FINANCIAL SERVICES ADVISORY
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QE2 Sails Away

Second Quarter Market Review From Your Portfolio Management Team—July 18, 2011

Back in 2008, the Federal Reserve's effort to stimulate the U.S. economy back on a growth track was dubbed Quantitative Easing. It was launched in early 2009 and ran through early 2010. With the economy remaining sluggish as 2010 progressed, the Federal Reserve initiated round two of its stimulus package, so-called Quantitative Easing 2 or QE2. This program was launched in late 2010 and officially ended on June 30 of this year. The end of this stimulus program has many market participants nervous because no one is sure how healthy the economy is without ongoing injections from the Fed. The situation is similar to a doctor trying to decide when to take a sick patient off life support.

The growing angst around the end of the Fed's stimulus program played a large role in stalling out the stock market in the second quarter. After a strong beginning to the year, most stocks have been stuck in a trading range since mid-February. Only a furious 4-day rally in the final days of June prevented the broad market from finishing the quarter with losses. Bonds, which were the laggards in the first quarter, posted good returns in the second quarter, as investors again sought safety from the stock market's gyrations.

Index	*Q2 Return*	*YTD*
S&P 500	0.1%	6.0%
Dow Jones	0.8%	7.2%
EAFE	-0.8%	0.2%
Barclays Bond	2.3%	2.7%
90-Day T-bills	0.0%	0.1%

Source: Ned Davis Research
Note: EAFE represents the MSCI index of foreign stocks; Barclays Bond represents the Barclays Capital Aggregate Bond Index. Q2 Return covers the period from 03/31/11 – 06/30/11. YTD covers the period from 12/31/10 – 6/30/11.

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: 13%**

The stock market's erratic behavior in the second quarter led us to take a step towards caution. We sold the large-cap growth funds in the portfolios. Currently, these accounts have roughly 20% in stock funds, with about 65% in various bond funds. For those who are concerned with the risk of rising interest rates having a negative impact on our bond funds, about half of these funds have only modest correlation to interest rates. On average, these accounts were up just under 1% for the quarter.

Core Equity

*Current Money Market Allocation: 14%**

As we did in Conservative Growth, we also modestly trimmed back our equity allocation in Core Equity during the second quarter. We exited the technology position and added an inverse high yield bond fund to help protect the portfolio if the high yield bonds continued to weaken. At quarter-end, we had about 33% in stock funds, with about 35% in high yield bond funds, and a total cash position of 32% (which also includes our inverse funds). On average, the Core Equity accounts fell less than 1% for the quarter.

Tactical Growth

*Current Money Market Allocation: 13%**

With market volatility picking up in the second quarter, we trimmed back a few positions in Tactical Growth, as well as added an inverse High Yield fund. As we entered the third quarter, this strategy held 44% in stock funds, 20% in high yield bond funds, with 36% total cash position (including the inverse position). On average, the Tactical Growth portfolios rose almost 1% for the quarter.

Income & Growth

*Current Money Market Allocation: 9%**

These conservative accounts have less than 20% invested in stock-oriented funds, so we did not trim back those positions during the quarter. For the most part, the conservative bond funds, which make up the bulk of these portfolios, have continued to perform quite consistently. On average, the Income & Growth accounts increased about 1% for the quarter.

Income

*Current Money Market Allocation: 15%**

With stocks struggling in the second quarter, bonds became the favored asset class. As a result, we had little need to make any changes. We have continued to prefer more conservative bond funds, so that if interest rates rise in the second half of the year, these funds will be somewhat insulated. For the quarter, these portfolios rose over 1%.

*These allocations represent the money market levels of our various strategies, including trades through June 30, 2011. Performance numbers for FSA portfolios represent composite results and are not inclusive of the semi-annual fee of roughly 0.6%, which was deducted in late February. A complete Performance History of all FSA strategies is available upon request.

A Look Ahead

No sooner had we said good-bye to QE2, when Fed chairman Ben Bernanke hinted that if economic conditions worsened then he would consider launching QE3. Our leaders seem desperate to make sure that the patient does not slip into a coma. While we can appreciate their concern, maybe we just need to give the economy some time to get back on its feet, without the artificial stimulus from the government (stimulus that carries side effects such as rising inflation or falling currency—to name a few).

The free market is a powerful mechanism for correcting imbalances in the economy; unfortunately, our leaders don't trust the system and want to step in and push things along. This interference often leads to unintended consequences. Investors are wrestling with these possible consequences today as they measure not only the health of the economy, but also the political battle in Washington to decide how to raise the debt limit, as well as the ongoing struggles in Europe over debt issues in Greece and Italy.

If these issues can be resolved in a constructive manner, then we may set the stage for the markets to break out to new highs from the current volatile sideways, trading range. Otherwise, we may look back and see that QE2 ended up with the same fate as the Titanic.