FMG Economic & Investment Outlook
Third Quarter 2009

The focus of this quarter's Outlook is to explain how the national and global economic events correlate with FMG's investment decision making, as well as to review where we have been and most importantly where we are headed. Moreover, this overview is intended to provide you a perspective and clarity which is distinctive from the barrage of discombobulated financial noise being blasted by the government, the financial gurus, and the media.

Economic decision making drives FMG's investment decision making

With respect to our investment decision making, keep in mind that FMG is an asset allocation firm and we use economic analysis to determine in advance how the asset classes will behave and make tactical asset allocation decisions accordingly. This often makes us appear contrarian to the ongoing market and economic commentaries. In fact, we intentionally tune out the present moment financial noise which we consider to be myopic, conflicting, distracting, emotional, and of little value.

Investment behavior leads economic behavior

While we indeed do perform extensive investment research, we rely first and foremost upon our economic research. The major downturns and upturns in the investment markets tend to lead the economic downturns and upturns by about 6-18 months. Therefore, we first determine our assessment for future economic conditions in 6 month intervals out to 24 months and then prepare the portfolios accordingly in advance. Looking beyond a rolling 24 month periods does not provide valid predictability because the variables influencing economic and investment behavior are too uncertain.

Anyone can gather research data; the trick is to interpret the data and apply it to an investment decision making process that is much more comprehensive than merely selecting mutual funds and individual securities

We are often asked what are our sources for research information? For economic research information we use such sources as the Federal Reserve, Treasury Department, Commerce Department, World Bank, Wharton School, RGE Monitor, The Economist as well as numerous other resources for economic data and indicators to help us forecast future economic behavior. Based upon our internal economic forecasts, we make assessments about how investments will be expected to react in advance of influencing future economic behavior, not during or after the fact. We then proactively, not reactively, position the portfolios accordingly.

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Moreover, we do indeed also perform investment research for making intelligent, best performing security selections. These sources include *institutional* research (as opposed to retail) provided by Morningstar, industry publications, as well as direct dialogue with fund representatives, portfolio managers, and other fee-only financial advisory peers. This being said, keep in mind that which stock, bond, and mutual fund selection is not near as important as the tactical asset allocation decisions being made based upon our economic analysis. Keep in mind that attempting to market time is a foolhardy loser's game as well, and why we advocate that a globally diversified investment portfolio be maintained though out all phases of economic cycles.

Let's review where we have been

We are all aware that 2008 was an emotional and traumatic year for the equity markets which reached a low point on November 20, 2008. It is also important to be aware that the amount of the investment declines in 2008 was not as steep as some other previous bear markets. For example, in 1973-1974 much more investment value was lost in the equity markets while inflation and interest rates were at all-time highs in double digits as well. What was different about 2008 was the intensity of the decline that occurred in such a short time. In September, October, November of last year, the markets literally retched because of the prolonged excesses and abuses that were generated by poor monetary and fiscal policy decision making, and from greedy, irresponsible financial behavior.

However, this purging event had a positive aspect because it got the attention required which would not have happened otherwise, and has resulted in a lot of money now being thrown at problem. Like it or not and politics aside, there has been a necessary shift from a supply side laissez faire economic approach, which ran out of corrective ammunition, to a Keynesian, government hands-on economic approach, which while not desirable for the long term, became required because of rapidly deteriorating economic fundamentals and the fact that psychological fears had progressed too far.

As the below major index performances for the first half of this year reflect, the second quarter produced impressive gains for equities.

Index	Jun-09	QTD	YTD	Description
S&P 500 Index*	0.0%	15.2%	1.8%	Large-cap stocks
DJIA*	-0.6%	11.0%	-3.8%	Large-cap stocks
Nasdaq Comp.*	3.4%	20.0%	16.4%	Large-cap tech stocks
Russell 1000 Growth	1.1%	16.3%	11.5%	Large-cap growth stocks
Russell 1000 Value	-0.7%	16.7%	-2.9%	Large-cap value stocks
Russell 2000 Growth	3.2%	23.4%	11.4%	Small-cap growth stocks
Russell 2000 Value	-0.3%	18.0%	-5.2%	Small-cap value stocks
EAFE	-0.5%	25.8%	8.4%	Europe, Australasia & Far East Index
Lehman Aggregate	0.6%	2.2%	1.9%	U.S. Government Bonds
Lehman High Yield	2.9%	23.1%	30.4%	High Yield Corporate Bonds
All returns are estimates as of June 30, 2009. *Return numbers do not include dividends.				

Let’s review where we are headed

In our opinion there is less investment risk in the equity markets today and that the worst of the volatility is over for now. It is a historic fact that most of the recapture of lost value in a bear market is recaptured in the first 12 months from the bottom of bear markets. We have concluded that this bear market is just about bottomed out and accordingly we expect a relatively strong rebound to continue during the next 9 to 12 months. The portfolios that FMG manages have been positioned to participate in the investment rebound, leading an economic recovery that will become apparent during the first half of 2010.

The average recession lasts about 12 months and we are already 20 months into this one which we estimate will last for a prolonged total of about 30 months, thereby extending it into the second quarter of 2010. The massive global government spending and stimulus programs worldwide are going to help the US and other economies and investment markets to rebound and recover at varying intervals. While this is happening we do expect unemployment statistics to continue increasing in the US and elsewhere, which is typically a lagging economic indicator in the recovery process.

Moreover, in the long run the current spending and stimulus programs will create new problems that will need to be addressed such as higher inflation, higher interest rates, higher taxes, imbedded costly government intervention, increased regulations and government spending financed by debt. We as a nation will be forced to redirect spending to domestic programs away from foreign aid and military commitments in order afford what will be required to spend domestically.

The impact of higher interest rates will eventually cause the dollar to progressively strengthen, which will make foreign creditors still willing to lend us the money we require to finance the budget deficits. At the same time, when the dollar strengthens foreigners will be less willing and able to buy our goods and services unless they are produced with superior quality or not available elsewhere, as well as by improving productivity and controlling labor costs in order to be globally competitive. As a nation and society, we are now being forced to make necessary, painful adjustments today for a better tomorrow.

The fiduciary principle has been shamefully violated by financial institutions and their overseers

We at FMG believe that we have a fiduciary responsibility to anticipate and plan for the uncertain life events that can occur and affect the lives of our clients. One thing is certain, what goes around, comes around and because the economic and investment pendulums swing back and forth, and the tendency for relatively short memories, many of today’s mistakes will be made again in the future. This why FMG manages portfolios in the context of relatively shorter economic time frames rather than longer term intervals such as 5 and 10 years which have too many unpredictable variables.

This is also why FMG advocates that investment management must be done as part of a comprehensive, coordinated financial plan where specific goals are set and progress is monitored along the way as life and economic and investment events change.

Accordingly, we have an assembled financial planning team of specialists working on a comprehensive coordinated basis with our separate investment team of specialists for every client relationship in order to build and preserve wealth throughout all stages of the economic and investment cycles. Wealth building and preservation must include not only investment management but also such financial planning activities as cash management, debt management, tax planning, college and retirement planning.

FMG welcomes referrals for new clients to assist

Today, many people are hurting financially and emotionally as a result of inappropriate or no guidance throughout the financial crisis, and will decide to make changes in their current financial management status. FMG has an experienced staff of professionals who are available to advise new clients seeking the comprehensive financial planning and investment advisory services that we offer as an independently-owned firm and provide on a fee-only basis. Our firm has been positioned to grow and the most important resource for us is satisfied clients and professionals who are willing to refer others to us. We offer with no charge or obligation an introductory, get-acquainted consultation to determine if and how we might be assist others with our services. For additional information, please view our Internet websites www.fmgonline.com and www.quietmillionaire.com or telephone us at 513-984-6696.