FINANCIAL SERVICES ADVISORY
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Is it Time to Get Off the Rollercoaster?

July Market Review From Your Portfolio Management Team—August 13, 2010

Is it just us, or are other investors getting nauseous from these up and down swings in the stock market? The ride begins with a slow climb full of anticipation, then is followed by a breathtaking drop, followed by a series of twists and bends, only to end up right back where we started. Sound familiar? Just this year, the S&P 500 index rallied over 5% in the first quarter, then fell over 11% in the second quarter, only to rally 7% in July. This leaves the stock market virtually unchanged nearly two-thirds of the way through the year.

Actually, this rollercoaster analogy could even apply to this past decade. The S&P 500 index started the decade at a level over 1400, fell during the technology crash to a level of 800, rallied over the next five years to a level over 1550, before falling down below 700 during the financial crisis, and finally climbing back above 1100 at the end of last year.

While rollercoasters can be fun and an exciting form of entertainment, they are not the right strategy for building wealth in retirement. As investors, we want our investment portfolios to grow over time, not represent a form of entertainment for thrill seekers.

At FSA, we aren't fans of rollercoasters either—at least not the investment variety. As a result, our approach to managing money is different than most other firms. We have no interest in holding on to investments during those breathtaking downdrafts, and thus will sell any holding that violates our FSA Safety Net™. In addition, we don't feel compelled to hold certain assets just because they have the potential to be rewarding for investors (such as U.S. stocks). We will wait until those assets are trending in a positive direction before investing there.

Even today, across all our five strategies our portfolios have little or no money allocated to stock funds. While it is unusual for us to have so little invested in this major asset class, volatility is too high, and the significant money flows are going to bonds. As a result, that is where we have weighted our portfolios. In July, we even moved some of our money market position back into bonds. By early August, we had brought our money market position down from nearly 50% to roughly 35%.

We hate to sound like a broken record in making this point almost every month in the past several Market Updates, but we want to make sure you recognize that the market gyrations that seem to dominate the financial news have only a modest impact on your portfolios.

We continue to monitor the investment landscape for signs that the bond rally is fizzling out and that some new area will begin to capture investor inflows. And we will look to reposition the FSA portfolios at that time. Until then, enjoy the rest of the summer and feel free to ride a rollercoaster, comfortable in the fact that your retirement portfolios are avoiding them.

Please contact us if there is anything we can add to these updates that will help you understand what is going on in your portfolios.