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Markets Retest Lows in Volatile Month

November Market Review From Your Portfolio Management Team—December 7, 2007

Is anyone getting motion sickness from this rollercoaster ride in the stock market? From November 1 through November 26, the S&P 500 was down over 9%, making it the worst November since 2000. Then to finish the month, the market rallied over the final four days to finish the month down 'only' 4%. Interestingly, this was still the worst month for the S&P 500 index since December 2002.

For FSA, we are seeing a familiar pattern of slipping behind the market during the brief rallies, and then closing the gap during these sell-offs. As of November 26, the S&P index was down about 0.8%, with FSA down 1.3% (an average of all FSA accounts). Only four days later, the S&P index is up 4.4%, while FSA is down 0.6%.

As you might imagine, we have the brakes on pretty hard at this time. We will wait for this volatility to subside a bit before making any major changes to our portfolios. The table below shows the high money market levels, as well as the use of 'inverse' funds to provide a cushion against further downside market action. (Inverse funds are designed to move counter to the direction of the general stock market, and thus may help offset declines from other funds in the portfolio.)

Strategy	Stock Funds	Core Funds	Bond Funds	Inverse Funds	Money Markets
Conservative Growth	13%	20%	10%	--	57%
Core Equity	34%	3%	NA	7%	56%
Income & Growth	10%	20%	10%		60%
Tactical Growth	55%	--	5%	18%	22%
Income	NA	--	20%		80%

Note: Allocation percentages are as of November 30, 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. Inverse Funds typically move counter to the direction of the broad stock market—rising in value during falling markets and vice versa.

Conservative Growth:
We have exited almost all of our traditional equity positions, with only some bond funds and eclectic equity funds (such as Merger Fund, Gateway, Schwab Hedged Equity, and Calamos Market Neutral) remaining. Conservative Growth accounts are essentially flat for the year, on average.

Core Equity:
The exceedingly high market volatility has played havoc with our most aggressive all-equity strategy this year. While Core Equity accounts have held up reasonably well in the two major down markets this year, they did not get reinvested quickly enough to capture the rebound earlier this fall. Once the market reestablishes a trend (either up or down), Core Equity accounts will get on track. On average, Core Equity is down over 3% for the year.

Tactical Growth:
Tactical Growth has been a bright spot within the FSA line-up this year. The sector fund positions—including Health, Consumer Products, and Energy—have been consistent performers, while the long-term bond position and the inverse real estate funds have been very strong for us as well. Even though the money market position is relatively low, this strategy has fared quite well in the choppy market thanks to the inverse funds and the bond fund, as well as the resilient behavior of the health and consumer product sectors. For the year Tactical Growth is up 4%.

Income & Growth:
This strategy has been our most consistent performer for 2007, thanks to a conservative overall allocation to equities, as well as solid performance from the funds that make up the portfolio. For the year, this strategy is up nearly 3%.

Income:
It has been a rather challenging year for our most conservative portfolio, as the high yield bonds, which typically make up the lion's share of the holdings, have zigzagged along with the equity market. We exited all the high yield funds during the month and only have an allocation to an investment-grade bond fund. These funds do well with interest rates falling (which has been happening recently), but are looking for an opportunity to move back into the high yield funds. This strategy is down 0.6% for the year.

The Future
The approach that FSA uses to manage risk is to sell as equities weaken and to buy as equities strengthen. This approach works great in a trending market, that is, a market that is generally moving up or down consistently (e.g., 1995, 1999, 2002). The downside of our approach is that it struggles in markets that are choppy, without clear direction (e.g., 1994, 2005). We firmly believe our approach is the most appropriate for clients who are concerned with losing money, but it means that we will go through periods when that approach seems not in sync with the market.

Market volatility and choppiness like we've seen this year is often a precursor to a significant change in market direction. In times like these it is more critical than ever to have an experienced manager at the helm to navigate these turbulent waters.

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.