



FINANCIAL SERVICES ADVISORY

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The Season for Gifts

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

With the end of the year fast approaching, we reflect back on this final year of the first decade of the new millennium. Both the Dow Jones Industrial Average and the S&P 500 index will finish this decade with negative returns. Can you believe that—a full ten years with the value of those indexes lower today than they were at the end of 1999? In fact, this decade will go in the record books as the worst decade in U.S. history, going back to 1900, especially if one adjusts the numbers to account for inflation.

Despite this somewhat depressing news, things have been looking up recently. The stock market posted a strong result in November, and it appears on course to finish the year up 20% or so—a pretty impressive finish when one considers that stocks were down 25% in early March. In addition, the employment news improved unexpectedly when the unemployment rate dropped from 10.2% to 10.0%, the first drop since early 2008. Finally, we have been hearing in the news recently that the amount of money the government will be distributing under the TARP program is considerably less than earlier forecasted. This is good news for taxpayers, as is the news that more banks are paying down their loans early.

In spite of all the dark clouds surrounding people who are unemployed and people who are struggling to make their house payments, it is encouraging to see these rays of sunshine. We are hopeful that 2010, the first year of the second decade of the new millennium, will usher in better returns for stock investors.

As we head into the final weeks of 2009, stocks and bonds are beginning to show signs of fatigue—not surprising, given the exceptional returns generated since the March lows. There seems to be a tug-of-war between those who are sitting with sizable cash positions looking for better returns, and those who have made some nice gains this year and want to lock in those gains. Between now and year-end we will be watching this interplay to see if there is any action needed on our part. Our portfolios have some nice gains this year that we also want to protect, while most of our portfolios also have some cash that we could deploy if the market environment picked up again.

Finally, we recently sent out preliminary tax information to clients with taxable accounts. Besides dividend income from the bond funds we own, there has been relatively little activity this year that will impact your taxes. If there are some special tax-related issues you want to discuss with us, please call us within the next two weeks.

In closing, we want to wish you all the happiness of the season and hope you have much health and success in the New Year.