FINANCIAL SERVICES ADVISORY
INCORPORATED
Rockville, MD 20850 800.235.4567 www.fsainvest.com

Credit Concerns Finally Spook Market—Is There More To Come?

July Market Review From Your Portfolio Management Team—August 9, 2007

It must seem very confusing for the casual investor to try to stay in sync with the stock markets these days. After posting a very solid second quarter—as strong as we've seen in several years—and after the indexes hit all-time highs in mid-July, the markets promptly made an about-face and actually finished the month of July in negative territory. Not a particularly bad month, mind you—down about 3% for the S&P 500 index—but given the strong early weeks of the month, it left that index down 6% from its high on July 19.

The concern of the moment revolves around the so-called sub-prime loans—those loans offered to people with less than stellar credit records that allowed some Americans to buy houses that were actually more expensive than they could afford. Wall Street is worried that as the homeowners begin to default on their loans, there will be a spillover effect to higher quality loans, which could cause consumer spending to dry up, and thus choke off the economy. As a result, high yield bonds, financial stocks, Real Estate Investment Trusts (REITs) and homebuilding stocks have really gotten beat up recently.

If you have been reading these commentaries this year, then you know that we have had some concerns about this recent market rally, and while we had allowed the money market position to drift lower, our equity positions were certainly not particularly aggressive.

As a result, the FSA strategies have fared relatively well in the decline. The table below shows the current asset allocation of our various strategies as of July 31. For the **Income** and **Income & Growth** objectives, we reduced or eliminated the high yield bond positions, as they triggered our safety nets. We have held the intermediate bond positions, as this area has rallied as stocks have sold off. Within **Conservative Growth**, we have reduced our stock fund allocation, and even our allocation to the more conservative, so-called 'Core' funds.

Within our more aggressive objectives—**Core Equity** and **Tactical Growth**—we have gone a step further in making the portfolios more defensive. We have added short funds to these portfolios. Short funds move opposite the direction of the market they track. Within **Core Equity** we have two short positions—one that shorts small-cap stocks, and one that shorts the high yield bond market. Within **Tactical Growth**, we also have two short positions—one that shorts Real Estate Investment Trusts (REITs) and one that shorts high yield bonds. So, on days when the overall stock market is down, these short funds usually rise in value and help offset losses from the stock fund positions.

Along with some reduction in stock fund allocations, the net long position in **Core Equity** and **Tactical Growth** is less than 40% at this time. You can see this from the table below if we subtract the Short Fund allocation from the Stock Fund allocation (Core Equity: 43% - 13% = 30% net long; Tactical Growth: 49% - 14% = 35%).

The table below also 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	Short Funds	Money Markets
Conservative Growth	23%	25%	10%	--	42%
Core Equity	43%	12%	--	13%	32%
Income & Growth	21%	11%	29%		39%
Tactical Growth	49%	--	11%	14%	26%
Income	--	--	42%		58%

Note: Allocation percentages are as of July 31, 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.

Over the past few months, the area of weakness in the stock market has come from so-called value stocks, which tend to include financial stocks, utilities, and the like. These stocks have done extremely well over the past 8 years, but leadership may be tilting towards growth stocks, which include such sectors as technology and health care. As a result, we have been reducing (and eliminating) our value fund positions, and are looking to increase our growth fund positions.

In August, we will maintain our fairly defensive positions until we see sufficient evidence that the market has resolved its concern with the sub-prime market. Then we will begin to shift to a more aggressive posture. With market volatility much higher today than six months ago, we are expecting a challenging market for the near future.

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.