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Have We Seen The Highs For The Year?

October Market Review From Your Portfolio Management Team—November 10, 2009

Most stock markets took a small step backwards in October, the first stumble since this rally began back in March. After a rally of over 50% in just 6 or 7 months, I guess we should not be surprised that stocks are spending some time digesting the large gains made recently. The bulls are urging the Johnny-come-lately investors to climb aboard quickly, while the bears are quick to warn that we are about to see a painful reversal in stock prices.

On the one hand, we recognize that until the employment picture brightens the recovery will not make much headway. In addition, we are very concerned about the money thrown at the economic system over the past few years and what type of consequences that could come from that much stimulus—can anyone say inflation? On the other hand, after strong bear markets such as the one we witnessed in 2008, there is usually a strong rebound year following with the market maintaining an upward albeit less impressive bias over the next several years.

Performance of Stocks During Recessions and Recoveries

	Down Yr	Next Yr	Next Yr	Next Yr
1974	-30%	32%	19%	-12%
1981	-10%	15%	17%	1%
1990	- 7%	26%	5%	7%
2002	-23%	26%	9%	3%
Average	**-18%**	**25%**	**13%**	**0%**
2008	-38%	15%	2010	2011

Note: Returns shown on this table are price changes on the S&P 500 index.
No dividends are reinvested. The 2009 box which shows 15% is the current return through Oct. 31.

The table above illustrates the stock market's tendencies after recessions and bear markets. In this table we list those years since 1970 which included bear markets caused by recessions. We show the bear market year's return in the second column followed by the returns for the three ensuing years. On average, the first year following a recession is usually the best, but there is typically an upward bias for the following several years.

The FSA portfolios continue to have money in the money market both as a hedge against market weakness, as well as a source to tap in case we see stock prices begin to trend higher again. The bulk of our assets are invested in bond funds for the reasons we have noted in these commentaries over the past year. We have been pleased with our results in these funds, but we are also looking for possible new areas benefiting from large money flows that we can access for 2010 and beyond.

The table below shows the allocation of our five main strategies. The concentration of assets in bond funds is pretty clear from this table, as is the lack of concentration in equities. As a result, we are not concerned with the recent gyrations in the stock market, as long as there is little spillover to the bond market.

Strategy	**Stock Funds**	**Core Funds**	**Specialty Funds**	**Bond Funds**	**Money Markets**
Conservative Growth	--	10%	--	65%	25%
Core Equity	20%	20%	--	38%	22%
Income & Growth	--	30%	--	55%	15%
Tactical Growth	--	--	30%	60%	10%
Income	--	--	--	87%	13%

Note: Allocation percentages are as of October 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.
Specialty Funds include sector funds and funds that move inverse to the direction of real estate securities.

The one area of the bond market that has shown some weakness recently is the municipal bond market. These funds peaked in early October and registered losses of 2% - 3% on average. At this point, these funds are on our watch list, and we will exit them with any further weakness. Most taxable accounts have some allocation to these funds and they have been good additions to the portfolios.

It is hard to believe that we just had Halloween a few weeks ago. And of course, that means we are rushing headlong into the holiday season again. I am amazed we are closing in on the end of yet another year. The years go by in such a blur. For those of us in the investment industry, this past year was a real rollercoaster ride, which can make time seem to pass very quickly. As we enter this time of family and friends and thanksgiving, we want to take this opportunity to thank our long time clients for their continued loyalty and trust over these eventful years. It has been an amazing journey and we are thankful to have been able to share it with you.

We also want to welcome our new clients who have recently joined FSA. We trust we can earn your loyalty and confidence. If there is anything we can do to serve you better, please call or email us.