FINANCIAL MANAGEMENT GROUP, INC.

"...to place our clients' interests first, to provide comprehensive financial planning and investment management, and to be a premier provider of innovative and timely strategies that ensure every client meets their established lifetime objectives."

FMG Economic & Investment Outlook
First Quarter 2009

As we have communicated repeatedly, understanding and *anticipating* economic behavior is critical in order to make proactive tactical asset allocation decisions for investment portfolios. It took the statisticians of the National Bureau of Economic Research (NBER) nearly a year after the fact to officially confirm in hindsight that the U.S. recession began in December 2007.

FMG anticipated well in advance the current recession

As a reminder, at that time in December 2007 FMG was pronouncing in our quarterly *Economic and Investment Outlook* that the recession was in fact already underway and had been anticipating it throughout the entire year. Accordingly, we were also anticipating that a significant decline in the equity markets would manifest and for this reason, in 2007 we tactically repositioned portfolios very conservatively relative to the long-term strategic asset allocation targets.

2008 investment declines were unique in magnitude and swiftness

As illustrated below, for the year 2008 all of the equity markets world-wide dropped fiercely, with the most disconcerting losses in value occurring during the three months of September, October, and November.

Index	Dec-08	QTD	YTD	Description
S&P 500 Index*	0.8%	-22.4%	-38.5%	Large-cap stocks
DJIA*	-0.6%	-19.1%	-33.8%	Large-cap stocks
Nasdaq Comp.*	2.7%	-24.3%	-40.5%	Large-cap tech stocks
Russell 1000 Growth	1.8%	-22.8%	-38.4%	Large-cap growth stocks
Russell 1000 Value	1.4%	-22.2%	-36.9%	Large-cap value stocks
Russell 2000 Growth	5.4%	-27.4%	-38.5%	Small-cap growth stocks
Russell 2000 Value	6.2%	-24.9%	-28.9%	Small-cap value stocks
EAFE	6.0%	-19.9%	-43.1%	Europe, Australasia & Far East Index
Lehman Aggregate	3.7%	4.6%	5.2%	U.S. Government Bonds
Lehman High Yield	7.7%	-17.9%	-26.2%	High Yield Corporate Bonds
3-mo. Treasury Bill***	0.0%	0.3%	2.5%	

All returns are estimates as of December 31, 2008. *Return numbers do not include dividends.
** Returns are estimates as of December 30, 2008.

We are here to help, *and we can!*

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FMG's diversification and tactical asset allocation reduced the amount of loss in portfolio values as compared to the performances of the equity market indexes

On a relative basis, FMG's managed portfolios outperformed the equity indexes in 2008 and, importantly, are positioned for future growth. Historically, when rebounds occur they do so in powerful sporadic spurts without notice and without regard to the presence of a recessionary economic environment. For example, the most significant decline in the last forty years was from 1973-1974 when the index of small companies declined -30.90% and -19.95%, respectively. The climate at that time was similar in terms of a severe recession and a very gloomy outlook on the markets. These results were followed by extraordinary gains from 1975-1983, when the same index increased +52.82%, +57.38%, +25.38%, +23.46%, +43.46%, 39.88%, +13.88%, +28.01% and +39.67%.

Attempting market timing is foolish and costly

In 2008, more than $200 billion left equity mutual funds, nearly ten times the amount occurring 2002, the next largest year for outflows. While some of the decline in the stock market can be attributed to the recession, much of it also reflects too many fearful sellers and too few buyers, which will subsequently reverse with investor cash inflows manifesting to once again produce rebounds. We do not know for certain the timing of rebounds, nor the magnitude. However, one can reasonably expect that large rebounds coming off of these types of declines will manifest. In fact, as shown on the prior chart, the month of December 2008 rebounded with very positive returns for the most down trodden of the equity asset classes. The result is that investors who sold in panic prior to December did so at the worst time, fulfilling the classic irrational behavior of selling low, and are overreacting based on fear and uncertainty. This is symptomatic of a market full of nervous investors who have not been diversified combined with forced selling by institutions who have needed to raise cash for purposes of meeting capital requirements. What's overlooked is that beyond this type of selling, significant upward movements follow. However, by the time the previously panicked-stricken sellers are ready to participate again they are having to climb back aboard at higher price levels than when they bailed out, which is psychologically difficult to accept as well.

FMG is opportunistically repositioning portfolios back into certain equities which are now at attractively low values

Attractive investment situations can often manifest in the midst of adversity and, therefore, we are monitoring for tactical opportunities to cautiously increase equity exposure back to the strategic target levels, and eventually beyond. Turbulent down markets can be unsettling, but with the portfolios holding up relatively well, it would be foolish to shift away from the planned long-term investment course. As we evaluate for investment opportunities, and progressively dollar cost average back into the equity markets, we will be able to create additional wealth for clients when the markets return that would have otherwise been lost if they sold in panic. Although we do not anticipate a full recovery of lost values within the next twelve months, we do expect that the portfolio values will have rebounded to be higher than present values.

Our macroeconomic assessments for 2009 are as follows:

Past prolonged excesses will cause the current U.S. recession to be one of the longest despite the economic stimulus efforts

The National Bureau of Economic Research (NBER) defines a recession as when the major business activities of the economy such as employment, industrial production, real income, housing construction, and wholesale-retail sales reach a peak and start to decline until such time when the contraction of business activities bottoms out. At this point when the business activities start to rise again, it is termed the expansionary phase of the business cycle. By NBER's definition, the average length of a recession is about twelve months, but given the global magnitude of the current financial crisis, this U.S. recession (already twelve months in duration) will be deeper and more prolonged than most that have been experienced in the past. In other words, this downturn will be looked back upon as the ***Great Recession***. Accordingly, it is our assessment that the U.S. economy will continue to contract for most of 2009 and that the expansionary signs of recovery will not be evident until the first half of 2010.

Investing in the midst of fear can be opportunistic; cautious selective portfolio rebalancing for investment growth is now warranted

We expect the U.S. and international equity markets to remain volatile and uncertain until the second half of 2009 at which time we anticipate more sustained strengthening of upward movements in investment performance. The investment market cycles tend to lead the economic cycles neither of which can be timed perfectly and so we are now dollar-cost-averaging the implementation of our tactical investment decisions. Because neither of the cycle rebounds can be timed perfectly, rebalancing for investment growth should be initiated now. In particular, we are investing in domestic small caps which tend to lead the way out of a recession. Also opportunistic are certain industry sectors that are areas of focus for the new administration such as energy, health care, basic materials (for infrastructure), Moreover, certain emerging market economies are attractively undervalued (particularly the Far East, except Japan), and we foresee their recovery to be faster than the more mature U.S. and Western European economies.

Current deflationary and unemployment concerns will manifest inflation and higher interest rates

There are massive economic forces currently working against each other. On the one hand, we have enormous fiscal and monetary stimuli. On the other hand, we have the undertow of the collapsed housing/credit bubble, which resulted in the near vaporization of the financial system last year. The enormous monetary and fiscal stimuli to date have not yet had time to have an effect, and, therefore, the Obama administration will continue efforts to inject massive amounts of new dollars into the economy. As a result, the current deflationary and job loss concerns will eventually result in an overstimulation whereby inflation will become an economic factor starting sometime in the first half of 2010. Moreover,

moving in lock-step, interest rates will start to rise as well, and it is wise to stay with short-to-intermediate bond maturities in order to avoid principal loss.

There are silver linings underlying the current financial crisis

Good economic and investment times produce unhealthy excesses and bad financial behavior patterns that demand punishment in the form of financial surgery and rehabilitative sacrifices. In turn, this produces more responsible behavior and a return to healthier times. Moreover, once the reformed behavior becomes imbedded, we expect that equities will overachieve for a prolonged period and manifest an upward regression to the mean historic return.

Here are some silver linings to be thankful for in the midst of the fear and gloom:

- Equity valuations are more reasonable and attractive
- Investment volatility though still above normal is lessening
- Interest rates are low
- Inflation is extremely low
- Housing is more affordable and low interest rate mortgages are available
- Large amounts of sideline money is awaiting to be invested
- An unprecedented amounts of monetary and fiscal stimuli are being provided worldwide
- Oil prices are lower and alternative forms of energy are being developed
- Banks are being forced to be more virtuous and responsible, and this will leave the banking system stronger; bank lending is improving
- Political leadership around the world is now stronger and more collaborative
- The financial crisis has produced a coordinated global response by central bankers
- Infrastructures will be repaired and upgraded
- A reality check has occurred on consumer spending and saving
- Weak players are being pruned in all industries
- Historically closed economies are now opening and there is a movement towards reducing global trade barriers

Lastly, we want to remind you that many of your family members, friends and associates at this time may be fearful and uncertain about their financial situations. If you appreciate the manner in which FMG has proactively kept you informed throughout the current financial crisis, please feel free to refer them to our websites www.fmgonline.com and www.quietmillionaire.com, and certainly we would appreciate it if you would refer others to consider our financial planning and investment services.