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Rockville, MD 20850 800.235.4567 www.fsainvest.com

Dead Cat Bounce?

Monthly Update from Your Portfolio Management Team—May 12, 2008

With stocks down 15% - 20% on average from the peak in October, it came as no surprise that the market made a nice recovery in the month of April, rising almost 5% for the month. The difficult question for investors is whether this recovery attempt is signaling a new bull market, or whether this attempt will eventually fail and we will see stock prices begin to slip downward again.

We have been encouraged by the action of high yield bond funds recently. They have made a nice recovery and their improvement suggests to us that investors are getting more comfortable with credit risks. As a result, we have added some high yield funds to our more conservative objectives, including Conservative Growth, Income & Growth, and Income. The table below shows how much we have added to these objectives.

We are also watching the broad stock market for signs that the overall trend has reversed. As of early May the market is trying to break through what we consider significant resistance. If the market can continue this current trend through May, we will get the portfolios more fully invested. The market was clearly in a downtrend during the first quarter of this year. Since then, it has made a nice recovery, but at this point, we would characterize the market action as 'sideways' rather than as a new uptrend. Frankly, we are not convinced that sunny days are here again just yet, especially with oil prices over $125 a barrel, but we will not ignore a rising market.

Strategy	Stock Funds	Core Funds	HY Bond Funds	Other Bonds	Inverse Funds	Money Markets
Conservative Growth	0%	2%	18%	--	--	80%
Core Equity	2%	--	NA	--	--	98%
Income & Growth	--	--	36%	--	--	64%
Tactical Growth	10%	--	--	7%	5%	78%
Income	NA	--	44%	--	--	56%

Note: Allocation percentages are as of May 1, 2008 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.

One of the big issues swirling around the minds of investors relates to the economy. Many observers are claiming that the U.S. economy is already in a recession (we can only officially mark the beginning and end of recessions AFTER the fact, once we see the government statistics). The first quarter estimate of economic growth actually came in slightly positive, at 0.6%. Some observers are optimistic that the U.S. economy can skirt past a recession, with economic growth picking up in the second half of the year as the economic stimulus package and earlier Fed rate cuts begin to boost the economy.

At FSA, we are not convinced we will get this rosy outcome, as we believe the U.S. economy is facing a fairly treacherous path over the next year or two. As a result, we will probably err on the side of caution this year—at least until such time as stocks exhibit strength once again. We also believe there are opportunities to generate returns, even if the broad stock markets continue to struggle. We are constantly looking for those opportunities so that your portfolios can make money, even in a challenging environment. High yield bonds fall into the category, and the technology area is showing signs of encouragement, as well. Of course, sometimes there is no substitute for cash, so we have no qualms with sitting in high money market positions when volatility picks up.

If you have any questions about your specific accounts, please do not hesitate to call or email us.