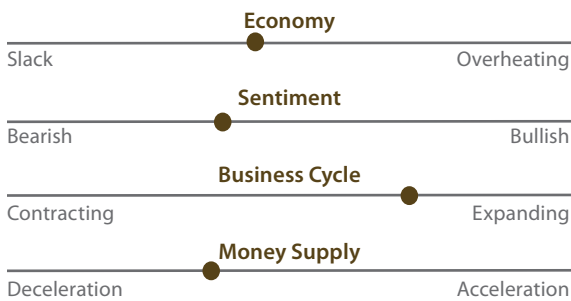


“Any sufficiently advanced technology is indistinguishable from magic.”

-Arthur C. Clarke

Market Barometer



Source: MTI, Investors Intelligence, Bloomberg

Market Update

as of 8/31/09

	MTD	YTD	Trailing 12 Months
Dow Industrial Avg	4.0%	10.8%	-14.9%
S&P 500	3.6%	15.0%	-18.3%
Russell 1000® Growth	2.1%	21.9%	-16.8%
Russell MidCap® Growth	3.1%	29.7%	-20.2%

A Closer Look at Technology Stock Performance

The technology sector has returned 36% year-to-date through August 31, outperforming the S&P 500, which is up 10.5% over the same period (see chart on page 2). Moreover, tech stocks comprise nearly 20% of the market value of the S&P 500 and more than 30% of some growth-stock indices, making tech an important sector for overall portfolio returns.

Two reasons for the outperformance in 2009 actually have nothing to do with computers or the Internet, but are related to corporate structure:

- Most technology companies are less than 30 years old and offer 401(k) programs rather than defined-benefit plans. That means they are without the various pension liabilities that many older companies are saddled with.
- Most tech companies carry little debt. The illiquidity in the credit markets that presented challenges to debt-financed companies in late 2008 – such as the need to refinance commercial paper – did not impact many technology companies.

continued ▶

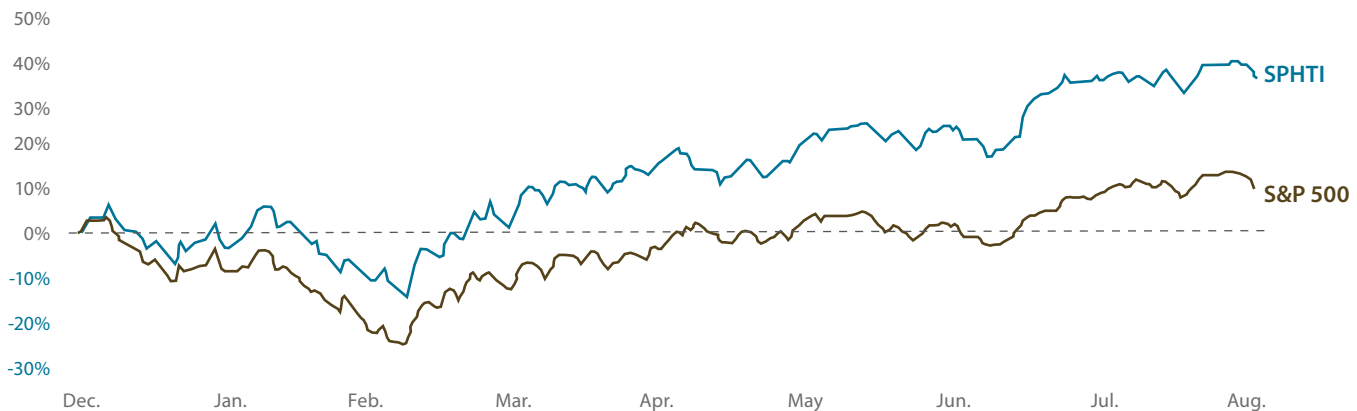
Looking to the future, there are some dynamic trends that are driving growth in tech demand:

- **Connectivity** - A study by Cisco finds that Internet traffic is rising at a rate of about 40% a year. Downloading music from iTunes or logging into your corporate network from home increases demand for connectivity and the networking equipment needed to support increasing large amount of information.
- **eCommerce** - One can invest in eCommerce in several ways:
 - Companies that specialize in the business of eCommerce, like eBay or Expedia
 - Companies supporting eCommerce, such as payment companies that enable you to pay for purchases in both traditional ways (credit card) and non-traditional ways (PayPal)
 - Internet search engines and the advertising dollars that are increasingly spent to drive online purchases

The average connected American spends a significant portion of leisure time online - between 12% and 30%, depending on demographic group - but online ads account for less than 10% of total advertising expenditures. We expect this gap to narrow as advertisers seek better returns for their marketing dollars.

On a final note, most of us remember the Internet bubble and its aftermath, which spurred a tech-led recession beginning in 2001. Since 2001, corporate spending on technology has stabilized at sustainable levels, growing only modestly faster than GDP in ensuing years. Thus, there is no tech spending "bubble" that must burst before technology spending growth can resume. Indeed, a hallmark of second-quarter earnings reports from many tech companies was a noticeable stabilization in demand, with some even looking at growth as 2009 draws to a close.

2009 YTD Information Technology Index (SPHTI) vs. S&P 500 (SPX)



To learn more about Baird Investment Management (BIM) and our products, please contact us at 800-792-4011 or 414-765-7246. Visit us online at www.bairdinvestmentmanagement.com.

The S&P 500 Index is a representative sample of 500 leading companies in leading industries of the U.S. economy. The Russell 1000® Growth Index measures the performance of those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values and is a large-cap index. The Russell Midcap® Growth Index measures the performance of those Russell Midcap companies with higher price-to-book and higher forecasted growth values. The stocks are also members of the Russell 1000® Index. The Dow Jones Composite Average Index is computed from the stock prices of 30 of the largest and most widely held public companies in the United States. Indices are unmanaged and an investment cannot be made in one.

The index measures the performance of the healthcare sector of the U.S. equity market. The Index includes companies in the following sectors: healthcare equipment and services, pharmaceuticals and biotechnology.