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Winning By Not Losing

November Monthly Market Review From Your Portfolio Management Team—December 4, 2008

There are two broad paths to investment success: buy a diversified portfolio of stocks, bonds (and/or other assets) and hold through all the ups and downs of the various markets, or actively shift in and out of various assets over time. The key is to find an approach that fits each investor's own goals and tolerance for losses.

The success of our approach at FSA has been to try and avoid painful losses that can be inflicted at any time by any investment. Our approach tends to work particularly well for investors who have accumulated a reasonable nest egg, and are primarily concerned with maintaining the value of that portfolio, while seeking a reasonable return over time. Years like 2008 help validate our approach in that we have avoided much of the losses meted out by the markets.

Some clients can get impatient with our approach as we begin to lag the indexes more significantly, especially after extended rallies. We do not mind lagging in the bull markets if we can do a good job in minimizing losses in the down markets.

The table below illustrates the philosophy of "Winning by not losing." We show the total returns of both our Core Equity and Conservative Growth strategies. Core Equity began in 1997; as a result, we can show returns for both strategies over two different bull (or up) market periods, as well as two different bear (or down) market periods. Even though we may lag during the market upturns—pretty significantly at times—we have more than made up for the lags by holding up much better in the down periods. Hopefully, this approach allows our clients to sleep comfortably at night.

	1997 - 1999 Bull Market	***2000 - 2002 Bear Market***	***2003 - 2007 Bull Market***	***2008 Bear Market***	***Total Return Over 12 Years***
Core Equity	81%	3%	47%	- 3%	164%
Conservative G.	48%	8%	39%	- 2%	118%
S&P 500	108%	-38%	83%	-38%	48%

Note: The table illustrates the difference in experience from investing in the broad market (as represented by the S&P 500 index) versus being invested in the Core Equity or Conservative Growth strategy (net of fees). These strategies typically lag in the cyclical bull markets since they are generally not fully invested in stocks, while outperforming in the bear markets due to the inclusion of money markets and/or bonds. Over this full period of 12 years, both strategies have outperformed the broad market due to their defensive characteristics. Both FSA strategies reflect the composite returns. Returns of each individual client may vary. 2008 returns are calculated through November. Total return covers the period from 1/1/97 – 11/30/08.

The Future
While we are pleased to be sitting in the safety of a treasury money market fund, and therefore have avoided much of the market turbulence in 2008, the yields on treasury money markets are now less than 1%. We realize that yields at these levels are not going to make anyone rich (or even keep ahead of inflation); however, we don't invest in money markets to generate the returns we need to build long-term wealth. We invest in money markets because the alternatives—stock funds and bond funds—don't look attractive. The purpose of money market funds is to *preserve* capital, not *grow* capital.

Even if the overall market environment remains challenging in 2009, our active approach should give us opportunities to generate returns. As a result, we don't want to get locked in to an investment and miss the opportunity for stock or bond market gains. We do not believe that now is the time to lock up one's portfolio in a CD or an annuity. The recession is well underway and the various markets have already dropped considerably, setting the stage for low risk investment opportunities. We are reminded of the environment in late 2002, when many investors had gotten fed up with the losses over the past three years and moved some (or all) of their assets to CDs. Of course, they missed the strong returns that began in the spring of 2003.

Now having said that, we have been exploring a number of options to boost the yields on your portfolios. For one thing we are now seeing evidence that the credit markets are beginning to flow again. The government has tried to send a strong signal that it will backstop any firm or security that threatens the credit markets. As a result, it is possible that we could move your money market assets back to the higher yielding taxable money markets sometime in the next three to six months.

In addition, we are seeing an excellent opportunity within the bond market. Yields on high quality corporate bonds are now over 7% and yields on so-called 'junk' bonds are over 12% (with yields on 10-Year Treasuries yielding below 3%), which has created a wonderful low-risk opportunity for gains. With nearly $4 trillion sitting in money markets (an all-time high) and with money market yields close to 1%, cash will look for a home that can generate higher returns. This will create the opportunities for 2009 and beyond.

In spite of the difficulties in the various stock and bond markets and the overall economy in 2008, we have much to be thankful for. As we enter this holiday season, we would like to take this opportunity to thank you for your continued trust and confidence, and we wish you and yours an enjoyable holiday season.

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.