



FINANCIAL SERVICES ADVISORY

I N C O R P O R A T E D

Rockville, MD 20850 800.235.4567 www.fsainvest.com

Caution, Turbulence Ahead

April Market Review From Your Portfolio Management Team—May 7, 2010

2010 was shaping up as a pretty good year for investors as stocks and bonds were moving forward in a consistent, if not impressive fashion for the past three months. Unfortunately, the global markets hit a sizable air pocket recently, with stocks falling nearly 10% intra-day on May 6, even though they rallied at the close to finish down only 3% for the day. The S&P 500 index actually peaked on April 23, and including market action on May 7, the S&P index is down almost 9% over the past two weeks, basically erasing its entire gain for the year. Foreign stocks have fared even worse, falling over 11% over that same time period. Fortunately, FSA portfolios carry large bond positions and relatively low stock positions.

Many observers are at a loss to explain the reasons behind the sharp losses. Investors are clearly worried about the ongoing crisis in Greece, and are concerned that financial problems in Greece will spill over to the rest of Europe and eventually choke off the global economic recovery. As for the sudden and seemingly inexplicable drop in the U.S. market on May 6, there is no good explanation at this point—program trading error, hedge fund activity, high frequency trading, or something else.

What is clear to us is that volatility has returned to the markets. And with the return of volatility, we believe it will be prudent for all investors to tread carefully in the coming weeks or months. The stock markets have made an incredible rebound from the March 2009 lows through April 2010. From a technical standpoint, we are due for a correction, even if the overall trend remains positive. Conversely, there are a number of reasons why this correction could become more serious, and investors would be well advised to not get complacent as we move into summer.

Strategy	Stock Funds	Core Funds	Bond Funds	Money Markets
Conservative Growth	0%	10%	75%	15%
Core Equity	20%	22%	43%	15%
Income & Growth	6%	21%	63%	10%
Tactical Growth	15%	--	70%	15%
Income	--	--	80%	20%

Note: Allocation percentages are as of April 30, 2010 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.

How Are FSA portfolios Faring?

As FSA portfolios are currently constructed, stock market volatility has only a minor impact. As you can see from the table above, we remain heavily invested in bond funds, with only relatively modest investments in stock funds. While our portfolios did not keep up with the popular stock market indices during the runup in March and April, they have held up nicely since the market peaked a few weeks ago.

You may remember that one of our original reasons that we focused so much attention on bonds was to avoid the volatility we had witnessed in the stock market. While volatility tapered off considerably in the second half of last year, we are seeing a return to the type of wild market swings that we saw in 2008.

With the return of uncertainty and volatility, we are moving prudently to keep the portfolios balanced between our goals of protection and participation. On May 7, we began pushing up our allocation to money market funds. Depending on the strategy, we raised about 10% in money markets above the numbers shown on the table. Market action next week will dictate how much additional cash we raise.

Even though most of our funds are holding up quite well, given the new level of volatility, a higher allocation to money market makes sense.

Upcoming Webinar

If you want to hear more detailed discussion of the recent market action, as well as actions we are planning in the various strategies, we invite you to participate in a webinar. To view our slides you will need a computer with internet capability, as well as a telephone to listen to the commentary.

Date: Monday, May 10

Time (EDT): 2:30pm

Duration: 45 minutes

If you would be interested in participating in the webinar, please respond to this email or call our office and we will give you the conference number and password. If you sign up and then cannot participate, please let us know so that someone else can join. Thank you.