

THE RETIREMENT INCOME COMPASS

BECAUSE THERE ARE BIG RISKS ON THE ROAD AHEAD

Navigating Challenge/Compass Advantage

The Importance of Long-Term Discipline: Real Portfolio Growth is Built on Stock Returns

History shows Lengthy Periods of Stock Market Underperformance

Annualized Compound Returns (%)	1926-2009	1965-1981	1982-2009
S&P 500 Index	9.51	6.33	11.17
One-Month US Treasury Bills	3.66	6.66	4.95

Source: S&P 500 and T-bill returns from DFA Matrix book. Past performance is no guarantee of future performance. Diversification does not guarantee a positive return.

The Navigating Challenge

The stock market has provided significant premiums above so-called 'safe investments', such as Treasury bills, over longer time horizons. Yet historical data show lengthy periods when Treasury bills have outperformed stocks.

Stocks can reward investors who maintain a long-term outlook and their commitment to stocks. But underperformance over extended periods will test one's commitment to staying with the long-term strategy.

The graphic reveals how temptations to bail out of stocks may arise—and the danger of yielding to them. Since 1926, the S&P 500 Index has offered an annualized compound return far above the return on one-month Treasury bills. This long-term effect confirms the higher return premium offered by stocks.

During the seventeen-year sub-period between 1965 and 1981, T-bills slightly outperformed stocks, illustrating that the stock market premium is not reliably positive in all periods.

The Compass Advantage

Madden's managed portfolios are designed to help investors stay-the-course during inevitable periods of underperformance in U.S. stocks. The strategies incorporated into each portfolio:

- **Asset Allocation**—Each portfolio has a healthy allocation to bonds which tend to have low correlation to stocks. The bond funds can be expected to provide a positive monthly return to the portfolio when stock funds have losses.
- **Diversification**—Rather than concentrate investments in a single asset class, the large company stocks in the S&P 500 index, the stock market allocation is divided among nine asset classes along with the S&P 500. The classes include; large and small companies, both U.S. and international, growth and value companies and real estate. The portfolio's diversified asset classes are expected to have boom and bust cycles different from a concentration of the U.S. large company stocks in the S&P 500 index.

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What to know...
and how to go

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