



BAIRD INVESTMENT DIGEST

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BAIRD

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Our new site provides enhanced content, a new look and improved navigation.

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It's the flu season and, like some of you, I am at the doctor's office. My appointment was at 3:30 p.m., but now it's 4:15. I don't feel well, and as I sit here in a rather uncomfortable chair, time moves in slow motion. A minute seems like ten. In the overall scheme of a lifetime, 45 minutes is just a blink. But today, a blink seems like forever.

I wonder why our spring break a week earlier couldn't have gone by so slowly. We did a lot of interesting things, and before we knew it, our vacation was over. The time flew by too quickly. Certainly faster than the 45 minutes just spent in the doctor's waiting room.

This difference in the perceived passage of time actually has a name. It was called "lived time" by the psychologist Jean Piaget. Identical periods of time can be perceived as going much slower or much faster. Personally, I think "lived time" is a great description. It reduces the emphasis on the linear nature of time and focuses on how we actually experience time.

As investors, it seems we also go through different experiences of "lived time" in relation to the financial markets. During well-performing markets, time seems to pass quickly. Returns compound and we can lose track of market movements, lulled into a sense of security and complacency. If we are not diligent, we can neglect to rebalance and optimize our investment portfolios during bull-market periods of positive returns.

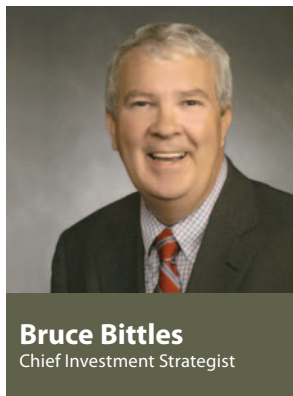
Lately, depending on how the market pundits characterize it, we have been experiencing a significant correction in many markets, if not a bear market in some. For investors, it can feel like time moves agonizingly slower. Every day the market retreats weighs on our collective optimism. If you're like many investors, every statement can weigh on your mind. Instead of checking the market every day, you check stock prices every hour on the Internet. Time weighs on your portfolio and on your psyche. It can become a slow form of torture that either puts you into hibernation or causes a rash move to exit the markets completely.

There is a silver lining, however, during difficult markets. If investors can shake off the negative drag on time, it is a period where opportunities can be significant. Take advantage of the general pessimism to clean up your portfolio. As markets retreat, high-quality companies become more attractive, and asset classes can trade out of line with long-term values. Be prepared to take advantage of these opportunities for your investment portfolio without taking excessive risk.

There are opportunities in the markets. If you wait until a change is completely obvious, however, those opportunities are likely to have passed. Your Baird Financial Advisor can review your portfolio with you and help you look for opportunities during these challenging markets.

Don't let the slowing of your investor "lived time" put you in a waiting game.

A column providing a perspective that transcends daily events has appeared on the cover of Baird Investment Digest for more than 25 years.



Investment Outlook

Fed Seeks to Calm Turbulent Credit Markets

April 24, 2008

Economic growth weakened further in the first quarter of 2008, and the Federal Reserve has taken decisive action to prevent the credit crisis, brought on by the housing market meltdown, from endangering the stability of the overall financial system. The Fed has accelerated its pace of interest rate cuts, even in the face of elevated inflation readings. Price pressures are expected to wane as global growth slows, and expectations for inflation have remained well-anchored. While its actions to help facilitate the buyout of Bear Stearns by J.P. Morgan have garnered the most headlines, the Fed has taken a number of other, perhaps more substantive, actions to help ensure the orderly functioning of the credit markets. It has enacted a number of new lending facilities, including providing Wall Street investment banks with the same access to funds that banks have enjoyed. While a formal, durable expansion of the Fed's increased regulatory role has yet to be resolved (legislative proposals have begun to surface), it has already taken steps to ensure that more firms have a "lender of last resort."

These actions by the Fed do not provide the economy and the credit markets with an all-clear signal, and do not prevent further losses or weakness from emerging. The promise of liquidity does allow the market to function somewhat normally – losses and weakness can be priced into the market, systemic failure cannot. The economy-wide debt bubble has almost certainly peaked, and the key going

forward will be to ensure that it deflates slowly rather than bursting. Interest rate cuts and lending facilities by the Fed help in this regard, and the fiscal stimulus package that has been passed by Congress and signed by the President should help cushion the blow to consumers.

Economic Growth Stalls

Whether the current period is ultimately labeled a "recession" by the academics at the National Bureau of Economic Research will not be decided until late this year at the earliest. Besides, that declaration has little real impact for consumers and investors, since it typically comes after growth has begun to rebound. Economic conditions have certainly worsened since the fourth quarter of last year, which itself represented a significant slowing over the 5% growth seen in the third quarter of 2007. Employment has fallen in three consecutive months, business activity has slowed, and growth in the first half of 2008 could struggle to remain positive. However, with the Fed aggressively cutting interest rates, economic conditions are expected to stabilize later this summer. The flat growth expected in the first half of the year could yield to a re-acceleration in the second half. Although preliminary, some early signs of bottoming have emerged in the housing sector. The trend in inventories appears to have stopped rising, mortgage rates (especially for fixed rate mortgages) have fallen, and affordability has risen dramatically in recent months.

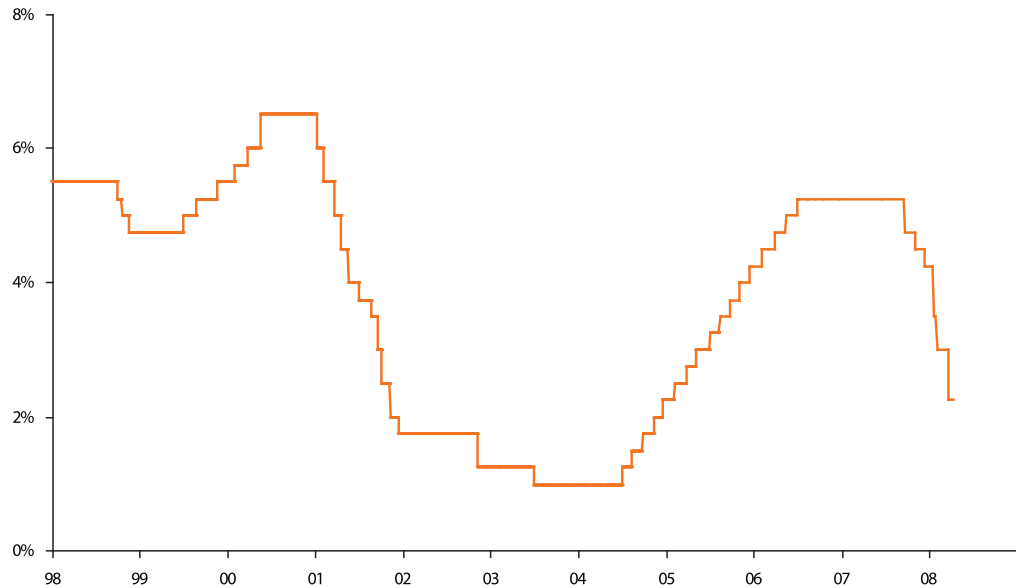
Although investing in periods of uncertainty can require resolve in the short term, over the longer term, it is strategy that has been well-rewarded.

Stock Market Looking Toward Second Half

The stock market is forward-looking, and has likely already discounted the current dismal shape of the housing market and, to some extent, weakness in the broader economy. This has been evidenced by the stock market's ability to shake off disappointing data in late March and early April and produce several broad-based rallies. The market's recent behavior, in the face of negative news headlines and extreme levels of pessimism, underscores the need for investors to maintain a long-term approach to investing, adhering to established asset allocation guidelines. Volatility remains elevated, but historically stocks have performed better in periods of high volatility than in low volatility. Current economic conditions raise the risk in the market, suggesting that disciplined investors should continue to overweight defensive sectors of the market, like Consumer Staples and Utilities.

Although investing in periods of uncertainty can require resolve in the short term, over the longer term, it is strategy that has been well-rewarded. The stock market looks beyond today's headlines and focuses on expectations for tomorrow. While the economy may well now be in recession, modest growth is expected to return later this year.

Federal Funds Rate Target



Source: Federal Reserve

The Fed has cut the fed funds rate by 300 basis points, or three percentage points, from September through March, and has instituted a host of new lending facilities aimed at stabilizing the markets and providing liquidity where needed.



Michael J. Schroeder

Director of Private Wealth Management

MIKE SCHROEDER

is Baird's Director of Private Wealth Management. With Baird since 1986, he is responsible for Financial Advisors who manage and oversee more than \$58 billion in client assets.

Weathering the Storm

Experts Weigh In on Economy, Market Volatility

Baird assembled a panel of experts from our Asset Management, Private Wealth Management and Research teams – Mary Ellen Stanek, Bill Nicholson, Tim Byrne and Bob Venable – who offered their insights on the current economic and market environment. Mike Schroeder, Director of Private Wealth Management, moderated the panel and, together, they brought more than 100 years of financial industry experience to bear on the issues facing investors today.

Mike Schroeder: *Market volatility is at a five-year high, the Dow has been significantly off its peak, and Bear Stearns was recently forced into a sale. What should investors make of all this?*

Bill Nicholson: It always seems like the worst bear market is the one you're in, not the one that happened in the past. October 1987 felt every bit as anxious as what we're going through now. When the tech bubble broke in 2000, that frankly felt even worse. We don't want to discount the legitimate concerns investors have today. There's debate about whether we're in a recession and I believe, even if we aren't, we should act like it. But what we're experiencing now isn't significantly different than what we've experienced over the last 100 years.

Bob Venable: Volatility has been higher recently, but the last several years saw extremely low volatility. Volatility is a normal part of the markets. Each challenging market is somewhat unique, witness Bear Stearns, but investors should stick with their long-term plans. The markets are working.

It's important not to let the emotion of the day carry you away.

Mary Ellen Stanek: The lack of volatility in prior years created complacency in the way investors priced risk. Spreads were very narrow and risk premiums were low, and you had several players leveraging that, particularly in mortgages and other credit markets. But leverage works both ways. Now we're seeing dramatic re-pricing of risks as leverage unwinds. While that experience can be very painful, it's actually very healthy in the long run.

Tim Byrne: The good news is that it looks like there is relatively orderly deleveraging going on, guided by (Federal Reserve Chairman Ben) Bernanke, the Fed and others. We've had a traumatic quarter or two, but a lot of leverage has come out. We haven't had a disaster. We haven't had a crash. And some players who were taking speculative risks are being forced out of the market. So we could be much better positioned by the middle of this year.

Schroeder: *If investors feel uncomfortable with the current level of risk in their portfolios, what can they do to bring that back into balance?*

Stanek: We advise people to set their asset allocations and plan based on long-term objectives and goals, not on current events and headlines. That said, this isn't an environment for do-it-yourselfers. There are risks everywhere. This is an opportunity to sit down with your Financial Advisor and review your long-term plan.

Nicholson: In bull markets, people tend to feel they can tolerate more risk. It takes a bear market to really understand how risk-averse someone is. Our experience has been that investors who stay the course have generally reaped the rewards coming through times like these. For people who may not have as deep a cushion, it's a time to re-evaluate and make sure they have sufficient resources to withstand what could be a protracted downturn. If those people can't afford to stay the course, that would be one reason to change an asset allocation.

Byrne: Agree completely Bill, but I do believe it's important not to let the emotion of the day carry you away. Be prepared to revisit your goals for the long-term growth of your investments, as there are things you can change. You can say, "My appetite for risk is lower," but understand that return is tied to risk. An investor's tolerance for risk, expectations for return, current and future lifestyle and other needs all must be in harmony.

Venable: We need to also look at the current backdrop – possible recession, higher energy and food costs, employment, the election, lower profits. The markets have been quite resilient when we consider these challenges. This supports the notion of sticking to your strategy.

Schroeder: *We've seen dramatic declines in the housing market. What impact does real estate have on the larger economy and how should it impact wealth management strategies for individuals?*

Stanek: A house is often the largest asset on your personal balance sheet. In recent years, the equity in many homes was being used to fund discretionary purchases. When market values dropped, many consumers lost the capital fueling discretionary spending. The consumer accounts for roughly two-thirds of U.S. gross domestic product, so in the aggregate, that really matters. And for lenders, if a house price drops below the mortgage value, there is potential for delinquency and default. A lot of mortgages have been repackaged into mortgage-backed or asset-backed bonds, which have found their way into mutual funds and other investment vehicles. So what seems on the surface like a fairly individualized activity can have dramatic implications for the larger economy.

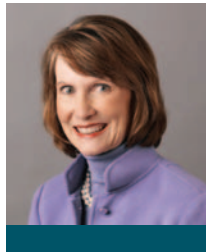
Venable: If you look at the current housing backlog and the nature of housing assets, the correction will take time. One positive long-term effect could be a reduction in people's appetite for credit. We have seen a dramatic growth in consumer credit and a corresponding decrease in savings. The downturn could start a shift back toward increased savings. The transition is difficult because, if you save



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MARY ELLEN STANEK is Baird's Director of Asset Management, Chief Investment Officer of Baird Advisors and President of Baird Funds. She has managed institutional investment portfolios for nearly 30 years.



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continued

Weathering the Storm

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more, you spend less and that can be a near-term drag on the economy. But an overall shift to less debt could be a long-term positive for the economy.

Schroeder: *This is a big election year, and there's speculation that, by the end of 2010, we could see a significantly different tax landscape. What impact should these considerations have on clients' strategies?*

Byrne: I think the momentum is toward a tax increase. In fact, if Congress does nothing to address it, capital gains taxes will revert to their previous, higher rates at the end of 2010. So, if an investor

is sitting on a concentrated position of a highly appreciated asset, and deciding when is the best time to sell some or all of it, this is a year to think hard about doing so.

Nicholson: Higher taxes probably have somewhat of a dampening effect on the market. But most of the talk is not about a significantly higher capital gains rate. Those who are thinking of selling a business, if the price they can get today is appealing, may want to take advantage of the rate.

Venable: I agree with Tim and Bill that there may be tactical considerations based on capital gains rates, but your long-term plan and asset allocation should be relatively uninfluenced by capital gains or income tax policies.

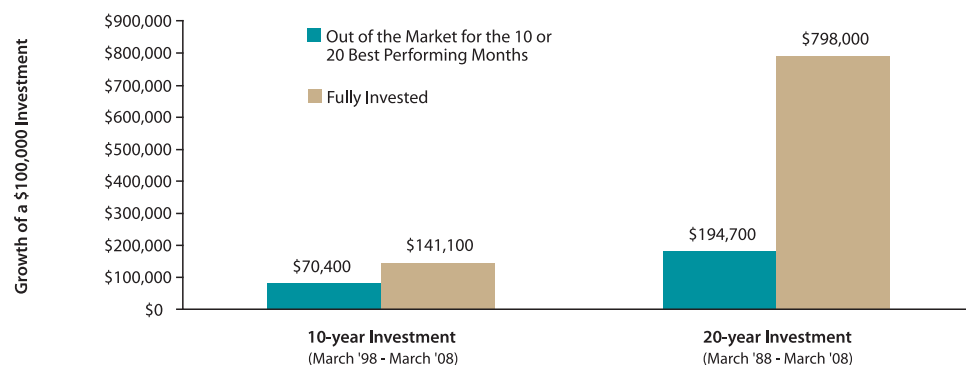
Schroeder: *Any last words of advice for our readers?*

Stanek: You can look at this as an opportunity to reconfirm your plan and check your risk tolerance. But, for the vast majority of investors, stay the course, and stay focused on your goals. Patient capital will be rewarded.

Byrne: It's important to remember that the market is a leading, not a lagging indicator. It will rally before the news about the economy gets better. Financial stocks will rally before we see the last write-downs. Watch your asset allocation. Now is the time to be disciplined. At some point, think about rebalancing. One of the most difficult things for an investor to do is take from an asset class that has done well and re-allocate toward an asset class that's been beaten up. But, if you're confident in your asset allocation and the investments you have selected, do the right thing: Rebalance your asset allocation.

Dangers of Market Timing - S&P 500 Example

History shows there's significant risk in trying to time the market. Take a look at returns of the Standard & Poor's 500 Stock Index over the past 10- and 20-year periods. If you invested \$100,000 in stocks and your return mirrored the S&P 500 for the 10 years ended March 31, 2008, your investment would have grown to \$141,100.* However, if you were invested in cash instead of stocks for the 10 highest returning months, your 10-year return would be just \$70,400. Similarly, the 20-year S&P 500 return would be \$798,000. But those invested in cash for the 20 highest returning months would see a 20-year return of only \$194,700 – less than a fourth of the return from staying fully invested throughout the period.



**Examples are for illustrative purposes only. An investment cannot be made directly in an index. Past performance is no guarantee of future results.*

Introducing Baird's New Web Site

Vital Information Delivered in Fresh, Easy-to-Use Format

As Baird strives to continuously improve the way we interact with clients, we are pleased to announce that we have launched a new Web site, with enhanced content and navigation.

Content often of interest to our Private Wealth Management clients is available in several key areas. The "Families & Individuals" section illustrates how Baird Financial Advisors deliver comprehensive wealth management services. Baird's views on market trends and strategies are found in the "Baird Research & Insights" section, under "Insights." Business owners and executives will find an extensive range of services to help them manage their wealth as well as their companies in "Corporations & Institutions." And, the "About Baird" section provides a range of useful news and general information about the firm.

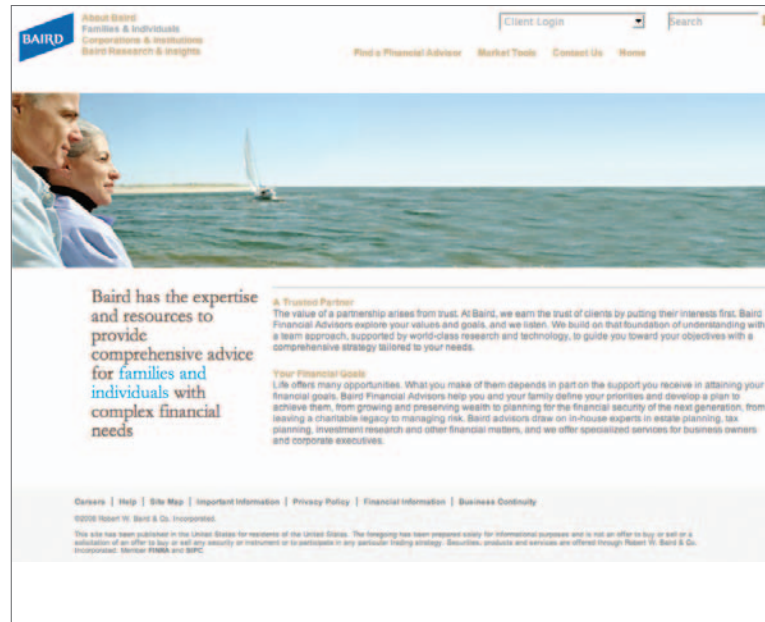
Importantly, Baird OnLine continues to function as it has in the past, although it will have a new appearance. Any settings you have previously made for portfolios and alerts remain in place. Baird OnLine offers convenient, robust and up-to-date account information. If you're not already using this tool, give your Financial Advisor a call to get started.

Note that bookmarks you made to pages in our old Web site will generally take you to equivalent content in the new site.

We hope you'll explore www.rwbaird.com and enjoy the worthwhile information it provides.



The new Baird home page. The photo used on this page will change from time to time.



The landing page for the Families & Individuals section.



INVESTOR TOOLS

Planning Calendar

Early May

Before you file away your 2007 tax return paperwork, talk with your Financial Advisor and tax advisor and make tax considerations part of your investment strategy.

Late May

Use the high school graduation season as a reminder to review your education savings plan for your children or grandchildren.

June 16

Second-quarter federal estimated tax payments for 2008 are due.

July 1

Prepare a tax projection for 2008 to ensure your tax payments will be enough to avoid penalties, without prepaying more of your tax liability than is required before April 15, 2009.

July 31

IRS Form 5500 deadline for calendar-year qualified retirement plans, including profit-sharing, money purchase and 401(k) plans.

Investment Strategy

The *Market Commentary* by Baird's Chief Investment Strategist, monthly *Investment Strategy Outlook* and quarterly *Market Update* are available at www.rwbaird.com on the Insights page and Baird OnLine home page or through your Financial Advisor.

Well Positioned

Strength Rooted in Client Focus

At Baird, we derive our strength from our partnerships with clients.

By helping clients succeed in 2007, Baird achieved its fourth consecutive year of record revenues and operating income. By maintaining a clear strategic focus on client needs over the long term, we have continued to strengthen our capabilities in our core businesses: Private Wealth Management, Equity Capital Markets, Fixed Income Capital Markets, Private Equity and Asset Management.

The current challenging environment underscores how fortunate we are to be a conservative, privately held firm, owned by our associates. We take pride in our financial strength, our entrepreneurial energy and our passion for delivering creative, appropriate solutions. Baird has comparatively little debt. We have very strong reserves and capital, significant unused bank commitments and the broadest excess SIPC coverage available. We are well positioned to continue to invest in our business and to actively recruit talented professionals who fit our business strategy and, even more importantly, share our values and client focus.

Baird is strong because of clients like you. We value our partnership with you and are dedicated to our mission to provide the best financial advice and service – with the care and commitment you deserve.

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Paul Purcell
Chairman, President &
Chief Executive Officer

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