FINANCIAL SERVICES ADVISORY

INCORPORATED

Rockville, MD 20850 800.235.4567 www.fsainvest.com

How To Recoup What Was Lost…Part II

July Market Review From Your Portfolio Management Team—August 13, 2009

After taking a brief pause in June, stocks returned to their winning ways in July, with most indices rising another 7% or more for the month. With the exception of US Treasuries, bonds also posted strong returns, with high-grade corporate bonds returning 2% - 4% for the month, and high yield bonds returning 4% - 7%.

It is certainly a welcome sight that stocks have begun to recoup some of the losses from the past few years. From the table below you can see that the S&P 500 index fell about 50% from its peak on October 2007. From its monthly low in February, this index has rebounded about 35%. From these levels, this index still needs to rise another 50% in order it to completely retrace its losses from this bear market.

	Peak-Trough	Over This Time Frame	Needed to Recoup Losses	Bounce From Low	Still to Recover for New High
S&P 500 Index	-50%	Oct 07 – Feb 09	100%	35%	50%
Tactical Growth	-10%	Oct 07 – Oct 08	11%	12%	New High
Core Equity	-12%	May 07 – Mar 09	14%	4%	10%
Conservative Growth	- 6%	May 07 – Sep 08	7%	7%	New High
Income & Growth	- 4%	May 07 – Oct 08	5%	8%	New High
Income	- 6%	May 07 – Oct 08	7%	10%	New High

Note: Returns calculated at month end and include dividends and are net of fees.

After the numbers for the S&P 500 index, we show similar numbers for the five FSA strategies. What is apparent from this presentation is first how little these strategies lost during this bear market, in relation to a typical stock index. Secondly, since we did not lose very much in the down market, it will not take much effort to recoup those losses. In fact, in four of our five strategies, accounts are already at new highs with the rally we have seen over the past few months.

While Core Equity does not typically own bond funds, we made an exception this year and have put almost 30% of Core Equity accounts in bond funds. If this market continues it’s rally, we will allocate more cash to equity positions. At this point, Core Equity accounts on average only need to rise another 10% to reach a new high. Obviously this will be a much easier hurdle to clear than what most stock indices have to do.

Future
As many of you know, our approach is to get invested when the overall trend of the market or an investment is rising. We have been watching the level of the S&P 500 index for the past few months to see if it would finally break above its 200-day moving average, which it accomplished in mid-July at a level of 945. Once that occurred, we bumped up our equity positions a bit across all strategies that allow stock funds. There is evidence of resistance at this current level of 1000. If/when the market breaks through this area of resistance, we will continue to increase our allocation to stock funds, as this action will signal to us that investors are getting more comfortable with the economic recovery.

Given the strong rebound we have seen so far, we remain a bit cautious that stocks could stumble again, possibly this fall. As a result, with any stock fund investments we make, we want to be sure we can exit in a timely manner if the news turns negative again and sends stocks lower.

We have been pleased with the performance of our corporate bond funds this year, and are content to remain with these lower volatility funds that have been trending so well. The government has thrown a great deal of money at the economy, which is giving us an illusion that sunny days have returned. It will be interesting to see how the economy responds when the effects of the government stimulus wears off and it is up to consumers and manufacturers to generate economic activity, without government incentives. That will be the true test of the resiliency of this economic and stock market rebound.

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.