



FINANCIAL SERVICES ADVISORY

I N C O R P O R A T E D

Rockville, MD 20850 800.235.4567 www.fsainvest.com

Current Investment Themes

May Market Review From Your Portfolio Management Team—June 12, 2009

The stock market has staged an impressive rebound from its lows in mid-March. The S&P 500 index, for example, is up 36% from March 9 through the end of May. To the relief of many investors this rally has erased the losses for 2009, as most stock indexes are now flat or even slightly higher for the year.

The open question is what should investors do now? Should they remain invested assuming stocks will continue to climb, or should they be thankful for this relief rally and take the opportunity to sell before the market rolls over yet again? Of course, no one knows the answer with any high degree of certainty, but we plan to add to our stock and core fund positions if the market can continue to advance from these levels. The stock markets have made a nice rebound, but we want to see that the overall trend has turned upwards before making a serious commitment to stocks.

| Strategy | Stock Funds | Core Funds | Bond Funds | Inverse Funds | Money Markets |
|---------------------|-------------|------------|------------|---------------|---------------|
| Conservative Growth | 0% | 0% | 47% | -- | 53% |
| Core Equity | 0% | 20% | 17% | 5% | 58% |
| Income & Growth | 0% | 21% | 36% | -- | 43% |
| Tactical Growth | 10% | -- | 43% | 15% | 32% |
| Income | -- | -- | 63% | | 37% |

Note: Allocation percentages are as of May 31, 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. Inverse Funds move opposite the general direction of the stock/bond market.

As you can see from the table above, which shows in general terms how we have invested our various portfolio strategies, we are more heavily invested in bond funds, rather than stock funds. Across all strategies, we have over 40% of our assets in various types of bond funds. Even in Core Equity which generally will not even own bond funds, we have 20% of the portfolio in bond funds, plus another 7% in an inverse bond fund, that goes up in value as Treasury bonds fall (and vice versa).

Clearly these are extraordinary times which call for a willingness to adapt to the environment at hand. Below we list the major themes that we believe will underscore our investment positioning going forward.

- a) As we have witnessed for the past ten years, we believe the stock market will continue to have periods of strong rallies followed by periods of severe weakness for another ten years or more; therefore, it will be critical to be nimble and flexible in one's investment approach.
- b) There was a huge inflow of money out of risky assets in 2008, which moved to the safety of Treasury bills and bonds. Now investors are beginning to embrace risk again, and we have seen flows first back to bonds, and more recently towards equities.
- c) We believe bonds funds are a good investment alternative to stock funds for this year, offering a nice combination of good income plus some growth in their net asset values (price of the funds). With the exception of Treasury bond funds, we favor most types of bonds (high quality corporate bonds, high yield corporate bonds, tax-free bonds, and even foreign bonds). Interestingly, many high yield funds have matched the return of stocks over the past ten weeks.
- d) Since long time clients of FSA did not suffer the losses that many investors experienced in 2008, they did not have to gamble that this current rally would be long-lasting and buy stocks back in April or May. Instead, they can wait for the overall trend of the market to turn in a positive direction before committing towards stocks.
- e) For new clients who may have experienced greater losses before joining FSA, we will place our safety nets on any transferred stocks so that they may participate more fully in this stock market rally—but with a disciplined exit strategy to help protect the portfolio when prices turn down.

Please let us know if there is anything we can add to these monthly reports that would help you understand what is happening in your accounts.