Rockville, MD 20850 800.235.4567 www.fsainvest.com

A Stormy First Quarter Comes to a Close; Are Sunnier Days Ahead?

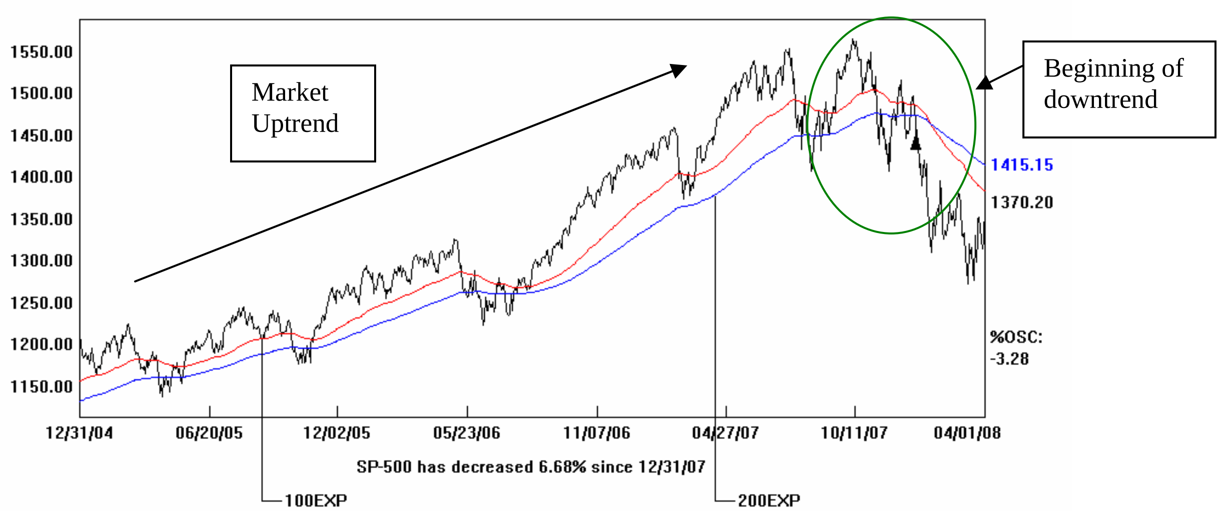
First Quarter Market Review From Your Portfolio Management Team—April 4, 2008

The 10% drop in the S&P 500 stock index was the worst quarterly return for the market since the third quarter of 2002. Many investors had probably forgotten that stocks can actually suffer pretty steep losses from time to time. After five years (2003 – 2007) of solid, if not strong, returns from stocks, investors got a good dose of investment reality this past quarter that in order to participate in the stock market, they will need to ride out some scary dips along the way.

We've written about the reasons that the investment climate might be due for a turn for the worse several times over the past year. Briefly, they include:

- Slowing economy (some say we are already in recession)
- Housing slump (exacerbated by the problems with sub-prime loans)
- Exorbitant oil prices (now sitting over $100 a barrel)
- Investor complacency with stock market risks since markets have been so calm and positive over the prior five years

It is easy to see why most stocks would struggle in an environment with so many hurdles to clear. From a technical standpoint, the market is clearly in a downtrend (see chart below), so as is our discipline, we are in a very defensive position, with overall firm assets in money market at 97%. We have found a few mutual funds that have been able to weather this storm, but there haven't been many places to hide. When the overall trend of the market appears to have turned upward again, we will pull down the money market allocation and reinvest in a portfolio of equity and bond funds. During times like these when we have high money market positions, we spend a good deal of time trying to identify areas that could be attractive when the overall trend turns more favorable.



The table below shows the returns of a few major stock and bond indices. Given the high money market position we had going into 2008, we fared quite well for the quarter, falling only a fraction of the broad U.S. stock market.

Index	*Q1 Return*
S&P 500	- 9.4%
EAFE	-15.0%
Lehman Bond	2.2%
90-Day T-bills	0.5%

Source: Ned Davis Research
Note: EAFE represents the MSCI index of foreign stocks; Lehman Bond represents the Lehman Aggregate Bond Index. Returns cover the period from 12/31/07 – 3/31/08.

Here is a brief review of the major FSA strategies during the first quarter:

Conservative Growth
*Current Money Market Allocation: 80% - 100%**
These portfolios entered the year with 60% in money market. By the end of the quarter, we had on average 97% in money market. Needless to say, while the returns were not positive, the losses were minimal, with an average loss of just over 1% for the quarter—and that return includes the fee for the first half of the year, which was deducted in March.

Core Equity
*Current Money Market Allocation: 80% - 100%**
While 2007 was a difficult year for most *Core Equity* clients, the high money market position going into 2008 served them quite well, as these accounts were down only 2% for the first quarter. As with the Conservative Growth portfolios, *Core Equity* portfolios had a high money market allocation going into the year, at almost 65%. As of the end of March, the money market level was 98%. We continue to look for good opportunities to redeploy some of that cash, but will wait for the overall trend of the market to turn positive before getting back to a more fully invested position.

Tactical Growth
*Current Money Market Allocation: 100%**
Our most aggressive strategy had the most challenging quarter, as you might expect, even though these portfolios fell half the drop in the broad U.S. market. Even though we entered the year with only 20% in money markets, we also owned an inverse fund, as well as a currency fund and a bond fund. As a result, our net exposure to stocks was less than 50%. Again, by the end of the quarter, *Tactical Growth* portfolios were 100% in money markets. As this strategy is our most flexible, we are currently looking for some opportunities to make money even if the overall stock market remains sluggish. We will not get these portfolios aggressively invested until the overall market trend turns positive.

Income & Growth
*Current Money Market Allocation: 100%**
As you might expect, our more conservative portfolios held up very well in the difficult first quarter, down less than 1%. Going into the new year, *Income & Growth* portfolios were carrying almost 60% in money markets, in addition to the 10% in bond funds. By the end of the quarter, these portfolios were 100% in money markets. The 6-month decline in stocks has created some compelling values, but we will wait for a more sustained turn in the market environment before getting more fully invested in either stock or bond funds.

Income
*Current Money Market Allocation: 100%**
Since this strategy avoids stocks and only invests in bond funds, these portfolios were spared most of the volatility that has plagued stocks this year. For the quarter, these portfolios were down less than 1%. As we entered the year, these portfolios held one high yield fund, plus one investment grade fund (taxable accounts held a municipal bond fund). By the end of the quarter, we had exited both positions, and therefore were sitting with 100% in money markets. We see a possible opportunity in high yield bonds as these funds have declined but appear to be turning around. This is an area we will be closely watching in the second quarter.

The Future
We have been expecting a sizable market decline for quite awhile now, and it was nice to have high money market positions while the decline unfolded. At this point, we are facing a bit of a quandary. There is a high degree of negative sentiment on the part of investors currently; therefore, we believe the market may rally in the second quarter. At the same time we feel the issues facing the US economy probably can't be resolved in 6 months, so we remain concerned about another leg down later this quarter or next.

If the market environment continues to improve, we may make a few investments in the more aggressive strategies to take advantage of those opportunities. Before we get too bullish however, we will want to see the overall trend of the market reverse course and turn in a positive direction (see graph on page 1). We believe that volatility will remain with us in 2008 and that a disciplined investment approach will be critical to success this year and beyond.

So far in 2008, we see a clearly defined downward trend that has led us into the safety of money markets. As a result, we have kept our powder dry to take advantage of the next opportunities that unfold, whenever that may be.

Please let us know if there is anything we can add to these monthly reports that would help you better understand what is happening in your accounts.

*These allocations represent the money market levels of our various models. Individual accounts may differ from these ranges.