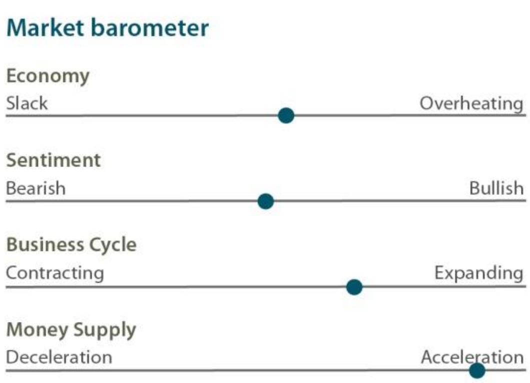
Viewpoint

Baird Investment Management (BIM) manages high-quality portfolios for high-net-worth individuals and institutional clients.

Baird Investment Management

"The only job of economic forecasting is to make astrology look respectable."

- John Kenneth Galbraith



Source: MTI, Investors Intelligence, Bloomberg

Market update *as of 12/31/11*	MTD	YTD	Trailing 12 Months
Dow Industrial Average	1.6%	8.4%	8.4%
S&P 500	1.0%	2.1%	2.1%
Russell 1000® Growth	-0.3%	2.6%	2.6%
Russell MidCap® Growth	-1.5%	-1.7%	-1.7%

Source: Russell, APL

2012 Outlook

As we flip the calendar to a new year, we believe macroeconomic factors will again dominate the investment climate in 2012. Sovereign debt and banking crises, central bank decisions and global politics are front and center in the minds of investors, and rightly so. Resolution and clarity would be welcome for the markets, potentially lifting both spirits and earnings multiples for shareholders. Fortunately, domestic company fundamentals and recent economic data remain rather positive, providing some degree of comfort. Our base expectation for 2012 is for slow but continued economic growth with modest inflation. We continue to believe we are in the middle of a multiyear deleveraging period highlighted by political uncertainty and accommodative monetary policy. We highlight some of the potential challenges below.

First up, Europe. Sovereign debt challenges have been intensely discussed and debated, with many steps taken but few concrete accomplishments. With so much country debt held by the banking system, it is difficult to structure a solution that involves austerity measures, asset write-downs and capital raising without inducing at least a modest recession in Europe. The stronger northern economies (i.e., Germany and France) are being pressured to provide the lifelines necessary to manage the debt situation. Recapitalizing the banks will possibly require TARP-like financing. These are big but not impossible tasks. We are closely monitoring our companies with European exposure with an eye to further reducing position sizes where appropriate.

Next up, China. The Chinese central bank maintained a restrictive monetary policy through much of the past year to reduce raw material and real estate inflation. Those efforts have largely been successful, but have also slowed GDP growth to a rate below their stated goals. We are encouraged with China's expansionary policies (and the corresponding decrease in bank reserves) as well as the increase of the Chinese PMI from 49.0 in November to 50.3 in December. It is not outside the realm of possibility that the braking mechanism employed in 2011 is reversed in 2012. This change would provide welcome relief for many companies that generate revenues and profits from that important growth economy.

Finally, the United States. Aside from our country's own debt and budget situation, 2012 is a presidential election year. Uncertainty regarding the path of key issues, including tax policy, federal budget cuts and entitlement reform, may persist for much of 2012, keeping a lid on stocks. To illustrate the effect of macro uncertainty, S&P 500 earnings are estimated to be 12% in 2011, and the index was essentially flat for the year. This year, the consensus calls for earnings rising an additional 6%. As of this writing, we have experienced fourteen straight weeks of improving domestic economic data, including payroll employment, inflation and consumer confidence measures, suggesting that the recovery is becoming self-sustaining. Corporate earnings should follow a similar path, providing a ray of hope for the new year. Further clarity and confidence would make for a more favorable investing climate.

In sum, risks remain elevated, and we have positioned the portfolios accordingly. There have been a total of 54 global actions intended to ease interest rates. Should the winds begin shifting to our back, we will adjust to an improved investing environment. Our strategy of focusing on high-quality business models and controlling risk we believe will continue to serve us well.

To learn more about Baird Investment Management (BIM) and our products, please contact us at 800-792-4100 or 414-765-7246. Visit us online at bairdinvestmentmanagement.com.