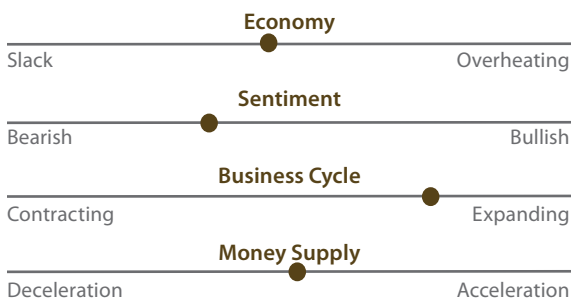


“Problems cannot be solved by the level of awareness that created them.”

-Albert Einstein

Market Barometer



Source: MTI, Investors Intelligence, Bloomberg

Market Update as of 11/30/09

	MTD	YTD	Trailing 12 Months
Dow Industrial Avg	6.9%	21.5%	21.0%
S&P 500	6.0%	24.1%	25.4%
Russell 1000® Growth	6.1%	33.1%	35.5%
Russell MidCap® Growth	4.7%	37.8%	42.8%

Bloomberg Financial Conditions Index



Source: Bloomberg

How the Recovery is Shaping Up

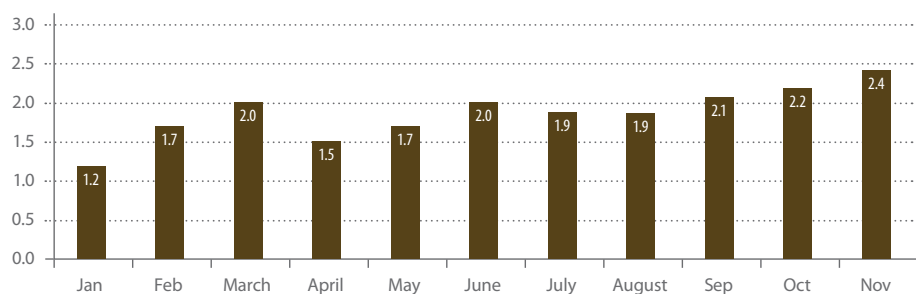
The V-shaped chart above is a graph of the Bloomberg Financial Conditions Index. The Index combines yield spreads and indices from money markets, equity markets and bond markets into a normalized index. Simply think of it as a general proxy for the overall condition of the financial markets. Certainly not the only financial gauge to look at, but one that helps determine if the financial sector in the general economy is behaving normally. And based on its shape, it would lead one to conclude that we have “normalized.”

With this observation in mind, it appears that the financial markets have returned to normal relatively quickly. Yet this observation does not remove, eliminate or meaningfully discount the intrinsic risks associated with typical financial activities, such as corporate underwriting or bank lending. But it does communicate that the financial markets have returned to “normalized” levels so that typical financial activities can occur during the normal course of business. We come to a similar conclusion by looking at the TED spread. The TED spread – the spread between the three-month Treasury bill rate and the three-month Libor rate, which is the rate banks charge each other for short-term loans – is now at 23 basis points. Its normal spread is usually less than 50 basis points.

The return to normal financial relationships is important as a first step if economies are to fully recover. And based on the observations from the Financial Conditions Index and the TED Spread, the U.S. economy has taken the first step.

The speed at which these relationships has recovered may speak to why so many economists were slow to raise their forecasts this year (see graph below). Keep in mind that only nine months ago the consensus economic forecast for GDP growth for the third quarter was 0.50%. It was first reported a few weeks ago at 3.0% and only recently revised to 2.8%. The same consensus group currently believes next year’s GDP growth will be 2.6%. Let’s hope all remains “normalized” and like this year, the forecast is yet too conservative.

Month by Month Changes to 4Q '09 GDP Estimate



Source: Bloomberg Monthly Survey, US GDP Forecast

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.

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