FINANCIAL SERVICES ADVISORY
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Have We Seen The Worst?

Second Quarter Market Review From Your Portfolio Management Team—July 9, 2009

Stock investors went on a buying spree in the second quarter, pushing stocks to their best return since the second quarter of 2003 (which was the start of the recovery rally coming out of our prior recession). The rally was quite broad, as stocks of all shapes and sizes posted double digit gains for the quarter, including foreign stocks, commodities and real estate investment trusts. As you might expect, with stocks doing so well, bonds would probably be the laggards. Corporate bonds actually performed quite strongly, with high yield bonds performing on par with stocks. Even the high quality corporate bond funds posted strong returns. The only lagging area was government bonds, not surprising since that area that performed so well in prior quarters as investors looked for safe places to hide.

Interestingly, for the year as a whole, stocks are basically back to where they started the year. Stocks suffered a large drop in the first quarter, and then recouped that loss in the second quarter. The table below shows the results for the quarter and year-to-date for a number of stock and bond market indices.

Index	*Q1 Return*	*Q2 Return*	*YTD Return*
S&P 500	-11.0%	15.9%	3.2%
Dow Jones	-13.3%	11.0%	-3.8%
EAFE	-13.5%	25.0%	8.1%
Barclays Bond	0.1%	1.8%	1.9%
90-Day T-bills	0.1%	0.0%	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). Q2 Return covers the period from 3/31/09 – 6/30/09. YTD Return covers the period from 12/31/08 – 6/30/09.

During the quarter, we moved to lower the money market positions across all our strategies, primarily by purchasing high quality and high yield bond funds. For the most part these funds performed quite well, and allowed the portfolios to grow, without exposing the portfolios to the volatility of the stock market.

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: 43%**
Conservative Growth accounts avoided the volatile stock market in the second quarter, preferring the more steady behavior of bond funds. These various bond funds, including high quality and high yield corporate bond funds, multi-sector bond funds (which own a wide variety of corporate, government, and even foreign bonds), and municipal bond funds, all performed quite well in the second quarter. On average, these accounts were up almost 4% for the quarter, and just under 3% for the year.

Core Equity
*Current Money Market Allocation: 52%**
Given our preference for bonds over stocks so far this year, we are in a bit of a quandary with respect to Core Equity, since by design we generally do not own bond funds in this strategy. Well, we recognize that these are extraordinary times which call for a willingness to be more flexible than in normal times. So, we have purchased a few bond funds in these accounts. In addition, we also added a few defensive stock funds which tend to hold well in volatile markets. For the moment, we are comfortable with our somewhat unusual mix of bond funds and wimpy stock funds. On average, the Core Equity accounts were up just over 2% for the quarter, and less than 1% for the year.

Tactical Growth
*Current Money Market Allocation: 29%**
Tactical Growth accounts continue to own an eclectic mix of bond funds, equity funds, and even some inverse funds (which are designed to move in an opposite direction to traditional funds). Currently we own a government bond inverse fund and a real estate inverse fund. On average, the Tactical Growth portfolios rose about 7% for the quarter, and are up 9% for the year.

Income & Growth
*Current Money Market Allocation: 44%**
These accounts continue to fare well. During the quarter we added a mixture of conservative equity funds, as well as a variety of corporate bond funds. This combination has allowed these accounts to post gains without subjecting them to the wild market swings that we see in the stock market. On average, the Income & Growth accounts were up roughly 4% for the quarter, and are up nearly 3% for the year.

Income
*Current Money Market Allocation: 39%**
As the bond market began to recover in late March, we began to invest these portfolios in a variety of bond funds, including high quality corporate, high yield corporate, multi-sector, even municipal bonds (for taxable accounts). This is our most conservative strategy and attempts to generate better yields than what is available from money markets or bank CDs, while minimizing loss of principal over the course of a year. For the quarter, these portfolios rose over 4% and are up almost 5% for the year.

*These allocations represent the money market levels of our various strategies, including trades through June 30, 2009.

The Future
If you have been reading these commentaries this year, then you know that our investment focus has been on corporate bond funds, with little attention on stock funds. We have remained a bit suspicious of the rally in stocks that began in mid-March. Stocks rallied on hope as it became recognized that the U.S. was not going to slip into a depression (a la 1930). From a technical standpoint, we see a large trading range that goes back nearly nine months.

We are in no rush to invest any sizable amount of money in stocks until they are able to decisively break through this resistance level. In all likelihood, we will not see that until there is evidence that the economic picture is brightening, and while conditions are not as dire as they looked this past winter, things may be sluggish for some time. The end of the rain does not mean that it is time for the sun to shine. We will need to be patient for signs that the sun is returning to the economy and the markets.

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.

Special Announcement
We plan to host a webinar to go into more detail the following topics:

a) Exit Strategy—*What are we exiting or close to exiting?*
b) Follow the Money—*What areas look attractive right now?*
c) Questions from clients

To view our slides you will need a computer with internet capability, as well as a telephone to listen to the commentary. We have reserved two dates so that hopefully one of these times will be convenient for you:

Date:	Thursday, July 16	Tuesday, July 28
Time (EDT):	12:30pm	10:30am
Duration:	45 minutes	45 minutes

If you would be interested in participating in such a call, please respond to this email or call our office and Stephanie will give you the conference number and password. If you sign up and then cannot participate, please let us know so that someone else can join. Thank you.