Financial Services Advisory
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Markets Slip on Greece

Mid-Year Market Review From Your Portfolio Management Team—July 10, 2015

Stocks and bonds continue to languish in 2015. The most recent culprit—Greece—has been an ongoing thorn in the side of the global markets off and on for five years now. You may remember much angst back in 2011 when this relatively small country (with an economy about the same size as Connecticut) spooked the global markets with concerns that it might be forced to leave the European Union. If Greece left, so the argument went, it could also lead to the exit of other smaller countries, such as Portugal, Spain, or Ireland, thereby raising questions about the future viability of the Union. Greece agreed to get its fiscal house in order and the European Union, as well as the International Monetary Fund (IMF), loaned them money to help them get back on their feet. As a result, the crisis faded away for several years, but has now reached another climax as Greece now must repay the loans it took out back in 2010 and 2011. Once again, all the concerns from four and five years ago have bubbled back up, with stock markets from around the world focused on the negotiations.

This concern has handcuffed the global markets recently, with stocks struggling to move forward. While foreign stocks have fared better for the year, they also struggled more in the second quarter. For the year so far, the S&P 500 index is only up 1%, while the Dow Jones Industrial Average is actually slightly down for the year (See table below).

Index	*YTD*
Dow Jones 30	-1.1%
S&P 500 Index	1.2%
EAFE	5.5%
Barclays Bond	-0.1%
90-Day T-bills	0.0%

Source: Ned Davis Research
Note: EAFE represents the MSCI index of foreign stocks; Dow Jones 30 represents the Dow Jones Industrial Average; Barclays Bond represents the Barclays Capital Aggregate Bond Index. YTD covers the period from 12/31/14 – 6/30/15.

Outlook For Second Half

Overall, U.S. stocks remain in a sideways trend since late February. Foreign stocks, which had begun to outperform in the first quarter, stalled out in the second quarter. At this point, they are on the verge of rolling over to the downside—a development we will continue to monitor. Many bond funds have also started to roll over and thus we have reduced positions and are watching closely, as well.

In addition to the focus on Greece, market analysts are also looking for signs that the global economy is either picking up steam or beginning to slip back into recession. The ongoing turmoil in Greece is adding fuel to the argument of those worried about a global slowdown. Companies will begin to report their earnings for the second quarter soon, which will give observers a good idea if the economy is remaining on a growth track or beginning to stall out.

There are a number of variables creating a stressful and choppy time for the markets this summer:

- Does Greece remain in the Eurozone?
- Does the Federal Reserve raise short-term interest rates later this year?
- Do corporate earnings surprise investors?
- Does global growth begin to slow down?

At FSA we have been building money market positions during these sideways trends. We continue to look for areas of opportunity during this phase of the market, while maintaining our sell discipline when fund prices drop through the FSA Safety Net®.

Portfolio Review

Below we review the five broad 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)
It has been a choppy first half of the year for high quality bonds, as we draw closer to the time when the Federal Reserve begins to raise short-term interest rates. As a result, we have trimmed back our positions a bit and have let our money market position increase to 30%. This gives us some dry powder to reinvest once the trends become more positive.

Income & Growth (Strategy #2)
We trimmed back a few of the bond holdings recently as interest rates rose. This has increased the money market allocation. At this point we continue to hold the equity income funds with the expectation they will hold up relatively well in this choppy period. If a more serious correction develops in the stock market, we will begin to reduce our equity income funds.

Conservative Growth (Strategy #3)
The two most recent themes in Conservative Growth have been to increase our allocation to foreign stocks, as well as reducing our allocation to bonds. The international markets finally began to outpace their U.S. cousins earlier this year, so we bumped up our allocation there. As in the other strategies, we have slightly elevated cash positions in Conservative Growth—from the bond fund sales—which gives us an opportunity to invest once the trends become more favorable.

Core Equity (Strategy #4)
These equity oriented portfolios have managed to perform slightly above the broad stock market indices this year. Health Care stocks have been strong performers, while we sold our real estate and industrial sector funds as they rolled over. In addition, we added a technology fund as well as an international fund—two areas that were showing good trends as we moved into the second quarter.

Tactical Growth (Strategy #5)
The increased choppiness in the second quarter has created a challenge for our Tactical Growth portfolios, even though they continue to perform relatively well. During the quarter, we reduced our small-cap and biotechnology positions, while adding new positions in technology and foreign stocks. In addition, we added inverse positions in real estate and Treasury bonds. These inverse positions are designed to go up in value when real estate securities and Treasury bonds go down in price. In particular, the inverse real estate position gives us a bit of a hedge against a generally falling stock market.

FSA Investment Team