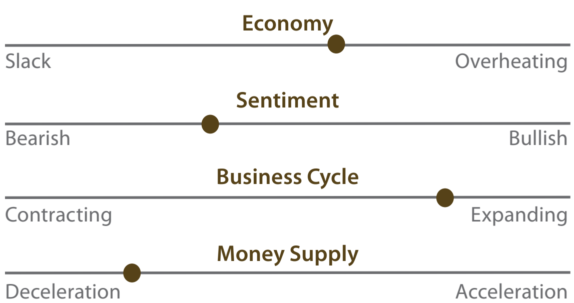
Baird Investment Management

Great outcomes. Done well.

"It's not the will to win, but the will to prepare to win that makes the difference."

-Bear Bryant

Market Barometer



Source: MTI, Investors Intelligence, Bloomberg

Market Update

Market Update *as of 12/31/09*	MTD	YTD	Trailing 12 Months
Dow Industrial Avg	1.0%	22.7%	22.7%
S&P 500	1.9%	26.5%	26.5%
Russell 1000® Growth	3.1%	37.2%	37.2%
Russell MidCap® Growth	6.2%	46.3%	46.3%

BIM 2010 Outlook

At Baird Investment Management, we believe that great companies can succeed in any market environment. We spend the majority of our time trying to identify those companies and allowing them to work for our clients' benefit. In our experience, it is easier to identify great companies than it is to make short-term predictions about the economy or the markets. However, the economic backdrop has a big influence on market returns and the type of companies that will do well.

We believe the robust market recovery experienced in 2009 should continue into 2010, albeit at a more moderate pace. Credit markets have normalized, the corporate profits rebound is continuing, and we anticipate an improvement in the employment picture in early 2010. These factors combined with reasonable market valuations and poor investment alternatives lead us to believe equities offer a favorable risk/reward for 2010.

As noted in our last viewpoint, the credit markets have largely normalized. Significant global policy actions – both fiscal and monetary – helped avert a global depression by thawing credit markets. The easy-money monetary policies that helped fuel the recovery are still in place and are not likely to be removed in the immediate future. Additional factors that offer a cushion for 2010 are: growth in emerging market economies, a steep yield curve, a continued advancement in the leading economic indicators (see Chart 1: Leading Economic Indicators), and a healthy rebound in consumer net worth.

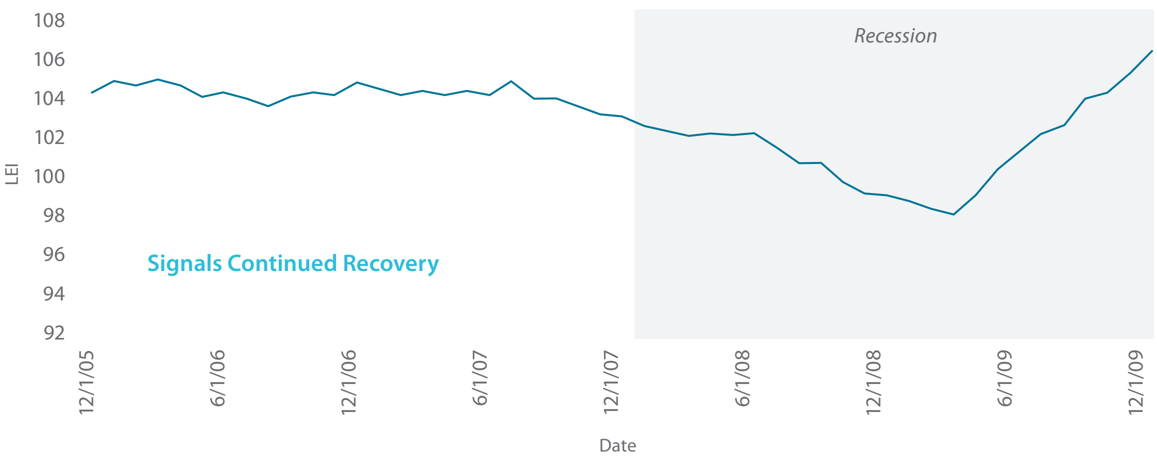
continued

One of the reasons we are positive on the stock market is the impressive rebound we're seeing in corporate profits (see Chart 2: Corporate Profits After Tax). The synchronized global recovery is the biggest contributor to this profit rebound. In addition, many troubled industries have also stabilized. In our July 2009 Viewpoint we noted that the worst of the nation's housing troubles were likely over. Now six months later, it is much more evident that housing has stabilized (see Chart 3: S&P/Case Shiller Home Price Indices). Autos, another significant drag on the economy, have also shown significant improvement. Other factors supporting continued profit improvement are: contracting credit spreads, the decline in unit labor costs and increased productivity.

There is little doubt that the pace of advancement will moderate and that periods of volatility will occur, however the general trend is still upwards. As the bull market has matured, it has gathered more believers, which has caused a slight deterioration of our sentiment indicators, but not to the level where we are concerned. There continue to be serious structural problems within the country such as protectionism, rising taxes, increased regulatory burden and overburdened consumer balance sheets. However, cyclical forces can overwhelm structural problems, and the markets often rise in the face of serious long-term economic imbalances.

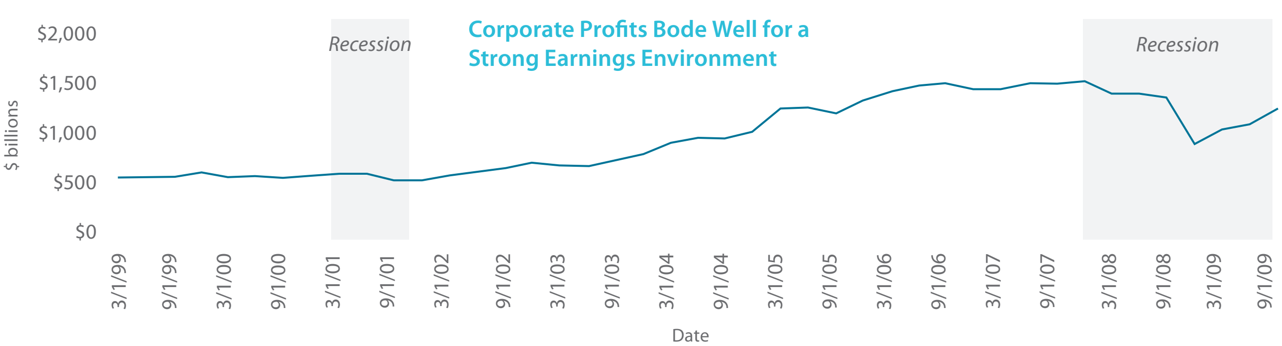
Leading Economic Indicators

The Leading Economic Indicators (LEI) are 11 economic statistics used to predict economic activity for a period of six to nine months in advance.



Corporate Profits After Tax

Corporate profits in current dollars, after taxes.



Source: Bloomberg

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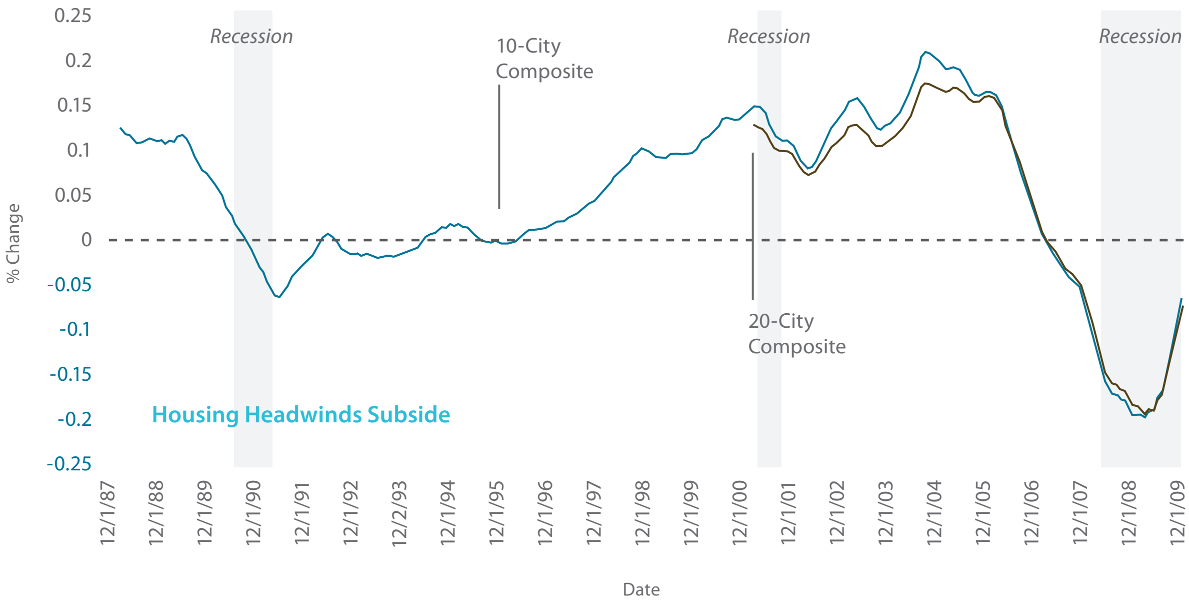
S&P/Case-Shiller Home Price Indices

The S&P/Case-Shiller Home Price Indices measure the residential housing market, tracking changes in the value of the residential real estate market in 20 metropolitan regions across the United States.



Source: Bloomberg

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.

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