

THE RETIREMENT INCOME COMPASS

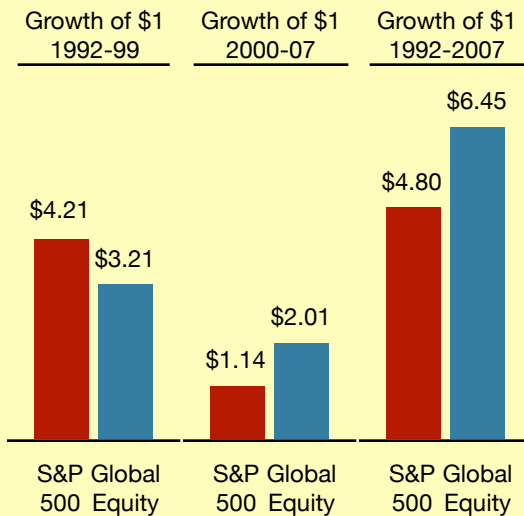
BECAUSE THERE ARE BIG RISKS ON THE ROAD AHEAD

Investing Challenge / Compass Advantage

The 'Concentrate or Diversify' Challenge

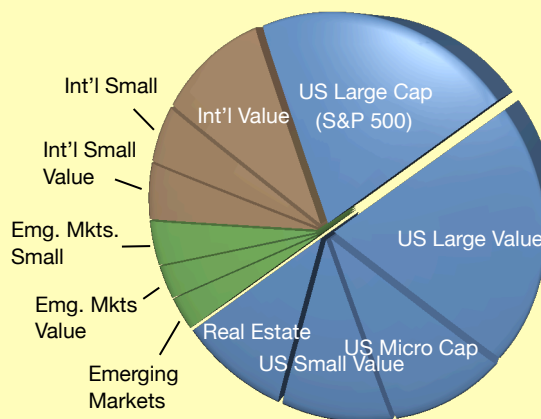
The Compass Advantage is the Global Equity Strategy incorporated into your model portfolio.

Concentrate or Diversify Strategies Performance Compared



Returns based on asset class indices and are hypothetical since strategies were not being employed during the entire periods shown. Indices are not available for direct investment. Returns for Global Equity Strategy reflect deduction of Madden's maximum advisor fee but other fees may apply. Past performance is no guarantee of future results.

Global Equity Strategy



Diversification

A risk management technique that mixes a wide variety of investments within a portfolio. The rationale behind this technique contends that a portfolio of different kinds of investments can be expected to yield higher returns, over the long run, and pose a lower risk than any individual investment found within the portfolio.

Diversification strives to smooth out unsystematic risk events in a portfolio so that the positive performance of some investments will neutralize the negative performance of others.

Therefore, the benefits of diversification will hold only if the securities in the portfolio are not perfectly correlated.

—Investopedia

Investing Challenge

One of the key mistakes US investors make is concentration of their stock holdings into a single asset class. 75% of the value of all US stock holdings is invested in the 500 large companies of the S&P 500 index.

There are times when concentration seems like the winning strategy. In the eight-year period covering 1992 thru 1999 the 500 index produced a 19.7% annualized return. \$1 grew to \$4.21. No wonder the typical investor was comfortable with a concentration in stocks of US large companies.

In the subsequent eight-year period, 2000 thru 2007, which incorporated a severe bear market, the performance of the S&P 500 illustrates the downside of concentration. The S&P's dismal 1.7% annualized return grew \$1 to \$1.14. For the sixteen years the 500 had a respectable 10.3% annualized return, growing \$1 to \$4.80 with eight years euphoric, followed by eight equally dismal.

Compass Advantage

The Compass' investing advantage is the Global Equity Strategy, an allocation to stocks in the eleven asset classes of the pie chart. Think of the strategy as 'the tortoise.'

Betting on the tortoise requires patience.

There will always be some single asset class, like the 500, playing 'the hare'—beating the tortoise over a multi-year period. As in Aesop's saga, our tortoise can be expected to prevail—over the long run.

In the 1992-99 period the strategy had a 15.7% return. \$1 grew to \$3.21. In 2000-07 a 9.1% return grew \$1 to \$2.01.

For the sixteen-year period, 1992 thru 2007 the global strategy had a 12.0% return which grew \$1 to \$6.45. If you started the sixteen-year period with \$100,000 allocated to stocks, the Concentrated strategy would have grown to \$480,000. The Global Equity Strategy would have grown to \$645,000—\$165,000 more with less sweat and strain.

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What to know...
and how to go

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