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Volatility Returns to the Markets
February Market Review From Your Portfolio Management Team—March 6, 2007

Things were going along so well in early 2007: the market was chugging along, up nearly 3% through late February (S&P 500 index). All of a sudden, a hiccup overnight in China along with some somber words by former Federal Reserve Chairman, Alan Greenspan, and suddenly markets around the world are reeling. The 400-point market drop in the Dow Jones Industrial Average on 2/27 was the worst point decline since 2003. The S&P 500 was down over 3.5% that day and wiped out the gains for the year. Most overseas markets were down even more, with developed markets such as Europe down over 4%, and developing markets down over 4% (the hot Chinese market was down almost 9% that day).

For all of last week the S&P fell over 4%, with the Dow Jones Average also down over 4%. Quite a wake-up call after things seemed to be going along so smoothly. Now we are still left to ponder the aftermath of this sharp reversal. Was this just another correction within an ongoing bull market, or is it the beginning of a more serious decline? The coming days and weeks will give us the answer, although at this point, we tend to believe that it is a correction within the bull market.

The FSA strategies fared relatively well in the decline. The more conservative strategies—Income, Income & Growth, Conservative Growth—all fell less than half the returns of the broad market. That was due to the resilient effect of high yield bonds and several of our defensive equity funds, such as Merger, Gateway, and Schwab Hedged Equity.

The more aggressive strategies—Core Equity and Tactical Growth—fell in line with the broad market. That should be expected since we had positioned those strategies to capture market returns. Fortunately, we had these portfolios in only a moderately aggressive position, with each strategy holding as much as 20% - 25% in money markets. We had been concerned about a possible market pullback, although we had no idea it would come so quickly and with little warning. In reaction to the sharp fall on 2/27, we also took the opportunity to trim back a few of the most aggressive positions (OTC and foreign), which has given us a bit more money market in case there is more follow-through on the downside as we move though March.

The table below illustrates the money market position of our various broad strategies. Of course, your individual account may differ due to cash flows and differences in fund holdings.

Strategy	Stock Funds	Core Funds	Bond Funds	Money Markets
Conservative Growth	41%	31%	9%	19%
Core Equity	58%	11%	--	31%
Income & Growth	20%	20%	38%	22%
Tactical Growth	63%	7%	--	30%
Income	--	--	90%	10%

Note: Allocation percentages are as of March 2, 2007 and are an average of all accounts within the objective. Individual account allocations may differ from these averages. Core Funds represent lower risk funds that tend to hold up well in difficult markets.

As you can see from the table above, at this point all of our strategies have diversified away from US and foreign stocks to some degree. This will allow all of the portfolios to weather any further declines. Of course, each day during this volatile time, we will review market conditions, as well as our individual holdings, to determine if any further action is required. That is, should we sell or reduce any of the remaining equity positions in the portfolios?

With the global economy is decent shape, and with interest rates and inflation remaining low, we have no reason to believe this decline will deteriorate into a more serious decline (beyond 10% for example), but we will diligently monitor the markets, as well as your holdings and take action if that is the prudent thing to do.

Very often, the markets are moving quite nicely, and it is easy to question the need for professional management. Times like last week highlight the value in having a team of investment professionals in your corner to help navigate the periodic rapids that come up from time to time.

Please contact us if you would like to discuss recent market behavior or if you have changes to your personal situation that might require a change to your risk profile.