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Hurricane Alan Creates Havoc on Wall Street and Main Street

Third Quarter Market Review From Your Portfolio Management Team—October 7, 2008

There is a financial storm sweeping across Wall Street, and it is beginning to have an impact on Main Street. Volatility in the stock market has hit unprecedented levels, with the Dow Jones Industrial Average (index of 30 large U.S. companies) rising and falling 200 points or more day after day. On September 29 the Dow Jones Average fell over 700 points, making that day the largest point drop in the history of the Dow (going back over 100 years), and the largest percentage drop (-7%) since the crash of 1987 when the Dow fell over 20% in one day.

We call this financial hurricane 'Alan' after the former Fed Chairman Alan Greenspan who we believe will be tagged as a primary cause of this storm as his loose monetary policies early this decade fueled the speculative fever (resulting in loose credit and high leverage) that we are unwinding with such difficulty.

The number of huge financial companies getting swamped by this storm grows almost weekly—Bear Stearns, Fannie Mae, Freddie Mac, AIG, Merrill Lynch, Washington Mutual, Wachovia, not to mention all the mortgage companies that failed last year. The Federal Reserve has stepped in a number of times in an attempt to add stability and liquidity to the system. Now our elected officials are trying to help by offering a $700 billion (of taxpayer money) rescue plan to support the mortgage holders and banks.

The major indices are showing some dismal returns for the year, as you will notice from the table below:

Index	*Q3 Return*	*YTD*
S&P 500	- 8.4%	-19.3%
Dow Jones	- 4.4%	-18.2%
EAFE	-13.2%	-26.7%
Lehman Bond	- 0.5%	0.6%
90-Day T-bills	0.4%	1.4%

Source: Ned Davis Research
Note: EAFE represents the MSCI index of foreign stocks; Lehman Bond represents the Lehman Aggregate Bond Index. Q3 Return cover the period from 6/30/08 – 9/30/08. YTD returns cover the period from 12/31/07 – 9/30/08.

With all of our accounts holding the majority of their assets in money market (and most accounts sitting in 100% money market), the vast majority of our accounts were not impacted by the 700 point drop in the market. We are staying out of the path of this storm, and will get invested once we see signs that the skies are clearing. There remain a number of reasons to be cautious about short-term market prospects, given a slowing economy and continued weak housing market, to say nothing of oil prices that remain around $100 a barrel.

In addition, we remain in the throes of a presidential election that is still undecided at this point. Regardless of the candidate that wins the election, taxpayers will probably see higher taxes in the coming year, as well as increased regulation in the financial services industry. We will all be punished for the greed and selfishness of a few.

Below we review the five broad strategies that FSA manages. Keep in mind that your specific portfolio may differ to some degree from the averages, as our portfolios are individually managed.

Conservative Growth
*Current Money Market Allocation: 100%**
Our allocation to high yield funds was dropped early in the quarter, which left the accounts over 90% in money market for the rest of the quarter. Most accounts have been 100% money market since the beginning of September. We have some smaller models geared for younger investors or accounts still in the accumulation stage that maintain some conservative positions. On average, the Conservative Growth accounts were down less than 1% for the quarter.

Core Equity
*Current Money Market Allocation: 100%**
Our allocation to technology funds was dropped early in the quarter, which left most accounts 100% in money market for the rest of the quarter. We have a few models geared for younger investors or accounts still in the accumulation stage that maintain a few core holdings. On average, the Core Equity accounts were down less than 1% for the quarter.

Tactical Growth
*Current Money Market Allocation: 82%**
Tactical Growth accounts fell more than the other strategies for the quarter, not surprising given its more aggressive mandate. During the quarter we made several forays into various sector funds, currency funds, and even inverse funds, which helped soften impact of the weakening stock market. Currently, these accounts have 10% invested in equities to participate in a market rebound which could occur when Congress passes a financial rescue plan. On average, the Tactical Growth portfolios were down 4% for the quarter.

Income & Growth
*Current Money Market Allocation: 100%**
In line with our other strategies, this more conservative strategy also held up quite well for the quarter. We began the quarter with a small allocation to high yield bond funds, but we exited those positions by the end of July. For the remainder of the quarter, we have maintained a 100% allocation to money markets. On average, the Income & Growth accounts were down less than 1% for the quarter.

Income
*Current Money Market Allocation: 100%**
Income accounts began the quarter with a small allocation to high yield bond funds, but these were cleaned out in July. For the rest of the quarter, these accounts have remained in the safety of money market funds. For the quarter, these portfolios were down less than 1%.

*These allocations represent the money market levels of our various models, including trades through September 30.

The Future
While September has lived up to its reputation as a challenging month for stock investors, we actually have some optimism as we enter the fourth quarter. From its high in October 2007, the broad stock market is down almost 30%, which is close to the average drop in a bear market. In addition, the strongest months for the market include November, December, and January, so we may have an opportunity to recoup some of our modest losses by the end of the year. Finally, as this is an election year, there is often a rally that begins once the market senses who the winner will be. Many times the market will rally regardless of which party wins just because the uncertainty has been removed.

While it has been a stressful time for all investors, we hope you feel comfortable with how your FSA accounts have performed. With higher oil prices and a slowing economy there is plenty for you to worry about without needing to worry about your investment accounts. Obviously, you invest with a manager to MAKE money over time, and while we are pleased with our accounts being ONLY down 3% - 5% (with the market indices down close to 20%) we recognize that you are counting on this money lasting through your retirement years. And in order for that to happen, you need that money to grow. To that concern, we would just remind you that we have 2 jobs in managing your money:

a) Participate in the long-term returns from stocks
b) Protect your money when risks are high

To keep with our hurricane analogy, when storms are present, we seek shelter to protect your assets. Once the skies have cleared, we can venture out and grow your portfolio. We can’t control the weather, but we can make changes to your portfolio in response to changes in the weather.

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.

In addition, if you know family members or friends who are having a difficult time in this environment, and are interested in finding an alternative direction for their investment portfolios, please consider referring them to us. We would be happy to discuss their investment situation without charge (as a courtesy to you as our client). Please have them call our office and set up an appointment through Stephanie, or email us their name and contact information, and we will contact them. We are in challenging times and many investors are now realizing they were taking more risk than was appropriate. It is important for all investors to find the right balance of reward and risk.