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Follow The Money

January Monthly Market Review From Your Portfolio Management Team—February 6, 2009

There are two basic components to the investment discipline at FSA. One component is to have an exit strategy in order to protect the portfolios from severe market downturns. We witnessed the value of that component last year as the stock and bond markets tumbled and we moved to the relative safety of money markets. The other component—which is just as important—is concerned with finding opportunities within the various markets in order to make money. We refer to this component internally as “Follow the money.” That is, we look for signs that large institutional money flows are moving to particular asset classes or industry sectors. Those flows tell us that a new uptrend may be developing in those areas and could be the next opportunity for making money.

Towards the end of last year, we began to see a shift in money flows towards corporate bonds. The chart below illustrates the behavior we like to see. The red line is a price chart that represents the average of twelve corporate bond mutual funds (as calculated by a charting service we use—FastTrack). The other two lines represent so-called moving averages which help illustrate the overall trend. Last fall, these funds sold off sharply as we have noted with the falling yellow arrow. Then in mid-October, these funds began to oscillate up and down—forming a basing pattern. This is often a precursor to a trend reversal, so when the prices began to turn up in December, we added some of these funds to the portfolios.

Of course, we can never be sure how long the new trend will continue, so we always have our safety nets in place in case the environment deteriorates and these corporate bond funds sell off again. In addition, as you can see from the table below, we continue to have a healthy amount of money in the safety of money market funds. As long as the economy is weak, money market funds will remain a good place to weather any future market storms.

Strategy	**Stock Funds**	**Core Funds**	**Specialty Funds**	**Bond Funds**	**Money Markets**
Conservative Growth	1%	--	--	50%	49%
Core Equity	2%	9%	15%	11%	63%
Income & Growth	--	--	--	50%	50%
Tactical Growth	--	--	16%	36%	48%
Income	--	--	--	54%	46%

Note: Allocation percentages are as of January 30, 2009 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.
Specialty Funds include funds that move inverse to the direction of Treasury bond prices.

Judging from the behavior of the stock market in January, there remains some serious concerns about the health of the U.S. economy. The S&P 500 index fell over 8%, making it one of the worst returns for the month of January ever. Fortunately, we have very little invested in S&P 500-type funds. Our bond funds performed relatively well in January, enabling most FSA accounts to finish the month flat or positive. Combined with the mostly positive returns from December, the more conservative FSA strategies (Income, Income & Growth, and Conservative Growth) have already generated returns that match or exceed the annual return on a money market.

We hosted a series of webinars recently where we gave a review of 2008 and offered a preview of where we see opportunities in 2009. We have posted a copy of one of those webinars on our website. If you are interested in listening to this webinar, please go to our website and click on the Resources tab and then click on the Webinar tab. We plan to host another series of them at the end of each quarter.

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.