

THE RETIREMENT INCOME COMPASS

BECAUSE THERE ARE BIG RISKS ON THE ROAD AHEAD

Investing Challenge/Compass Advantage

Why Diversification Matters: Past Performance is Poor Predictor

Best-Performing Asset-Class Index (at top) to Worst-Performing (at bottom) from 1989-2008

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Asset-Class Index Color
37.7%	9.0%	51.2%	29.1%	32.6%	7.8%	40.0%	25.6%	35.5%	45.1%	43.1%	22.8%	14.0%	10.3%	48.5%	22.3%	13.7%	26.5%	12.2%	5.2%	Russell Large Growth
35.6%	1.4%	50.1%	18.4%	23.8%	4.9%	38.7%	23.0%	33.7%	28.6%	29.7%	17.5%	8.4%	-11.4%	47.3%	20.7%	12.6%	23.5%	11.3%	-28.9%	S&P 400 Mid-Cap
31.7%	-3.1%	46.1%	11.9%	19.8%	1.3%	37.6%	22.3%	33.4%	21.2%	27.0%	11.6%	2.5%	-14.5%	46.0%	18.3%	4.9%	23.0%	7.9%	-33.8%	S&P 500 Large
26.7%	-3.7%	41.7%	9.1%	18.9%	-1.5%	31.0%	21.4%	32.3%	20.0%	21.3%	2.3%	-0.6%	-15.8%	38.8%	16.5%	4.7%	18.4%	7.1%	-36.1%	Russell Large Value
20.2%	-5.1%	39.4%	7.8%	14.0%	-1.8%	31.0%	19.2%	31.8%	19.1%	21.0%	-3.0%	-8.8%	-18.0%	35.6%	14.3%	4.6%	15.8%	7.0%	-36.1%	Russell Small Growth
16.3%	-17.4%	30.5%	7.6%	13.4%	-1.9%	28.4%	16.5%	22.4%	8.7%	14.7%	-9.1%	-9.2%	-20.5%	28.7%	13.3%	4.6%	13.4%	5.5%	-36.2%	Russell Small
14.5%	-19.5%	18.2%	7.4%	10.1%	-2.4%	25.8%	11.3%	13.0%	1.2%	11.0%	-13.5%	-11.9%	-22.1%	26.8%	10.9%	4.2%	10.3%	0.3%	-37.0%	U.S. Bond Aggregate
12.4%	-21.8%	16.0%	3.9%	9.8%	-2.9%	18.5%	6.1%	9.7%	-2.6%	-0.8%	-22.4%	-20.5%	-28.0%	26.6%	4.3%	2.9%	8.6%	-1.6%	-38.5%	Russell Small Value
10.5%	-23.5%	12.1%	-12.2%	-0.1%	-3.6%	11.2%	3.6%	1.8%	-6.5%	-1.5%	-24.5%	-21.3%	-30.3%	4.1%	3.7%	2.4%	4.3%	-9.8%	-43.3%	MSCI EAFE International

Source: Fidelity Investments as of 12/31/08. Past performance is no guarantee of future results. Diversification does not insure a profit or guarantee against a loss.

The table represents the annual performance of nine different asset-class indices for the 20-year period from 12/31/88 to 12/31/08. An analysis of results for the entire period demonstrates both the potential benefit of diversification and why it may be a mistake to try to time the market. This is a hypothetical example; you cannot invest directly into any market index.

Results of Three Investing Strategies

Best Performing Index: The strategy invests \$10,000 at the beginning of each year into the best-performing index of the previous year. **Ending value \$359,214**

Worst Performing Index: The strategy invests \$10,000 at the beginning of each year into the worst-performing index of the previous year. **Ending value \$350,761**

Diversified Indices: The strategy invests \$10,000 at the beginning of each year, split evenly among all indices. **Ending value \$399,779**

By spreading investments over the nine asset classes, a hypothetical investor would have accrued \$40,565 more than if this investor had chased the highest-returning index of the previous year. And the outperformance would be accomplished with far less variability (annual performance would be in the mid range of the table). It's interesting that the 'worst performing' strategy's performance almost replicated that of the 'best performing.'

The message is clear: while there are no guarantees, it's reasonable to assume that a diversified asset-class portfolio will provide a superior return with less volatility over the long run.

The Madden Advantage

The asset classes shown in this study are those supplied to us by Fidelity. Madden's model portfolios are constructed using asset-class funds that emulate the asset classes shown and several other asset classes.

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What to know...
and how to go

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