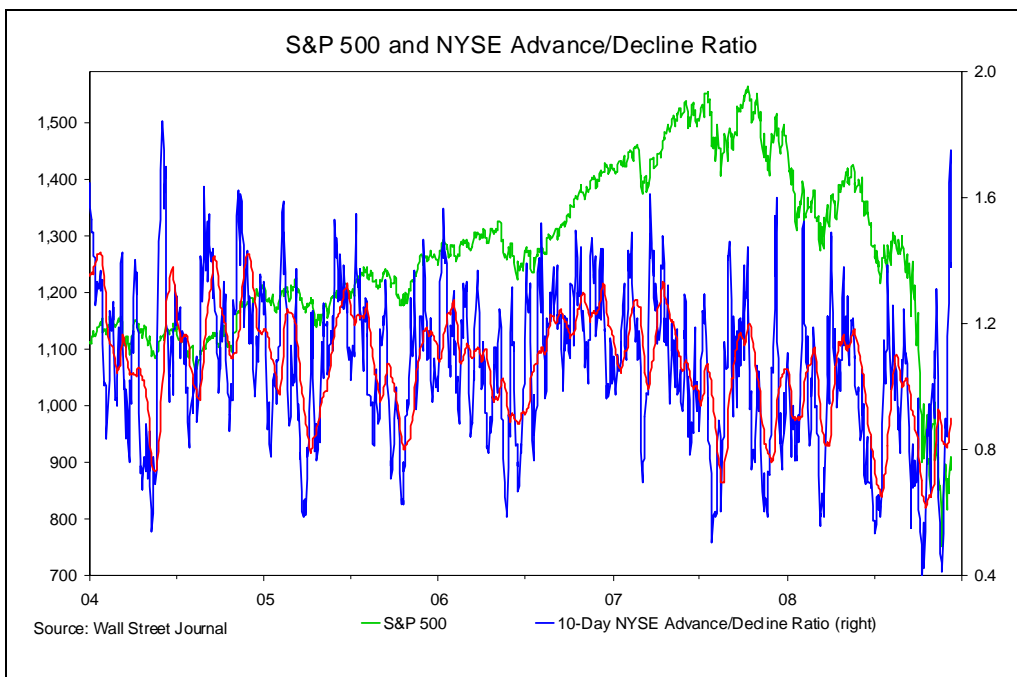


lower peaks over the past year, echoing the downtrend seen in the S&P 500. Now, however, this ratio is poised to break this pattern, which would provide further evidence that the character of the broad market has changed and the bottoming process may have concluded. While these gains in the short-term breadth indicators have been substantial and provide reason for optimism that the indexes may be transitioning from

bottoming process to cyclical bull market, we continue to monitor the longer-term breadth trends, notably the advance/decline lines and the industry group trend indicators for further evidence.

Asset Allocation Thoughts

Our outlook for the stock market for the remainder of 2008 and into the first half of 2009 is for the completion of the bottoming process that began in October and the emergence of a cyclical bull market for stocks. This is supported by the weight of the evidence. While Economic Fundamentals remain bearish and the bullish effects of Federal Reserve Policy have thus far been muted by credit

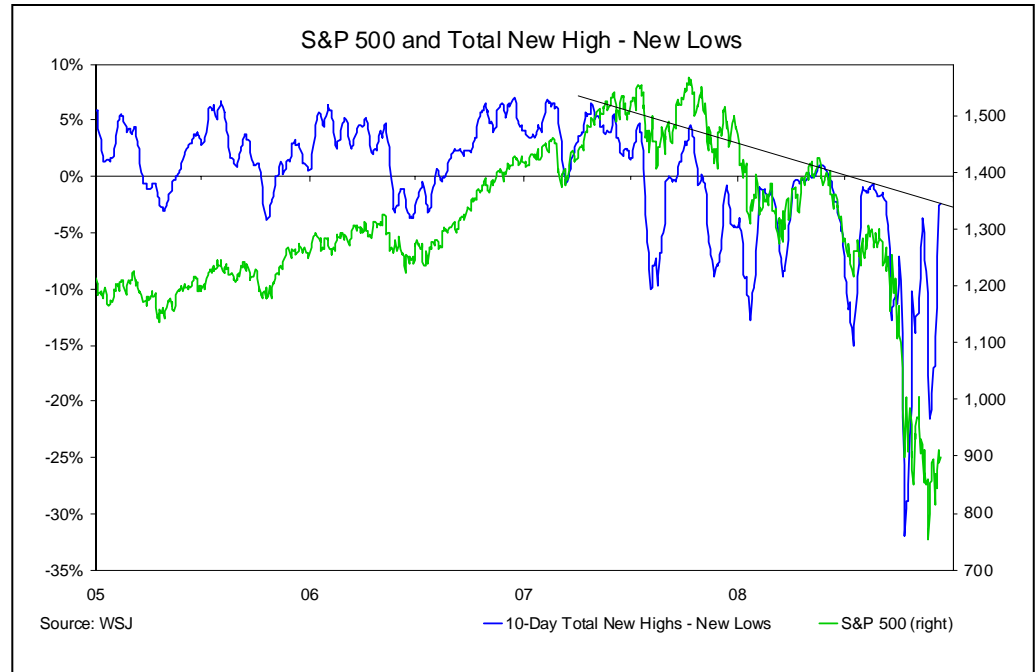


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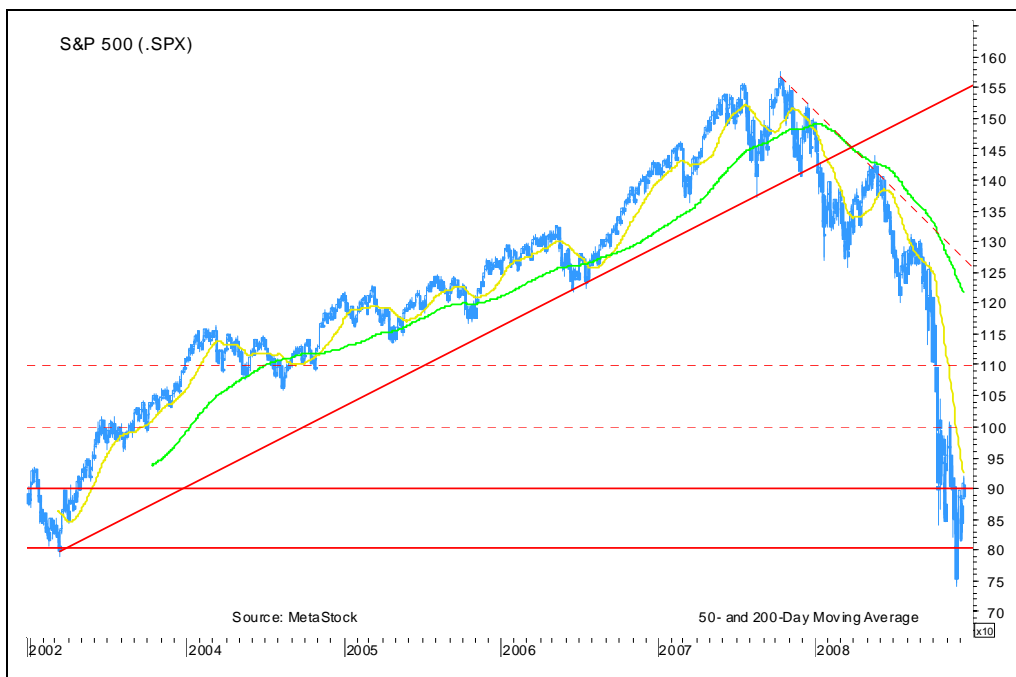
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market dislocations, Seasonal Influences/Trends are supportive of a rally, as are the Investor Sentiment indicators that show widespread pessimism and fear and large amounts of cash on the sidelines. Longer-term breadth trends are cautious, but the near-term indicators have turned bullish, suggesting that the Broad Market can fairly be described as neutral. Finally, while valuation levels have come down over the past year, we continue to rate Valuations as neutral given the prospects for reduced growth rates (which could weigh on stock prices) going forward. Reward for the S&P 500 in the first half of the year could be near 1100, with potential on the Dow Jones Industrial Average near 11,000.

The persistence of a cyclical bull market is contingent on improving economic trends (notably an emergence of stability in the housing market) and sustained gains in the longer-term breadth trends. While the October/November 2008 lows may have marked a



cyclical bottom, given the generational transformation that is ongoing in the economy and the prospects for lower growth rates going forward raises the possibility that a secular low has not yet been made. Perspective, then, remains important. The longer-term economic headwinds are unlikely to soon diminish, risk-taking (and therefore available reward) could be constrained by increased government participation in the markets, and sustainable valuations could be below recently observed levels. Tactical investors should position themselves to take advantage of the expected gains in the stock market in the first half of 2009, while strategic investors should recognize that risk levels remain high.



It is not in stocks alone, however, that risks abound, and asset allocation decisions should be made with full consideration of these risks. First, one lesson of 2008 has been that in times of crisis risk becomes discrete – what matters is risk or no risk, not degrees of risk. This reduced the effects of portfolio diversification among risky-assets and could lead, in the

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long term, to a renewed emphasis on cash, Treasuries, and perhaps even gold as vital parts of a longer-term asset allocation strategy. Portfolio allocation strategies continue to evolve and in 2009 we will be introducing new asset allocation models that will attempt to recognize these secular developments, but also remain poised to adapt to cyclical changes. These new asset allocation models will move beyond the stocks-bonds-cash framework, giving more consideration to so-called "satellite" asset classes, as well as refining allocations made to stocks (more focus on Mid-cap and a recognition of the now global nature of stock investing) and within bonds.

The second point, which also emerged as a lesson of 2008 is that investors should be aware of where the risk lies in their portfolio. Take for example, Treasuries, which are risk-free in terms of receiving timely interest payments and getting the return of principal at maturity. However, for investors that may not hold Treasuries until maturity, a possible (probable) rise in bond yields from their record low levels could significantly impact the market price of Treasuries. For an investor that buys a 10-Year T-Note today, a 300 basis point rise in bond yields over the next 3 years (which would put the T-Note yield at 5.75%) would suggest a 20% decline in the price of the

T-Note in the event that an investor would need to sell it at that time.

Annual sector considerations are notoriously prone to error and revision. As such, we will focus now on those sectors that are expected to lead the way in the first half of 2009. Sector leadership in the wake of market bottoms (i.e. the early stages of new bull markets) tends to be driven by mean reversion and beta. That is those sectors that were most beaten up in the downturn tend to be early leaders in a recovery and those sectors that tend to be more volatile to benefit from a move higher by the overall market. As such, we expect early 2009 leadership to come from select financials, energy and materials, and technology. Energy and materials stocks, as well as commodities overall, could additionally benefit from the reflationary actions of the Federal Reserve and Treasury. While Financials could be (have been) early leaders of the recovery, the increased government regulation and participation in the sector could limit longer-term growth prospects. Defensive sectors like Consumer Staples, Health Care, and Utilities could see their recent leadership ebb as the qualities that limited recent downside could also limit potential upside.

Appendix – Important Disclosures and Analyst Certification

Disclaimers

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST

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