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# The Lazy Days of Summer

**Second Quarter Market Review From Your Portfolio Management Team**

As we move into the summer months, our minds go to relaxing pursuits since the heat and humidity (along the mid-Atlantic, anyway) make more active endeavors unappealing. So, we have the image of taking a canoe down a stream. The water is still, and there is but a hint of a breeze. This is how the markets feel at this point in the year. Returns have been fairly consistent, and volatility has continued to decline.

As you may have noticed in your accounts, it has been a slow, but steady, climb so far this year.

Compared with the strong returns from last year, these results seem anemic, but slow and steady often wins the race. This suggests a good deal of calm or complacency in the stock market, and reinforces the image of a quiet stream.

While we sound rather sanguine about the market environment currently, we don't want you to think that the risks are low as we move to the second half of the year. Take a look at the chart below. For anyone who believes that there is nothing but smooth sailing ahead, this chart should serve as a stark reminder of what we could be facing in the future.


*__Disclosure:__ The S&P 500 Index is the Standard & Poor's Composite Index of 500 stocks and is a widely recognized, unmanaged index of common stock prices. It is not possible to invest directly in indexes which are unmanaged and do not incur fees and charges. Investments are subject to risk and any of FSA's investment strategies may lose money. Past performance is no guarantee of future results.*

While this chart serves as a useful sanity check for getting too complacent about what the future could hold, we will let the current market trends drive our investment decisions. As risk managers, our job is to constantly weigh the potential rewards with the current risks, and to invest your hard-earned money as prudently as possible.

## Portfolio Review

Below we review the five strategies that FSA manages. Keep in mind that your specific portfolio may differ to some degree from the averages, as our portfolios are individually managed.

### Income (Strategy #1)

Bond investments continued to surprise most experts in the second quarter and generated modest returns. The high yield municipal bond fund and the emerging market bond fund were the strongest contributors, while the floating rate funds provided lesser returns.  Those types of funds tend to do well when interest rates are rising.

### Income & Growth (Strategy #2)

This strategy was helped by both bond funds and a 40% allocation to stock funds. Despite the solid performance from the stock funds during the quarter, the strongest contribution actually came from the high yield municipal and emerging market bond funds.

### Conservative Growth (Strategy #3)

This strategy was helped by a slightly higher allocation (57%) to stock funds during the quarter. The allocation to high yield bond and high quality bond funds remained the same. We added to an existing position that tilts towards utilities stocks and high yield bonds.

### Core Equity (Strategy #4)

With a 70% allocation to stock funds, this strategy posted a solid return during the quarter. While we added to the REIT positions, an area of strength, we reduced the healthcare fund position since it struggled after having a strong first quarter. As emerging markets began to turn up during the quarter, we added a position to take advantage should the trend continue. Some accounts also received a small allocation to an energy fund, given the continued strength.

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**Tactical Growth (Strategy #5)**

During the quarter there was a good deal of churning underneath the market's surface, causing some of the best-performing sectors to succumb to corrections. This led us to sell the biotech and internet positions, and to further reduce small-cap stocks. As international stocks rebounded during the quarter, we also sold the inverse emerging markets fund. On the other hand, we added positions by increasing our energy exposure and buying an inverse Treasury fund that appreciates when interest rates rise. Lastly, we took a small position in an inverse natural gas ETF.

Enjoy these lazy days of summer, but know that we stand ready to make course corrections as necessary should rapids appear downstream.

Please let us know if there are any changes to your personal situation that might suggest changes to your investment objective.

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