FINANCIAL SERVICES ADVISORY
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Stepping Over Potholes

First Quarter Market Review From Your Portfolio Management Team—April 11, 2011

The stock markets in the U.S. remain resilient. It is usually a sign of strength if markets encounter some bad news and yet find a way to shake it off and continue to grind higher. That is exactly the behavior we saw in the first quarter. The ongoing turmoil in the Middle East/North Africa pushed oil prices above the psychologically important level of $100, which carries the risk of dampening discretionary spending for consumers. In addition, we witnessed the horrific impact of the tsunami in northern Japan, which resulted in the worst nuclear disaster since Chernobyl. Stocks, which had been on a tear (rising 28% from the lows in late August through mid-February), could easily have given back a portion of those gains as a result of this global one-two punch. Nevertheless, after a modest correction of roughly 6%, stocks managed to recoup most of the losses by quarter end.

Once again, it was a rally that was led by the U.S. as Europe, Japan, and even the hot emerging markets lagged considerably. Even within the U.S. market most of the gains were concentrated in energy stocks which bounced as the fighting in North Africa sent oil prices higher.

Index	*Q1 Return*
S&P 500	6.0%
Dow Jones	6.4%
EAFE	1.0%
Barclays Bond	0.4%
90-Day T-bills	0.0%

Source: Ned Davis Research
Note: EAFE represents the MSCI index of foreign stocks; Barclays Bond represents the Barclays Capital Aggregate Bond Index. Q1 Return covers the period from 12/31/10 – 3/31/11.

Portfolio Review
Below we review the five broad strategies that FSA manages. Keep in mind that your specific portfolio may differ to some degree from the averages, as our portfolios are individually managed.

Conservative Growth
*Current Money Market Allocation: 10%**
With most bonds bouncing around without any clear direction, we have continued to make modest shifts away from bond funds and towards equity funds. Most of these balanced accounts have 25% - 30% in stock funds, plus 20% in higher yielding bond funds that are not so tied to the movement of Treasury rates. As a result, these funds managed to generate decent returns in the quarter. On average, these accounts were up just under 2% for the quarter (not including the semi-annual fee which was deducted in late February).

Core Equity
*Current Money Market Allocation: 9%**
Core Equity is basically composed of stocks and high yield bond funds, so these accounts will fare just fine as long as the broad stock indexes continue to trend higher. During the most recent correction, we trimmed back the technology position and reduced our emerging markets position. If stocks can break above their mid-February highs, we will probably increase our equity allocations a bit more. On average, the Core Equity accounts rose almost 3% for the quarter.

Tactical Growth
*Current Money Market Allocation: 15%**
During the quarter, we made a number of minor changes: sold the China fund, cut back our emerging markets bond fund, sold the currency fund, while adding a real estate fund and a large-cap stock fund. We also boosted our weighting in high yield bonds, which have continued to perform consistently. Overall, these changes had the net impact of increasing our allocation to stocks, while bringing down our money market position. On average, the Tactical Growth portfolios rose over 2% for the quarter.

Income & Growth
*Current Money Market Allocation: 10%**
Income & Growth accounts typically maintain a fairly high weighting in bond funds, but we have been adjusting the make-up of the bond funds to reflect an environment of rising interest rates. So, of the 70% - 80% invested in bond funds, we have 20% invested in short-term bond funds which are not severely impacted by rising interest rates. We have another 10% invested in ‘inverse’ bond funds that actually rise in value as interest rates rise, thus protecting some of the traditional bond funds. In addition, we added an equity income fund to the portfolios, as well. On average, the Income & Growth accounts increased about 1% for the quarter.

Income
*Current Money Market Allocation: 12%**
It has been a challenging environment to invest these accounts since they can only invest in bond funds. To adapt to the current environment, we have been adjusting the make-up of the funds in the portfolio to include both shorter term bond funds, as well as inverse bond funds. In addition, we have several funds with the flexibility to invest broadly within the bond market wherever they see opportunity. While the easy returns may be gone from the bond market for now, we continue to believe this asset class makes sense for conservative investors. For the quarter, these portfolios rose nearly 1%.

*These allocations represent the money market levels of our various strategies, including trades through March 31, 2011. Performance numbers for FSA portfolios represent composite results and are not inclusive of the semi-annual fee of roughly 0.5%, which was deducted in late February. A complete Performance History of all FSA strategies is available upon request.

Looking Ahead

As mentioned above, so far in 2011, the stock market has managed to shake off most of the bad news, and remain focused on the good news on the economy, namely solid earnings from most companies, and a gradually improving jobs market. The ongoing turmoil in North Africa actually had a positive impact on one sector—energy stocks—which posted a strong return of over 16% for the quarter. Otherwise most sectors posted returns below that of the overall index, generally ranging between 1.5% (Utilities) to 5% (Health Care). Said differently, without the impact of energy stocks, the S&P index would have finished the quarter only up 4%. This highlights a theme we think we will see more of as the year progresses—that is, a market noted by the disparity of winners and losers. As this bull market gets more mature, participation typically begins to narrow, so it becomes increasingly important to identify those areas doing well because not every area of the market will participate.

So, in spite of the strong beginning to the year, we continue to remain somewhat cautious given the general unease in many parts of the world, including the ongoing debt problems in Europe, the unresolved nuclear catastrophe in Japan, and the rolling freedom demonstrations in the Middle East and North Africa. Any of these could be the catalyst to change the tenor of the markets from bullish to bearish quite easily. Combine these exogenous variables with a generally overbought market (from a technical standpoint), and you have a recipe for a market that could turn downward pretty quickly.

We expect 2011 to be as difficult as any of the recent years have been as we wrestle with a number of large economic and political challenges. When we see reasonable opportunities we plan to take advantage of them, while at the same time being ever mindful of the risks that seem to jump out at any time.

As always, thank you for your continued trust, and have a pleasant spring.