

# Baird Investment Management

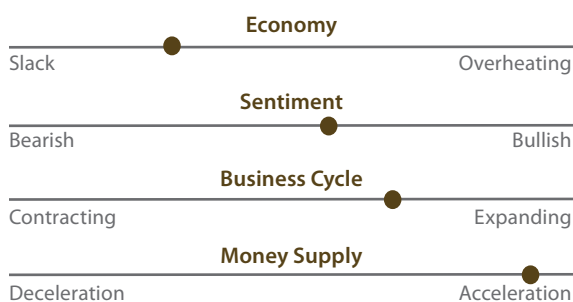
**BAIRD**

Great outcomes.  
Done well.

*“If everyone is thinking alike, then somebody isn’t thinking.”*

-George S. Patton

## Market Barometer



Source: MTI, Investors Intelligence, Bloomberg

## Market Update

	MTD	YTD	Trailing 12 Months
Dow Industrial Avg	-0.4%	-2.0%	-23.0%
S&P 500	0.2%	3.2%	-26.2%
Russell 1000® Growth	1.1%	11.5%	-24.5%
Russell MidCap® Growth	0.5%	16.6%	-30.3%

Data as of 6/30/09

## Beginning of the end?

Although it is still too early to definitively call for a bottom in the housing market, there have been hopeful signs. According to the March 2009 Case-Shiller Index report (see page 2, table 1), home prices are down by nearly 19% nationwide over the past 12 months. The Case-Shiller Index is not perfect, but it does help to identify broader trends in housing. The decline from the peak has been truly astonishing. The data suggests home prices have declined to levels not seen since the beginning of this decade and have fallen more than 30% from their peak in the summer of 2006.

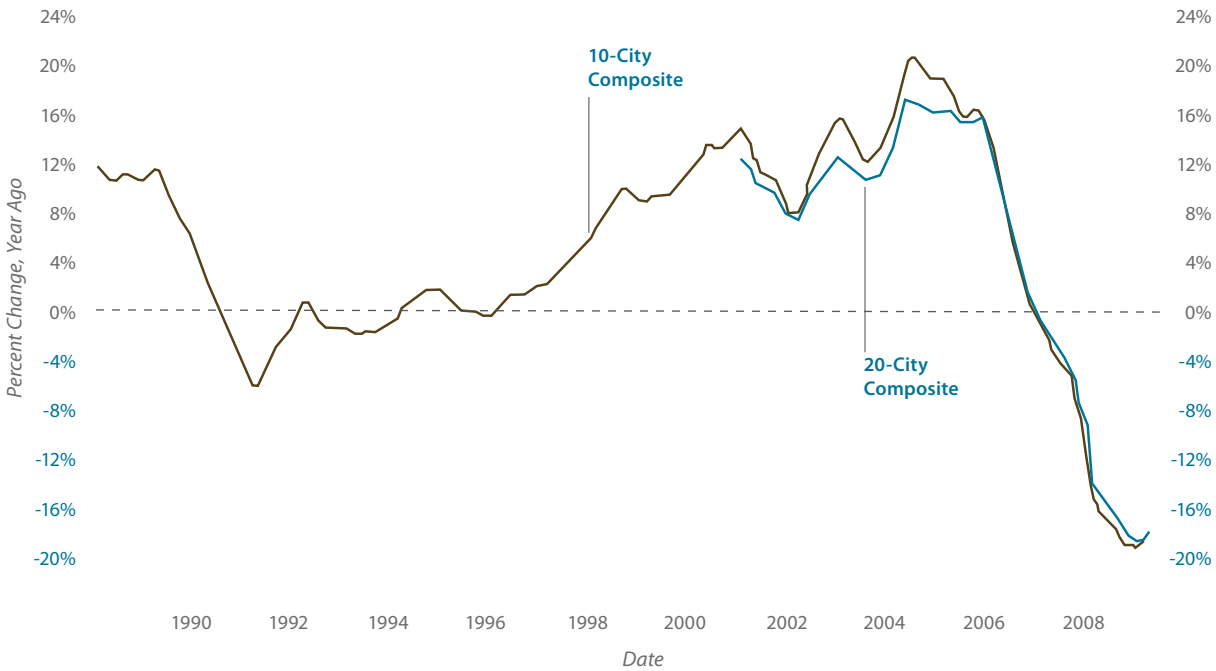
The month-over-month declines of the Case-Shiller index are moderating, although they are still negative. California, one of the hardest-hit areas of the country, has seen sales increase and bidding wars erupt over properties. The supply of existing homes for sale has also decreased, but still remains at historically high levels. In addition, the decline in interest rates has made it a very affordable time to buy a house. The Housing Affordability Index (see page 2, table 2) recently reached the highest level since its inception in the early 1970s. New housing starts are currently at such a low rate that it is hard to foresee any further decline. The natural demographic demand for single-family homes is around 500,000, the approximate level of recent starts.

The fragile state of the current economy, higher interest rates, the potential size of the shadow inventory of homes for sale, and a return to a tight credit environment could affect a potential recovery. However, housing's drag on the economy is likely past its worst. A stabilization of home prices could have positive implications for housing-related stocks and the financial sector. Like the equity markets in March, the greatest opportunity in the housing market exists when the maximum pessimism is priced in.

continued ▶

## S&P/Case-Shiller Home Price Indices

January 1988 - April 2009

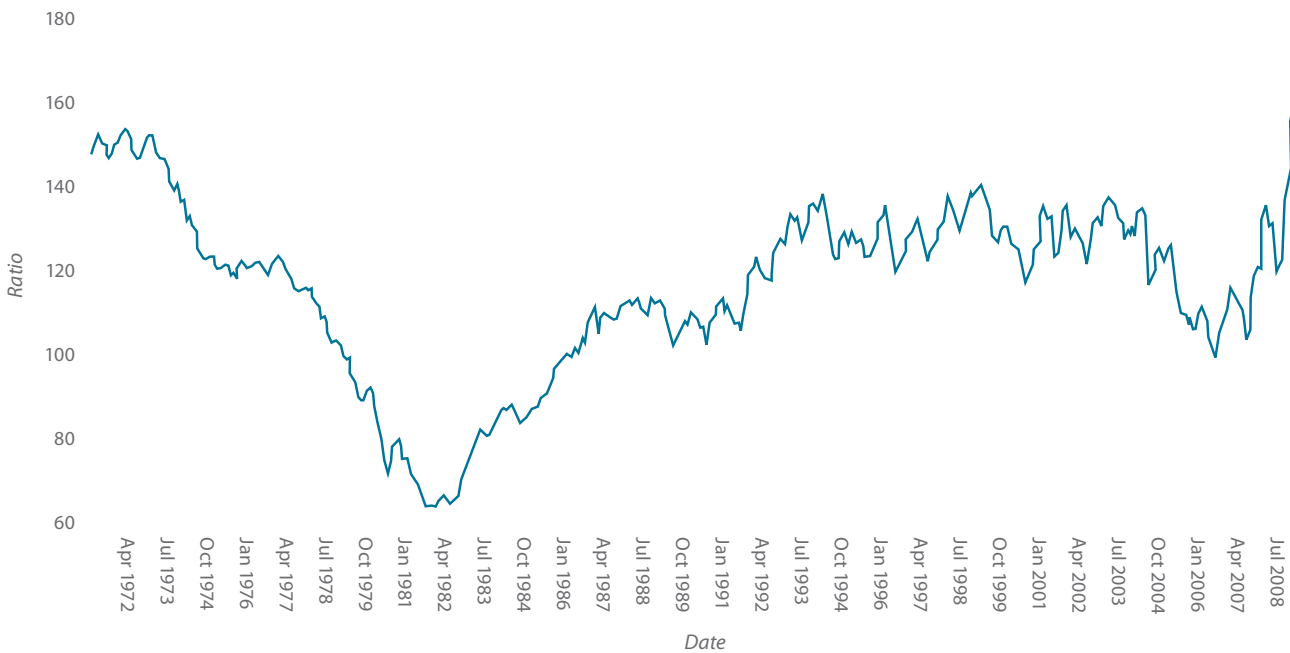


The S&P/Case-Shiller Home Price Indices measure the residential housing market, tracking changes in the value of the residential real estate market in 20 metropolitan regions across the United States.

Source: Standard and Poor's

## Housing Affordability Index

January 1971 - April 2009



The Affordability Index measures the ratio of the actual monthly cost of the mortgage to take-home income for a median priced home.

Source: National Association of Realtors

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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.

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