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Making the Most of a Bad Situation

February Market Review From Your Portfolio Management Team—March 9, 2012

The stock market environment since 1999 has been very challenging, to say the least. During that span of time, we have had two debilitating bear markets, not to mention the collapse in housing prices, coupled with a general loss of confidence in investing. But, as many of you have heard us say, stock markets go through these long periods of stagnant returns from time to time. The last such episode was the period from 1966 – 1982, a span lasting nearly 17 years. During these periods, it is very difficult to grow one's wealth. It is a time to preserve capital, not get too greedy, and look for opportunities when they appear.

Even though the overall stock market may go nowhere for a period of many years, it is possible to modestly build one's wealth by remaining flexible, and adapting to the ever-changing market environment.

To highlight these possibilities, we offer the table below. It shows various performance measures for the five strategies managed by FSA. We also include similar measures for the S&P 500 index, as well as T-bills, just to give you an idea of returns from the broad stock market, as well as returns from the safest investment (T-bills).

Strategy	Return 2000-2011	Beta	Monthly Std Deviation	Worst Month	Best Month
S&P 500 Index	7%	1.00	0.187	-17%	11%
Tactical Growth	66%	0.45	0.102	- 9%	31%
Core Equity	59%	0.32	0.088	- 7%	22%
Conservative Growth	72%	0.24	0.065	- 5%	20%
Income & Growth	94%	0.23	0.061	- 3%	7%
Income	81%	0.18	0.053	- 2%	4%
T-Bills	32%	-0.03	0.019	0%	1%

Note: Past performance does not guarantee future results. Performance numbers for the 5 FSA strategies are composite results and are net of fees. Individual results may vary. Interested parties can obtain our full Performance History by contacting us at 301-949-7300.

The first column is the **cumulative return** covering the period of the so-called "secular bear market" which began in 2000. In fact, all of the measures that are listed on the table cover the period from 12/31/99 – 12/31/11. Notice that since 1999, the returns for the S&P 500 index (7%) have lagged the returns of T-bills.

Not a result one would expect over such a long period, but it highlights the challenging environment we have had for stocks over the past twelve years. **Beta** is a measure of risk that compares the volatility of a strategy to a common benchmark. In this case we compare each strategy to the S&P 500. A beta of 0.5 means that the investment is only half as volatile as the S&P 500 index. A beta of 1.2 means that an investment is 20% more volatile than the S&P 500. **Standard deviation** is another measure of risk that is looking at the variability of returns. In general, a higher number suggests higher volatility. Finally, we list the **worst** and **best** monthly returns for our strategies versus the two indexes.

The results are probably no surprise to clients of FSA, but as you view them, a few things become apparent. One, our strategies carry much less risk than the broad stock market. Our most aggressive strategy—Tactical Growth—posts a beta over this period that is less than half the S&P 500. In addition, the standard deviation is also about half that of the S&P 500, as is the worst monthly decline.

In spite of the reduced risk of Tactical Growth, as well as the other FSA strategies, all five have managed to outperform the S&P 500 index, as well as T-bills over this period. So, it is possible to make money during periods when the overall stock market (and even the safe alternative—T-bills) offers little in the way of returns.

Of course, the annualized returns posted by the FSA strategies, ranging from 4% per year to nearly 6% per year, may not be particularly exciting from an absolute standpoint, certainly when compared with the returns generated during the exciting times back in the eighties or nineties. However, during these extended market environments when returns are difficult, protection is the main goal. Stay out of trouble, keep risk manageable, and look for opportunities when they arise.

There will be a better investing climate down the road; we just don't know when. Until the environment improves, we will continue to remain liquid and flexible. The FSA Safety Net™ is in place on all our current positions, and we will continue to follow the money into whatever opportunities arise.