FINANCIAL SERVICES ADVISORY
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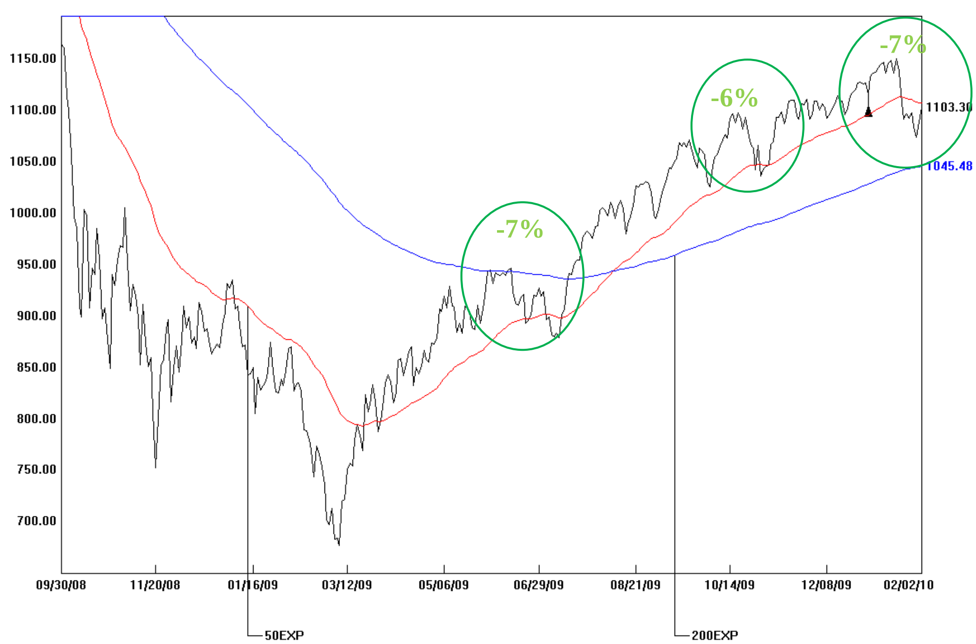
As January Goes, so Goes the Year...Let's Hope Not.

January Market Review From Your Portfolio Management Team—February 5, 2010

There is an old adage on Wall Street that says that the return on stocks for the month of January typically predicts the overall direction for stocks for the entire year. The so-called January Barometer (devised by Yale Hirsch of the Stock Trader's Almanac) has been accurate in roughly 85% of the years going back to 1950. Of course, a notable exception was last year when the S&P 500 index fell over 8% in January, and yet the index finished the year up over 25%. How accurate is the Barometer when the market is down in January? Well, going back to 1950, the S&P 500 registered 22 down Januarys, with 14 occasions when the market finished the year flat or in negative territory—an accuracy rate of about 65%.

For 2010, the S&P finished down over 3% in January. From its peak on January 19, the market is down over 6% through the end of January. So, according to the January Barometer, we should not expect great things in 2010. It's a good thing we employ a strategy that focuses on reacting to changing conditions, rather than just hanging on through the markets' ups and downs.

The chart below shows the S&P 500 index going back to late 2008 when stocks were plummeting. The red and blue lines are moving averages that help provide a perspective of the overall market trend.



What we want to show on this chart are the corrections we have seen since this powerful rally began in March 2009. We are currently in only the third correction of 7% or less since the rally began almost a year ago. On average, market historians tell us to expect a 10% correction in the popular indices like the S&P 500 once a year, so the corrections so far have been fairly mild. So, history suggests that we could see at least a 10% correction in stocks this year. That is one reason we continue to maintain a sizable allocation to bond funds. They continue to provide positive returns, while buffering some of the volatility from stocks.

For the month of January, while most stock funds finished in negative territory, most bond funds posted positive returns. In fact, of the 30 bond funds we added to our various portfolios over the past 12 – 15 months, none of them posted a negative return for the month of January (on a total return basis—that is, including the reinvestment of their dividends). In some cases bond funds posted returns 1% or 2% positive for the month.

The reason we bring these points up is just to remind everyone that stocks and bonds will go through corrections even though the overall trend may be positive. If possible, we want to hold on through these inevitable corrections in order to capture the longer term positive trend. Of course, sometimes the corrections are sharp enough that they trigger our safety nets and we will exit our positions.

The second point is that even if stocks are struggling, FSA portfolios may continue to hold up if we have other securities that don't necessarily move with stocks—such as bonds or money markets. In most portfolios currently, we have roughly 20% in money markets. This gives us a cushion in any market down draft, and it provides a source of funds if we find new opportunities in the weeks and months ahead. Our bond fund allocations are nearly 60% of the portfolios on average. These funds have been good investments for us, but we will be watching them closely this year in case interest rates begin to rise and the nice consistent trends in these funds turn down.

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.