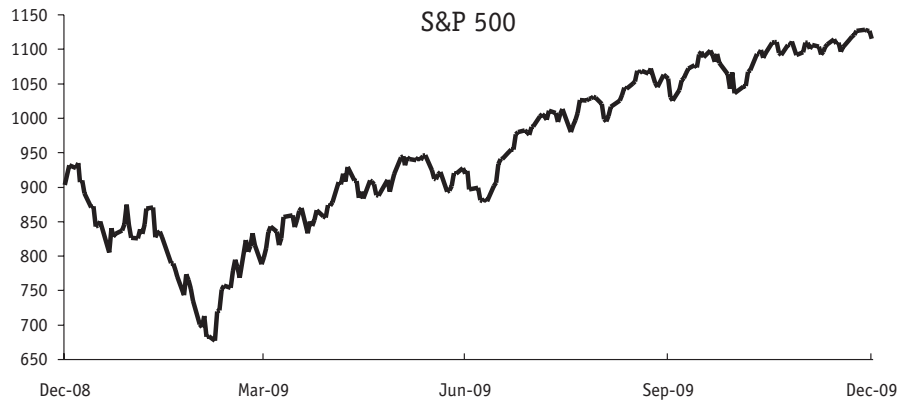




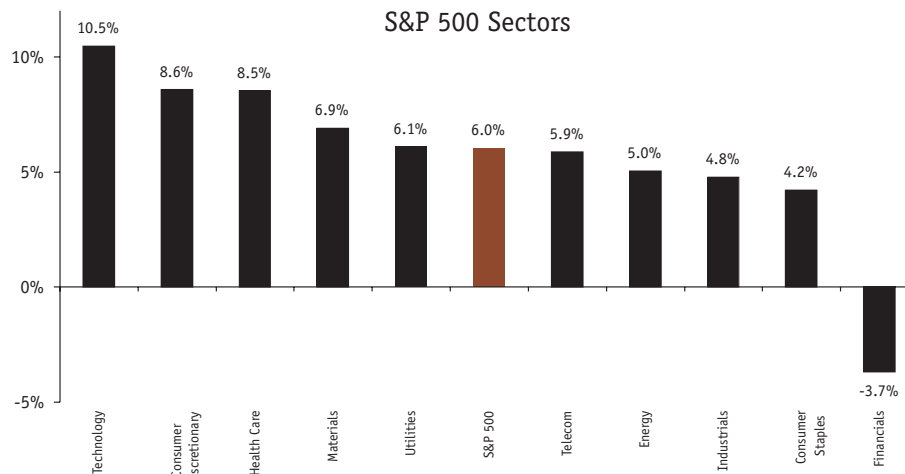
Fourth Quarter 2009 - Rally Continues



Source: Factset

Tale of the Rally

- Nine out of past 10 months positive.
- 65% rally from March low.
- Focus on low-quality stocks continued in Q4.
- Smallest stocks in index provide best relative performance.
- Growth stocks continue to outperform value stocks.
- Higher beta stocks start to underperform in Q4 following significant outperformance off market bottom.



Source: Standard & Poor's

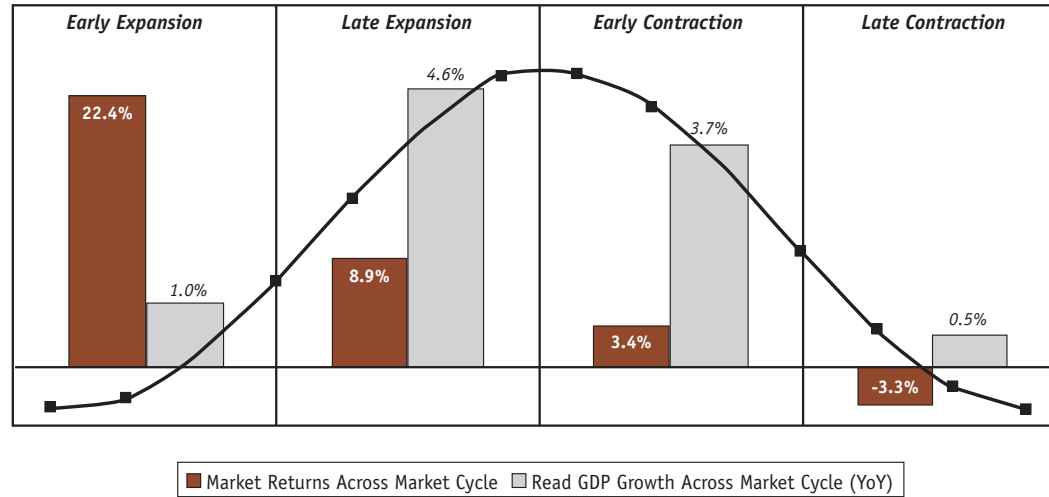
Sector Snapshot

- Financials come down to earth after leading the market for the prior two quarters.
- Cyclical sectors such as Technology, Consumer Discretionary and Materials continue to lead the market on economic rebound hopes.
- The Health Care Sector performs well as reform initiatives lose some intensity.





Market Returns and the Business Cycle



Source: ISI

Stock market returns have historically been greatest during the early expansion phase of the business cycle when economic growth is in the early stages of rekindling. The market, acting as a forward looking mechanism, moves ahead on expectations of better economic and earnings growth. This resembles the recent environment as the recession ended in mid-2009 and stock markets soared. As the economic expansion gains momentum and moves toward the later stage of growth, stock market returns have historically moderated. We currently find ourselves somewhere between the early and late expansion phases where the market has discounted an improving economic landscape, but we have yet to experience meaningful and sustainable economic improvement. The future course of the market will be dependent on the strength of the economic recovery and to what extent the recovery exceeds or falls short of expectations.



THE STOCK MARKET OUTLOOK

December 31, 2009



The S&P 500 continued to move higher in the fourth quarter, posting its third consecutive positive quarter. Many investors thought the stock market might take a breather after posting exceptionally strong results during the second and third quarters of 2009, but better economic news and stronger than expected corporate profitability helped to extend the advance. The market, of course, is a discounting mechanism, and it appears much of the good news that unfolded in 2009, and is anticipated for early 2010, has been priced into current values. The question is whether the economy and corporate profits will be strong enough in 2010 to push the markets higher. Although we are cautiously optimistic about the stock market for 2010, our view is more subdued compared to 2009. The economy appears to be growing again, but the recovery looks to be sub-par as consumers face a poor housing market and high unemployment. In addition, much of the recent economic growth can be attributed to massive government stimulus, and when that wears off the economy may retrench a bit. On the positive side global economies are growing at a healthy pace helping multi-national companies in particular. Interest rates remain at absolute low levels, and inflation appears to be under control, at least for the time being. Normally in this type of environment high-quality, large-cap companies are favored.

Our Scorecard*

Economic Growth	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;"> - M + </div>	<p>The U.S. economy posted positive GDP growth in the third quarter, officially ending the recession. Still growth is expected to be sub-par as consumers face numerous headwinds including a weak housing market and high unemployment. Global economic growth is advancing at a healthy pace.</p>
Corporate Profits	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;"> - M + </div>	<p>As the extent of the recession unfolded in late 2008, corporations responded with swift and deep cost cutting leading to improving margins and profitability. Due to easy comparisons, earnings growth for the S&P500 could average close to 20% annually for 2010 and 2011.</p>
Inflationary Pressures	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;"> - M + </div>	<p>Inflation, as measured by CPI, appears to be under control. However, a recent surge in commodity prices and the massive stimulus programs put in place are cause for concern down the road.</p>
Interest Rate Pressures	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;"> - M + </div>	<p>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.</p>
Liquidity	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;"> - M + </div>	<p>Domestic equity mutual funds continue to experience outflows as investors have gravitated toward bond funds, producing record inflows for fixed income funds. Historically, when retail investors have made dramatic asset class shifts it has proven to be at inopportune times.</p>
Sentiment	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;"> - M + </div>	<p>The recent rally in the market has improved investors' view of the markets, especially among Wall Street strategists. Risk taking has emerged again which gives us some cause for concern.</p>
Valuation	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;"> - M + </div>	<p>With the strong rally over the past several months stocks are no longer inexpensive. The P/E expansion part of this rally may be over, and better earnings will likely be needed to move the market higher. A consolidation of recent gains would actually be healthy for the long run.</p>

* 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.

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.

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.

The S&P SmallCap 600 Index is an unmanaged index used to measure stock market performance composed of companies with a weighted average market value of approximately \$600 million. Results assume the reinvestment of all capital gain and dividend distributions. An investment cannot be made directly into an index.

² The S&P 1500 index is an unmanaged index that combines the S&P 500, S&P MidCap 400, and S&P SmallCap 600 in an effort to create a broad market portfolio representing 90% of U.S. equities. The index includes the reinvestment of dividends and capital gains, however, it does not reflect deductions for commissions, management fees or any other expenses of investing. An investment cannot be made directly into this index.

³ 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.

⁴ The Bullish Consensus[®] measures the futures market sentiment each day by following the trading recommendations of leading Commodity Trading Advisors.

⁵ The Russell 1000 is designed to track the performance of most major large-cap companies. The index is a subset of the much larger Russell 3000 Index. It is a capitalization-weighted index of the 1000 largest U.S. stocks, components of which account for about 90% of the equity traded on the U.S. exchanges.

⁶ The Russell 2000[®] Index measures the performance of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000[®] Index. These securities are traded on the NYSE, AMEX and NASDAQ.

Past performance is no guarantee of future results.

The Bond Market Balance Sheet

FOURTH QUARTER 2009

ON THE PLUS SIDE...

- ***In our opinion, the recession has ended, but the recovery will be sub-par.*** We believe the economy emerged from recession late this summer. While third quarter real GDP was reported to have grown +2.2% on an annual basis, and the fourth quarter will likely be similar, we expect 2010 growth to be disappointing;
- ***The labor market is typically a lagging indicator; this time around employment may lead the economy.*** This recession is unlike a typical Fed-induced economic slowdown since it has been driven by de-leveraging and asset deflation, not higher interest rates. The health of the consumer balance sheet will thus be a key to recovery, and a resumption of job growth will be vital to consumers' overall financial condition;
- ***The Fed is indeed likely to keep short-term interest rates low for an "extended period."*** Our base case expectation is that the Fed will not raise the Fed Funds Rate until late 2010 or early 2011. However, we believe the Fed will begin to withdraw its support for the mortgage and Agency bond markets much sooner, putting pressure on spreads in these sectors. We expect the yield curve to remain steep or get even steeper in the months ahead;
- ***Despite the well-publicized repayment of TARP subsidies, the banking system remains challenged.*** Commercial real estate delinquencies have skyrocketed. One in four U.S. homeowners owe more on their home than it is worth. Continued tough credit conditions have driven banks to be big buyers of Treasury securities, to the detriment of small business and consumer lending. Until banks favor lending to business over Government, the economy will likely struggle.

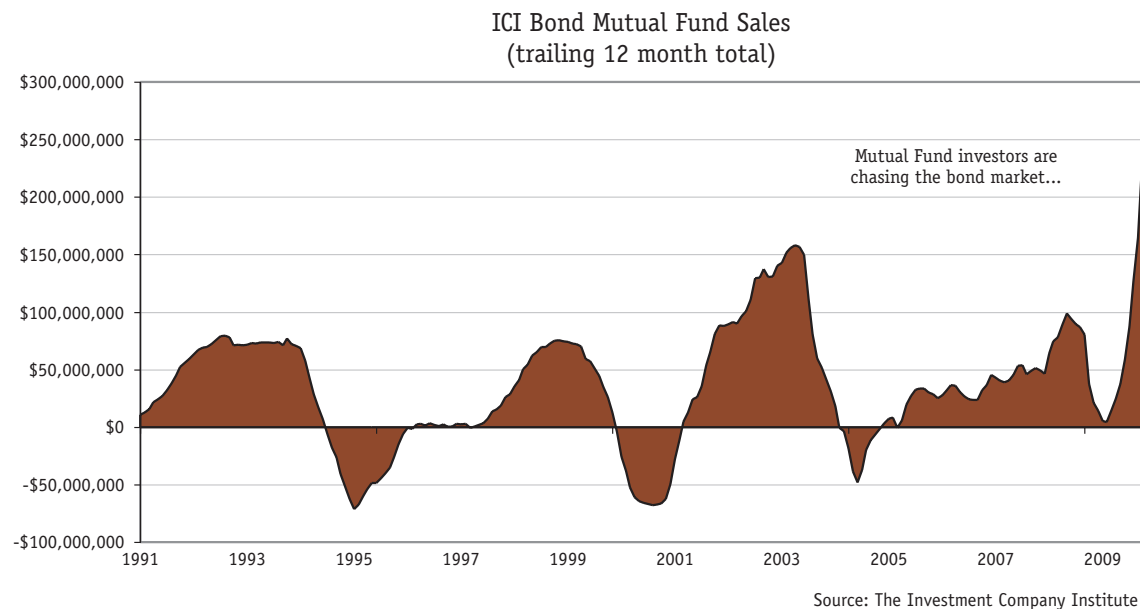
BUT KEEP AN EYE ON...

- ***Record fiscal deficits, and the accompanying growth in the supply of Government debt, are a long-term concern for the dollar's value and our ability to attract foreign capital.*** The dollar has remained persistently weak in 2009, and has depreciated 36% vs. a trade-weighted basket of major currencies since 2002. Foreign buyers of U.S. debt have sharply pared back their purchases, opting instead to diversify their reserves into other currencies. Without direct Fed/Treasury purchases in 2009, interest rates would have been sharply higher;
- ***The bond market appears to be priced for a sluggish 2010 economy.*** The consensus increasingly expects below-trend growth in the coming year. Any surprise, we suspect, would be on the positive side for stronger growth, and would catch the market by surprise. We believe the risk to yields remains higher;
- ***The damage to risk premiums which occurred in 2008 was largely reversed in 2009.*** After a rocky first quarter, risk premiums shrank for the balance of the year, re-tracing the widening which occurred in 2008. High risk categories fared the best; low risk categories, especially Treasury Notes and Bonds, fared the worst. Most investment grade sectors appear to us to be back near fair value, but we see little catalyst to drive risk premiums either way, as ongoing credit market concerns are offset by strong liquidity flows into fixed income;
- ***Retail investors have piled into fixed income over the past year.*** It's not unusual, or surprising, that retail investors have shunned the volatility of the stock market in favor of the relative security and stability of bonds. But retail investors tend to be a good contrary indicator, and strong flows into bonds over the last year suggest that capital preservation will be an important theme in 2010.

ON BALANCE 2009 will be remembered for reversing the credit market meltdown of 2008. While much progress has been made in stabilizing shaky financial markets and repairing banking system balance sheets, U.S. consumers remain mired in debt, shaken by falling home prices, and worried about their jobs. This is hardly a recipe for a vibrant economy, and we expect the coming year to be one of economic underachievement. We believe strong returns in corporate bonds, Agencies, and MBS leave these sectors at best fairly valued, but still appealing for those looking for income in a lower volatility environment, especially compared to Treasury Notes and Bonds, which remain markedly overvalued. While the keys to fixed income success over the last two years have been nimble sector allocation and avoiding problem issuers, we believe the keys going forward will be a risk-sensitive approach to rising interest rates and a flexible yield curve strategy designed to take advantage of the curve's steep slope. "Cautious," in a word, is our mandate for 2010.



A Classic Contrary Indicator?



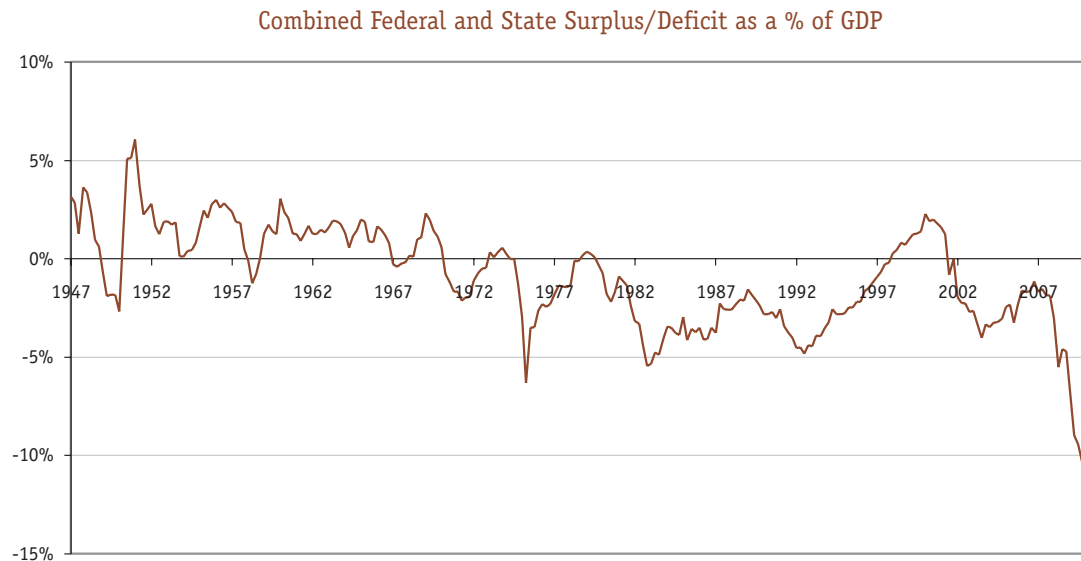
Historically, investors have, on average, tended to do the wrong thing at the wrong time, in essence chasing what has been “hot” instead of looking ahead. There tends to be predictable, observable cycles in the flow of investment money. Bonds tend to be favored by retail investors after the stock market has posted poor returns and bonds have done well. However, peaks in bond investment tend to occur just before the bond market has a tough year.

- The 1993 peak preceded the worst bond market since the depression in 1994.
- The 1998 peak preceded Russia’s default and Long Term Capital Management’s implosion, which led to a nasty sell-off in 1999.
- The 2003 peak occurred just as Enron and Worldcom were admitting to malfeasance, leading to a tough bond market in 2004.
 - The runup in bond fund assets in 2007 preceded the credit market meltdown of 2008.

Now, after a strong rebound in bond market returns in 2009, investors have predictably plowed a record amount of cash into bonds — over \$230 billion this year! ***With history as our guide, we consider this to be an ominous sign which supports our cautious approach to the bond market in the year ahead.***



Unprecedented stimulus... staggering deficits...



Source: Bloomberg and Madison Investment Advisors, Inc.

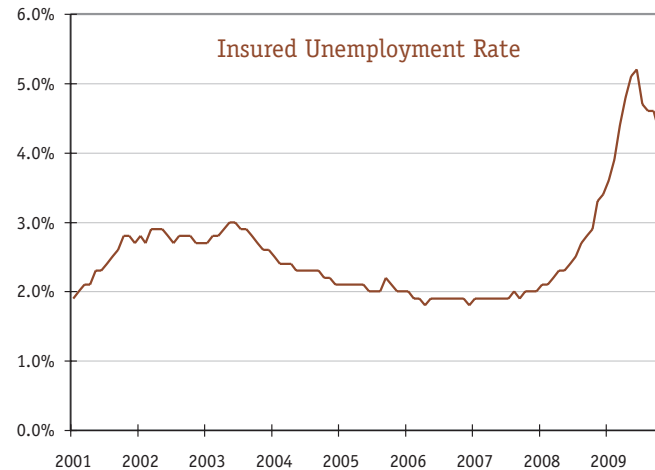
The estimate for 2010 federal and state deficits as a % of GDP is at a level that is unprecedented since World War II. The severe recession has caused a sharp decline in tax revenues at the same time that Government stimulus efforts have been exploding.

While deficit spending is an accepted policy when the economy is weak and in need of stimulus, one of the key questions for 2010 is: As Government stimulus programs wind down, will consumer demand pick up enough to support the recovery given the unstable employment situation and housing market?

The other side of record deficits is the debt needed to fund them. Treasury debt issuance exploded in 2009, which so far has been met by increased demand from U.S. banks and continued support from foreign sources. Should their appetites diminish rates will likely rise and our cautious positioning should be well-rewarded.



Has the Unemployment Rate Peaked?



Source: Bureau of Labor Statistics and U.S. Department of Labor

The Unemployment Rate has historically been viewed as a lagging indicator of economic activity, as employers are typically more reactive than proactive when it comes to expanding their workforce. But this economic cycle, and recession, have been driven by asset deflation (housing) and de-leveraging (balance sheet repair), and not higher interest rates, which are the hallmark of a typical Fed-induced cyclical recession. Employers have been very quick during this recession to reduce headcount to save costs and protect profits. Thus, the usual rules may not apply, and we are watching the unemployment rate closely as a key leading indicator of what the economic future may hold.

The often reported U.S. Unemployment Rate is derived from the Bureau of Labor Statistics (BLS) household survey. The Insured Unemployment Rate comes from the Department of Labor and is based on the number of individuals receiving unemployment benefits. The differences between the two are subtle but important. The official Unemployment Rate includes those people who have withdrawn from the labor force and chosen not to seek employment. The Insured Unemployment Rate, in contrast, attempts to measure those actively seeking employment. The Insured Unemployment Rate has clearly peaked and begun to head down, while the Official Unemployment Rate has remained stubbornly high. There are early signs the labor markets may be improving, which would help support the economic recovery.



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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.