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Investors Begin 2012 on an Optimistic Note

January Market Review From Your Portfolio Management Team—February 14, 2012

New Year…New Attitude. It's as if investors decided to forget all the issues that made for such a tough year in 2011, and instead focused on the positives: U.S. economic growth continues to chug along, businesses continue to find ways to increase their profits, and the unemployment rate continues to drift downwards. On top of that, Wall Street investors must be pleased that former private equity executive—Mitt Romney—remains on the inside track to win the Republican nomination for President. Finally, the New York Giants won the Super Bowl. Maybe things aren't so bad after all.

At FSA, we are not blind to the enthusiastic beginning to the year, although, we do have concerns about the longevity of the rally. We have to ask ourselves what has really changed from June 2011 to today?

In any event, our discipline is to follow the underlying trends, regardless of the news events that are playing out around us. As a result, we have brought the money market positions down across the board. In the more conservative strategies, such as Income and Income & Growth, we have pushed the portfolios into investment grade and high yield bond funds, while in the more aggressive strategies (Tactical Growth and Core Equity) we have focused on high yield bonds and select equities (sector funds and small cap funds and some precious metals). And we have maintained that theme in February as we continue to reduce the money market position in response to a stronger market.

The table below shows the current asset allocation levels of the five strategies. As of early February, we have our overall money market position down to 25%.

Strategy	Stock Funds	HY Bonds	Inverse Treasury	Quality Bonds	Money Markets
Tactical Growth	30%	20%	10%	7%	33%
Core Equity	36%	22%		11%	31%
Conservative Growth	3%	18%		52%	27%
Income & Growth	0%	15%		70%	15%
Income	--	13%		75%	12%

Note: Allocation percentages are as of January 31, 2012 and are an average of all accounts within the objective. Individual account allocations may differ from these averages.

From the lows in early October, stocks have rallied over 20% and face potentially serious resistance dead ahead at the high levels from 2011. This may prove a difficult hurdle to overcome, especially with overseas anxiety remaining high (due to the ongoing debt issues in Greece, as well as the heightened tension coming from Iran). While we continue to look for opportunities to bring the money market position down to 10% or so, we will remain watchful for signs that the rally in stocks is getting tired, which could signal the beginning of another correction.

The past 18 months have been exceedingly difficult to manage in a way that focuses on protection of principal. We have been through these challenging periods in the past, and feel confident that the markets will soon transition to a trending environment that will more favor our approach. So far, 2012 is off to a good start.