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Spring Brings New Life and Hope to the Markets

First Quarter Market Review From Your Portfolio Management Team—April 9, 2009

Spring is seen as a season of hope and new beginnings, so maybe it should not come as much of a surprise that the stock markets rebounded in concert with warming temperatures in March. From January 1 through March 9, the S&P 500 index was down 25% for the year. Since then it has staged an impressive rebound, trimming those losses to 'only' 11% by the end of March.

As you would expect our portfolios have held up quite well in comparison with the various stock market indices, since we had very little allocated towards stocks in the first quarter. We did hold sizable positions in various bond funds, which served us pretty well, until the second half of February, when these funds began to retreat. The table below shows the results for the first quarter for a number of stock and bond market indices.

Index	*Q1 Return*
S&P 500	-11.0%
Dow Jones	-13.3%
EAFE	-13.5%
Barclays Bond	0.1%
90-Day T-bills	0.1%

Source: Ned Davis Research
Note: EAFE represents the MSCI index of foreign stocks; Barclays Bond represents the Barclays Capital Aggregate Bond Index (this index used to be called Lehman Aggregate Bond Index). Q1 Return covers the period from 12/31/08 – 3/31/09.

As we discussed in last month's Commentary, we were forced to sell most of our bond holdings as these funds sold off in late February and early March. As the stock markets rebounded in the second half of March, so did many of these bond funds, so we are now beginning to put these types of funds back in the portfolios. We believe there is good potential with these funds, but volatility in the market remains high, which of course, can make for challenging times for our safety nets. Nevertheless, this is certainly not the time to abandon the safety nets, since they helped keep us out of trouble to begin with.

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: 90%**

Our flagship strategy entered 2009 with a fairly high allocation to various corporate bond funds. These managed to gain ground even as stocks were retreating in January and into February. Unfortunately, as stocks came under increasing pressure in late February, our bonds funds also began to retreat. As they tripped our safety nets, we began to reduce our allocation to these funds. Then as the equity markets firmed up in the second half of March, so did most of these corporate bond funds. As we enter the first full week of April, we are 10% invested in bond funds, and are looking to add more if the trend continues to look promising. On average, these accounts were down just over 1% for the quarter (and this includes our semi-annual fee, which was deducted in February).

Core Equity

*Current Money Market Allocation: 80%**

We kept these portfolios mostly in money market at the beginning of the year since we did not like the prospects for stocks. Then we even added some bond positions to this strategy (which generally does not own bonds) in order to capture some returns. With stocks rebounding in the second half of March, we have put our toe in the water by adding a small allocation to two defensive stock funds. If stocks can continue to make progress, we will add to these positions. On average, the Core Equity accounts were down less than 2% for the quarter.

Tactical Growth

*Current Money Market Allocation: 45%**

Our most aggressive and flexible strategy began the year owning some bond funds, which were reduced as those funds declined into March. We added a technology fund to the mix in mid-March to capture some of the potential rebound in stocks. On average, the Tactical Growth portfolios were actually *up* a bit for the quarter, rising almost 2%.

Income & Growth

*Current Money Market Allocation: 80%**

This more conservative strategy carried a high allocation to bond funds as the quarter began, but all of those funds were sold during the weakness in late February and early March. Then, as the trends began to turn up in the second half of March, we reinvested the portfolios a bit. On average, the Income & Growth accounts were down less than 1% for the quarter.

Income

*Current Money Market Allocation: 75%**

These portfolios were pretty heavily invested in various bond funds as we entered the new year. Then we were forced to sell most of them as they hit our safety nets. As conditions began to improve in late March, we have been looking to add some bond funds back into these portfolios. For the quarter, these portfolios were up fractionally.

*These allocations represent the money market levels of our various models, including trades through April 3, 2009.

The Future
Spring is a challenging time of year. There are days when the weather is absolutely beautiful, with warm temperatures, sunny skies, and a rainbow color of flowers splashed across the landscape. Those days are often followed by a bone-chilling rainstorm that threatens to kill the newly sprouted greenery. So, while we are encouraged by the signs of a stock market springtime rebound, we want to be watchful for those violent and sudden spring storms that can still bring much devastation to the unwary.

We hate to sound like a broken record, but because we did not lose too much in the down market, we don't have to worry about getting invested at the bottom in stock prices. We have the luxury of waiting until the overall trend of the market has turned in a positive direction before getting heavily invested. Hopefully, this will allow us to avoid most of these spring storms, and we can continue to keep our portfolios in a good position to enjoy warmer days ahead.

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.