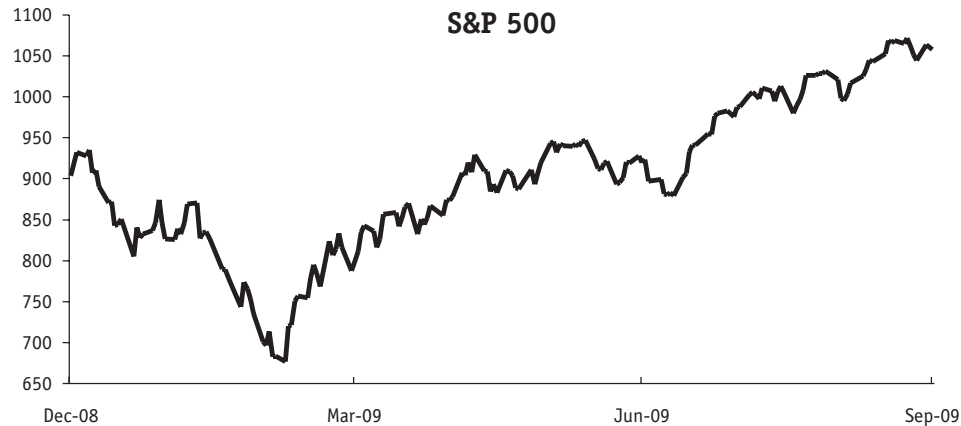




Third Quarter 2009 - Onward and Upward



Source: Factset

Tale of the Rally

Strongest back-to-back quarters since 1975.

Rally from March low = 56%.

Remains 33% below Oct 2007 high.

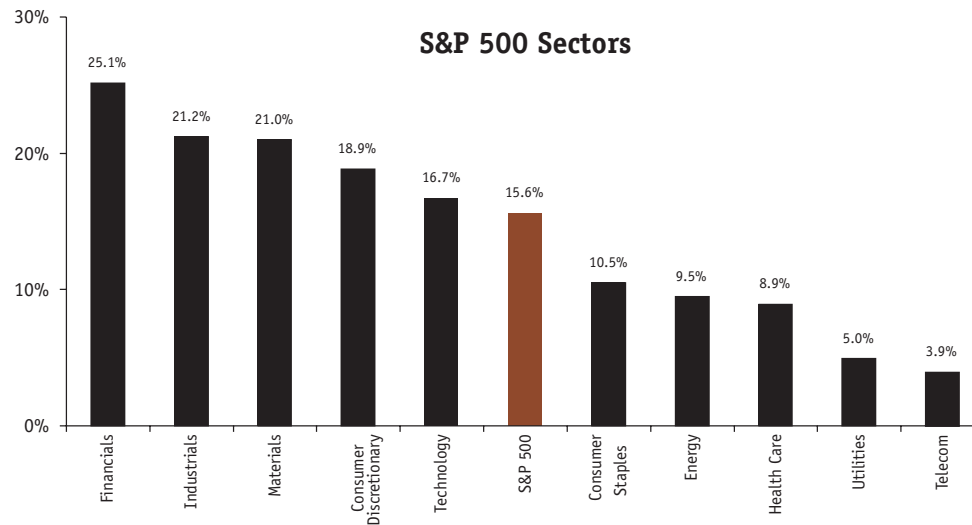
Focus on Low-Quality Stocks:

Highest quality up 21% YTD

Lowest quality up 120% YTD

Growth stocks ahead of Value stocks YTD.

Smallest companies in the S&P 500 dramatically outperforming largest companies.



Source: Standard & Poor's

Sector Snapshot

Financials lead for second consecutive quarter:

Up 140% from March lows

Remain 60% below mid-2007 highs

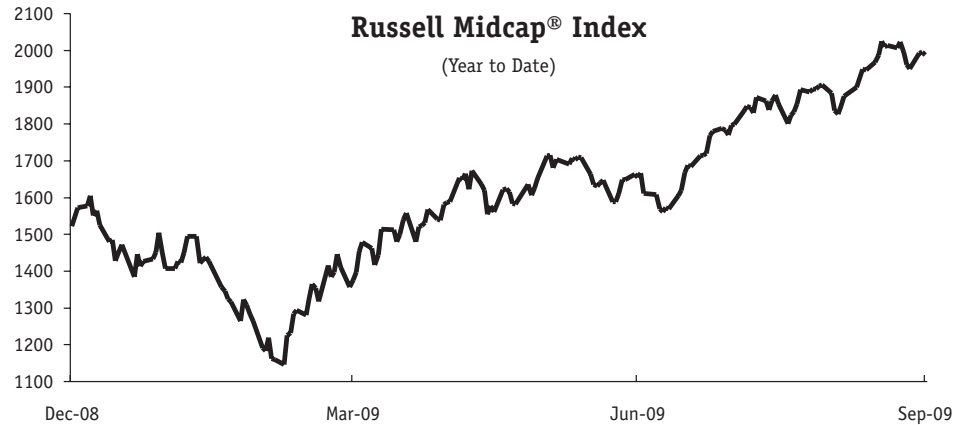
Industrial, Consumer and Commodity cyclicals also lead.

Optimism based on economic recovery hopes and operating leverage from a pickup in end demand.

Energy Sector lags due to underperformance of large integrated oil companies. Defensive sectors also continue to lag.



Third Quarter 2009 - Onward and Upward



Source: Factset

Tale of the Rally

Strongest back-to-back quarters since index inception (1994).

Rally from March low = 73%.

Remains 31% below July 2007 high.

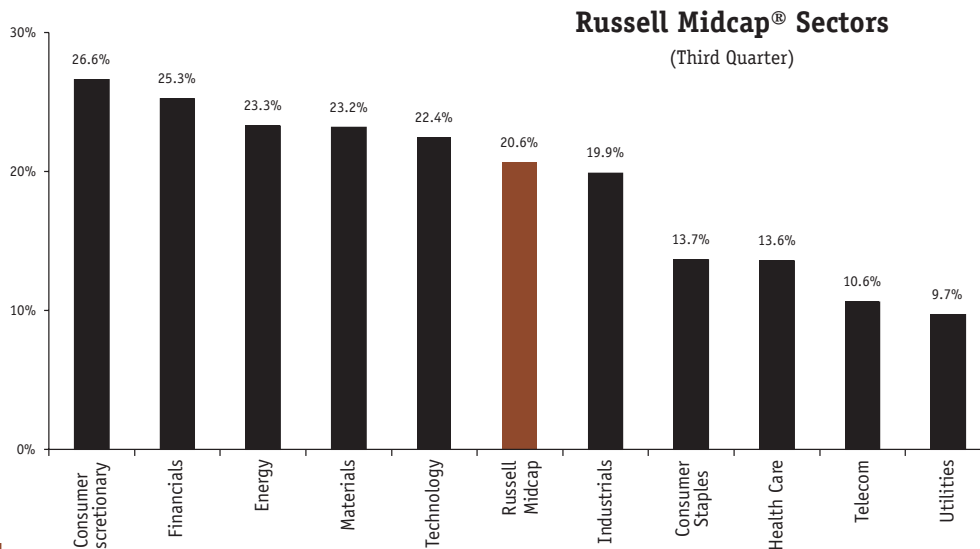
Focus on Low Quality:

Highest quality up 21% YTD

Lowest quality up 120% YTD

Growth stocks ahead of Value stocks YTD but Value better in Q3.

Smallest companies in the index dramatically outperform largest companies.



Source: Russell Investments

Sector Snapshot

Consumer, Technology and Commodity cyclicals lead. Optimism based on economic recovery hopes and operating leverage from a pickup in end demand. Most industrial commodities higher YTD.

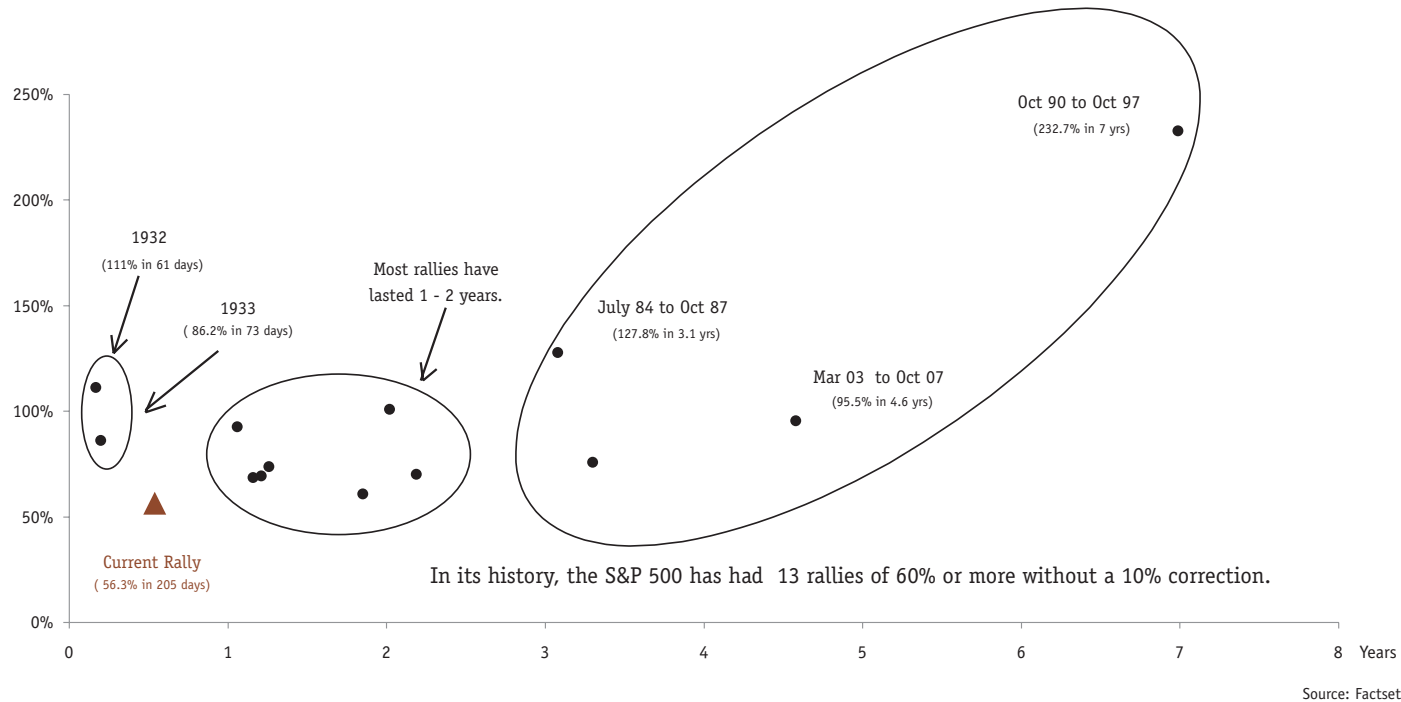
Financials continue to rebound from distressed levels.

Defensive sectors lag for the second consecutive quarter.





Historical Perspective - Past S&P 500 Rallies (1926 - Present)



Stock market rallies have displayed differing characteristics through the years.

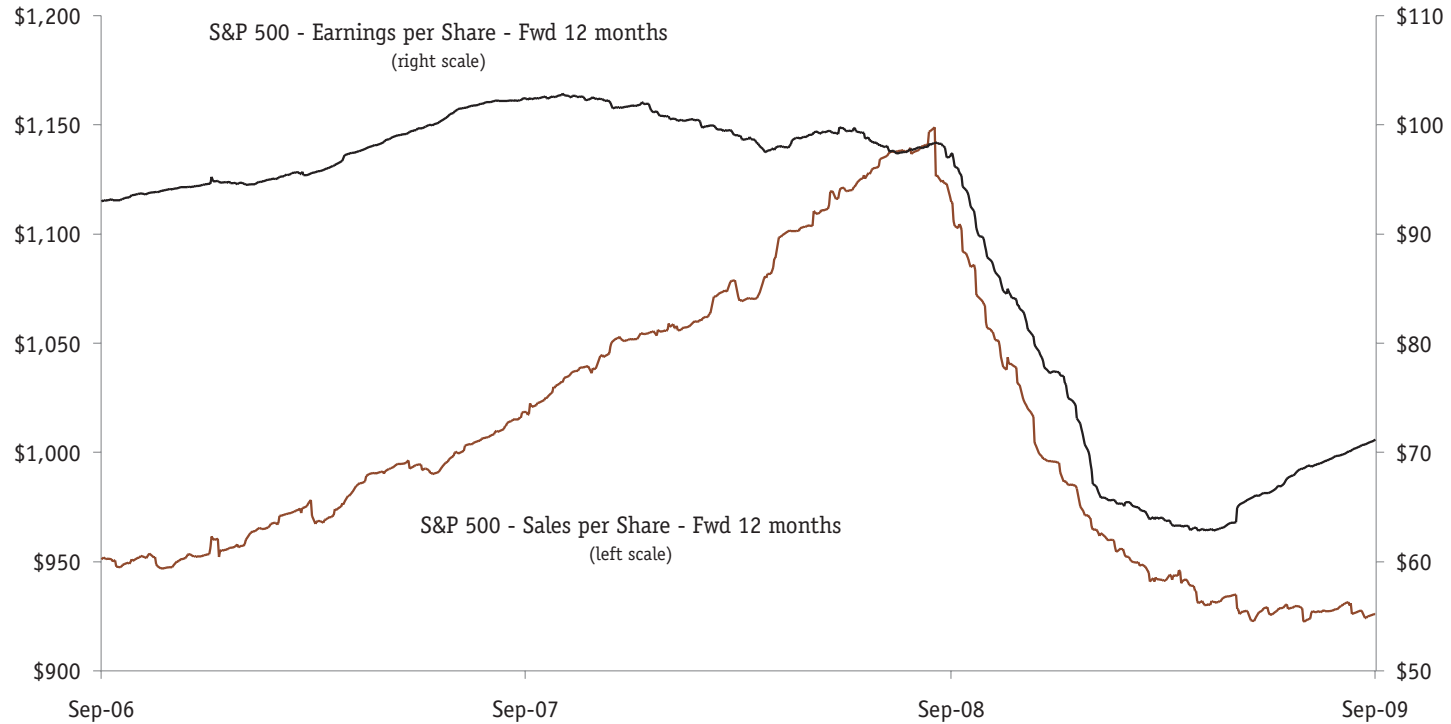
Some, as in 1932 and 1933, were very explosive short-term rallies characterized by sharp, emotional reversals from oversold levels. These rallies were based on speculation and did not have underlying fundamental support on which to build. As such, they were very explosive but tended to die out rather quickly. Others were multiple year, bull market rallies such as 1984-87, 1990-97 and 2003-07. These long advances were sustained by improving economies, falling interest rates, strong corporate earnings and low or declining inflation. The majority of the rallies were bunched in the middle ground, lasting between one and two years with magnitudes between 60% to 100%.

It is still too early to determine which group the current market rally will ultimately join, although we believe the existing economic, interest rate and inflation environments virtually eliminate the chance that we are at the beginning of an uninterrupted long-term bull market. Whether the rally fizzles or limps onward should depend on the strength or weakness of upcoming economic and earnings reports, which we believe will be mixed. As such, we would not be surprised if the current market rally stumbles in the near future.





Earnings Improvement ... Sales Flat



Source: Factset

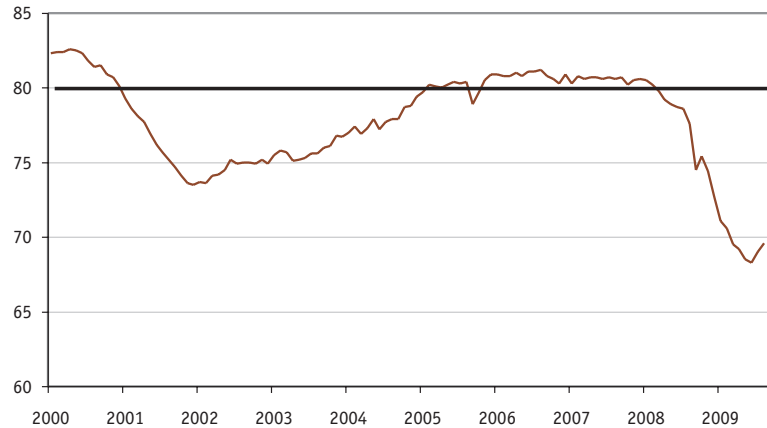
S&P 500 sales and earnings have fallen sharply during this recession. In recent months earnings expectations have started to turn upward again. In general, most companies outside of the Financial Sector have done a reasonably good job managing inventories during the downturn and have benefitted from low borrowing rates and low wage pressure. Additional expense reductions have left companies very lean and able to grow earnings despite a lack of growth in demand for their products or services. The sustainability of an earnings rebound should be dependent on the strength of the economic recovery and the ability for sales to grow beyond the current flat line status. With consumer spending making up approximately 70% of GDP, the resurrection of the consumer should be a key factor.



Inflation pressures are well-behaved for now ...



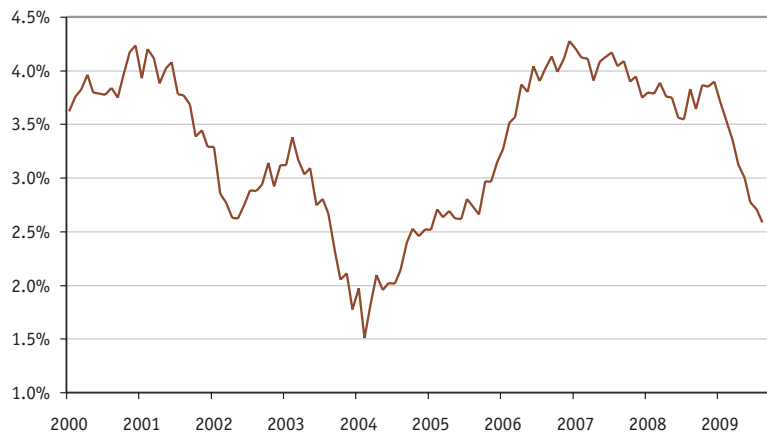
Capacity Utilization



Capacity utilization measures how completely the economy is utilizing its productive resources. We begin to worry about cyclical inflation when this measure is in a rising trend and breaks through the 80% level. Capacity Utilization is currently below 70%.

The severity of this economic downturn has left the economy with ample capacity to absorb a significant upturn in production. This is true not only in the U.S., but in other industrialized countries as well. It will take several quarters of strongly rising production before capacity constraints trigger inflation worries.

Average Hourly Earnings Yr/Yr % Change



Labor costs are another significant source of cyclical inflation, which makes sense as labor costs are the single biggest cost of production. When the unemployment rate is low and workers scarce, labor costs tend to rise, forcing producers to consider raising their prices to protect profit margins. But, at the moment, the unemployment rate is just under 10%, far above what could be considered full employment. And with a significant number of workers unemployed and the labor pool abundant, wage costs have been trending noticeably lower.

With few inflation pressures present in the U.S. and global economies, the Fed can be patient in removing easy monetary policy without fearing a flare up in inflation — at least for the next few quarters.

Source: Federal Reserve Board of Governors and Bureau of Labor Statistics



THE STOCK MARKET OUTLOOK

September 30, 2009



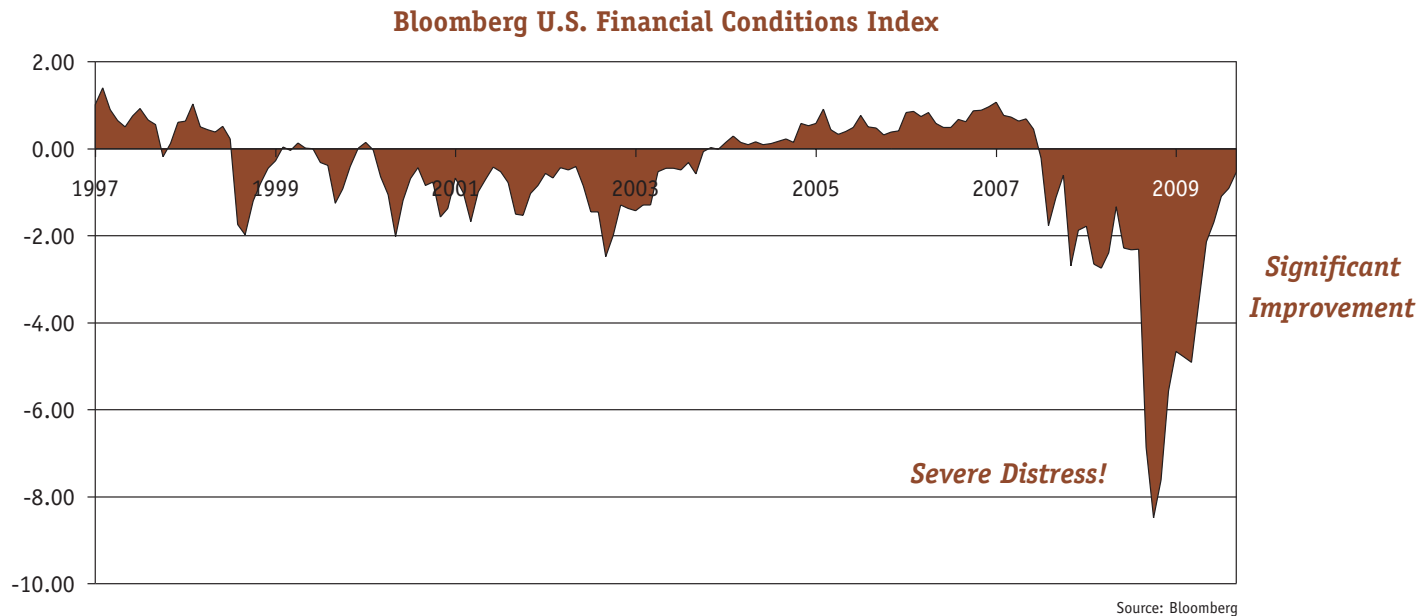
The stock market moved sharply higher in the third quarter as signs of a synchronized global economic recovery continued to emerge and corporate profitability exceeded expectations. However, much of the earnings recovery can be attributed to massive cost cutting rather than a significant improvement in revenue growth. Thus the sustainability of this stock market's recovery is being debated as the evidence suggests that the outlook remains uncertain. For example, even though many foreign economies appear to be growing at a strong pace, domestic economic growth will likely be constrained as high unemployment, excessive consumer debt and a weak-to-stagnant housing market should limit the breadth and magnitude of the economic recovery. Our outlook is somewhat balanced as valuations are no longer inexpensive given the significant rally over the past six months. On the positive side earnings are recovering, interest rates remain low and inflation is very muted. When we add it all up we are generally neutral to slightly positive in the near term while more optimistic for the long run. Given that much of this rally has been focused on low-quality, speculative stocks we are still finding good relative values in the high-quality, consistent growth companies that we prefer. As the trajectory of the recovery becomes less certain, we believe the market will gravitate to these companies as well.

Our Scorecard*

| | | |
|--------------------------------|--------|---|
| Economic Growth | - M + | The U.S. likely emerged from its recession in the third quarter, but growth is expected to be subpar. High unemployment, excessive consumer debt and a still weak housing market will continue to pressure consumers, keeping a lid on domestic economic growth. |
| Corporate Profits | - →M + | Earnings growth has improved significantly as massive cost cutting has led to better margins. We expect growth to continue to ramp up in the fourth quarter and into 2010, but to sustain an upward trend we will need to see a meaningful improvement in revenues as well. |
| Inflationary Pressures | - M + | Inflation as measured by CPI appears to be under control. But a recent surge in commodity prices and the massive stimulus programs put in place are cause for concern down the road. |
| Interest Rate Pressures | - M + | Interest rates are extremely low and are expected to stay that way for the foreseeable future as the Fed does not want to cut this recovery short. If inflation emerges rates will have to move higher. |
| Liquidity | - M + | Equity mutual funds have begun to see some inflows this quarter, but rolling 12-month figures are still decidedly negative. Money market cash levels remain elevated, which may provide support for the markets as investors become more willing to take on some risk. |
| Sentiment | - M + | The recent rally in the market has improved investors' view of the markets, especially among Wall Street strategists, but, in general, investors remain skeptical of a sustained rally. |
| Valuation | - M← + | With the strong rally over the past six months stocks are no longer inexpensive. The P/E expansion part of this rally may be over meaning better earnings are going to be needed to move the market higher. A consolidation of recent gains would actually be healthy for the long run. |

* The Stock Market Outlook Scorecard is a non-quantitative representation of Madison Investment Advisor's opinions on how seven key indicators might influence the market. Each chart shows a graphical estimation of an indicator, with "+" indicating a positive influence, and "-" indicating a negative influence. ↔ indicates meaningful shift from previous quarter.

Financial Conditions Update...



We include the Bloomberg Financial Conditions Index again this quarter because it provides an interesting and timely barometer of the condition of the financial markets. To recap, a value near zero indicates normal conditions, while a value above zero indicates favorable financial conditions. We consider any value between +2.0 and -2.0 to be “normal.” Over the last two years, we’ve been experiencing a VERY negative set of financial conditions, which are unprecedented in their scope and severity.

Since this Index made a dramatic low in early October of 2008, at a time when the financial markets were frozen on the heels of the Lehman Brothers’ bankruptcy and the Fannie Mae/Freddie Mac debacle, it has been headed back toward the zero line in equally dramatic fashion. Efforts by central banks worldwide to infuse liquidity, support sagging markets, and improve economic performance appear to have had the desired effect. The markets are unfrozen, working efficiently again, and most interest rate relationships in the U.S. and abroad have returned to historical norms. This is good news, indeed, but points out the difficult task ahead for central banks worldwide: how to begin withdrawing unprecedented stimulus without disrupting the fragile financial equilibrium.



Is the Unemployment Rate peaking?



Source: The Conference Board and Bureau of Labor Statistics

Consumers are having a hard time of it. Credit is tough to come by, home prices are falling, and job losses are abundant. The Unemployment Rate in the U.S. economy is currently running at 9.7%. Until the economy begins to generate new jobs and put people back to work, we don't expect the consumer sector to play much of a role in an economic recovery. Looking for signs that the Unemployment Rate is peaking and set to turn down is a key to forecasting a heightened pace of economic activity.

One of the indicators we use to watch for this turn is The Conference Board's Consumer Confidence Survey. Respondents are asked whether they consider jobs "easy to get" or "hard to get." The difference between easy-to-get and hard-to-get is a good indicator of the future direction of the Unemployment Rate. This measure has leveled out in the last few months and, while it remains too soon to say that it indicates job growth, it suggests the worst may be over. This, combined with improving non-farm payrolls, leads us to believe the Unemployment Rate has begun a peaking process, which may keep it from touching our 10% forecast rate.

We'll be watching the Jobs Easy to Get/Hard to Get indicator closely in coming months to support our moderate economic recovery forecast. A leveling off and gradual improvement in labor conditions is key to that forecast.



The Bond Market Balance Sheet

THIRD QUARTER 2009

ON THE PLUS SIDE...

- **Consumers are still retrenching and the process is far from over.** The recent recovery in the stock market has helped to buoy consumer confidence and “cash for clunkers” was a hit. But with unemployment still high, wages stagnating, and consumers continuing to shed debt to repair balance sheets, consumer spending is unlikely to lead the economy to recovery;
- **Near-term inflation pressures show little risk of prices getting out of hand.** Commodity prices have bounced off of first quarter lows as global demand has re-emerged. Yet, global capacity remains abundant, and wage growth has stagnated as productivity has skyrocketed. Inflation is not a problem on the Fed’s radar screen at the moment, and likely won’t be until late 2010 at the earliest;
- **The unemployment rate has entered a peaking process, but will come down only grudgingly.** Recent payroll reports confirm a slowing in the pace of employee layoffs, and weekly hours worked have stopped falling. While it appears the unemployment rate, currently at 9.7%, is peaking, a return to job gains and a lower unemployment rate awaits stronger evidence that the economy is emerging from recession and top line company revenues are beginning to grow once again;
- **A “mountain of cash” remains on the sidelines and may fuel further asset price advances.** Although off of the highs reached in January, money market fund assets remain elevated and in excess of \$3.5 trillion. With money market yields still nominally very low, the easing of the financial crisis has started to spur investors to seek return in riskier asset classes. Much fuel remains for this fire.

ON BALANCE The green shoots evident during the second quarter have mostly bloomed as the economy likely returned to a growth path in the third quarter. We worry, however, that once the effects of temporary stimulus initiatives wear off, the economic backdrop may not be as rosy as the stock market is discounting. Consumers remain strapped and unwilling to spend without the inducement of government subsidies on homes and cars. The business sector, while enjoying better profits, is limited by little growth in top line revenues. Meanwhile, the Government continues to be a strong source of debt-financed stimulus. This can’t go on forever, though, without inflicting serious damage to global competitiveness and long-term growth prospects. Credit spreads have returned to pre-crisis levels, and Agency paper is trading close to Treasuries. While the spread sectors enjoyed another strong quarter, they are now trading close to fair value. We believe a cautious duration posture will be a key to performance in the months ahead.

BUT KEEP AN EYE ON...

- **Financial conditions continued to improve in the third quarter, and many measures now stand at levels prevailing before last fall’s meltdown.** Corporate bond spreads have recouped all of the damage that occurred after the Lehman bankruptcy and Fannie/Freddie debacle. Stock market volatility has returned to “normal” and the debt markets have fully reopened for business. While some aspects of credit availability remain tight, qualified borrowers are having no trouble getting loans;
- **Leading indicators suggest that the recession may soon be over.** Many components of the Leading Economic Index have turned up during the last few months, led by higher stock prices, a steep yield curve, and improving consumer expectations. Indeed, real GDP growth in the third quarter may be positive due to inventory restocking and stronger auto production. We are cautiously optimistic about the prospects for sustained economic recovery, which will likely unfold slowly;
- **Both fiscal and monetary policies remain highly stimulative and are likely to stay that way for a while.** With inflation pressures scant, the Fed is unlikely to raise the Funds Rate any time soon and will only gradually wind down its quantitative easing regime. Federal spending remains robust and estimates of the fiscal 2009 deficit are approaching \$1.7 trillion. Treasury borrowing to fund record deficits is likely to continue at a heavy pace. A weak dollar raises concerns about ongoing foreign purchases necessary to cover the huge volume of Treasury debt;
- **Corporate profits continue to exceed expectations.** During the first half of 2009, corporate profits advanced +11.3%, or almost 24% at an annual rate. Much of the improvement resulted from judicious cost containment. But cutting costs can only go so far — genuine top line growth will be necessary for corporate profits to continue their advance.

Although the information in this report has been obtained from sources that the Firm believes to be reliable, we do not guarantee its accuracy, and any such information may be incomplete or condensed. All opinions included in this report constitute the Firm's judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. Past performance is not a guarantee of future results.

In addition to the ongoing market risk applicable to portfolio securities, bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which allows the issuer to retain the right to redeem the debt, fully or partially, before the scheduled maturity date. Proceeds from sales prior to maturity may be more or less than originally invested due to changes in market conditions or changes in the credit quality of the issuer.

¹ The S&P 400 and S&P 500 are unmanaged indices of mid-sized and large companies, respectively, and are widely regarded as a standard for measuring large-cap and mid-cap U.S. stock-market performance. Results assume the reinvestment of all capital gain and dividend distributions. An investment cannot be made directly into an index.

² The Russell Midcap Index is an unmanaged index that measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 35% of the total market capitalization of the Russell 1000 Index. Investors cannot invest directly in this index.

Past performance is no guarantee of future results.