



FINANCIAL SERVICES ADVISORY

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Summertime Barbeque

August Market Review From Your Portfolio Management Team—September 10, 2009

There is probably no bigger American tradition than the summer barbeque. Of course, with modern technology, it is a different experience than I remember as a kid. I remember my dad making a pyramid of charcoal briquets and then dousing the pyramid with lighter fluid. After striking a match, the whole grill would be practically engulfed in flames. To my young eyes, it always looked as though the grill was ready for chicken or hamburgers or hot dogs, or whatever else was on the menu for that occasion.

Oftentimes however, once the lighter fluid was burned off, the charcoal briquets would not generate any heat at all, and my dad would often have to repeat the lighter fluid routine several times in order to get the charcoal to generate its own heat to then cook the food.

This offers us an interesting analogy with current efforts by the government and the Fed to jumpstart the economy. The government has responded in impressive fashion to the financial and economic turmoil we have experienced over the past eighteen months, including money for the Troubled Asset Relief Program (TARP), support for Fannie Mae and Freddie Mac, the Temporary Liquidity Guarantee Program (TLGP), fiscal stimulus plans from both administrations, even Cash for Clunkers. All of this money has flowed into the economic system with great fanfare by our leaders, and we have seen bonds rally, stocks rally, commodities rally—all on the hope that this massive stimulus will ignite the economy into a sustained recovery.

At this point, we have to wonder how will the stock and bond markets respond when this massive stimulus runs its course, and it is up to consumers and manufacturers to continue the recovery. Will this effort ignite the underlying coals of the economy, or will the government have to reach for the financial 'lighter fluid' once again next year?

While we are enjoying the rally in bonds and stocks in our portfolios recently, we remain a bit skeptical that all of the fun from the spring and summer rally might dissipate once the days turn cooler. That is why our portfolios are heavily skewed towards bonds and we haven't embraced stocks as aggressively as we might have in different circumstances. We want to make sure we know the difference between a bright flash and heat.

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.