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Dear Client,

2011 Investment Outlook

Happy New Year from all of us at FPS Financial! Last year (2010) was a rewarding year as most major asset classes posted a healthy positive performance. The S&P 500[1] (a broad index that measures the performance of the largest 500 US companies) increased by almost 13%. Even though 2009 and 2010 were solid years for the stock market performance, the S&P 500 still remains about 20% below the highs that were set on October 9th, 2007.

The financial media is currently flooded with forecasts for the market outlook in 2011. No one, of course, has a crystal ball, but we all like predictions. In my opinion, 2011 will most likely produce another year of positive performance for the S&P 500. The following is the foundation for my opinion:

1. Business and consumer spending should make up for less government stimulus. US corporations are sitting on a record amount of cash on their balance sheet waiting to be deployed. Corporations will most likely spend this cash by buying back shares in their company, mergers and acquisitions, and improving infrastructure (new facilities, technology and jobs).

   Consumers are becoming more confident about the current economic recovery. Now that a double dip recession seems pretty much off the table, consumers are tired of hunkering down and not spending. This is evident by the recent holiday spending which will be the best we've seen in nearly four years (retail sales hit the highest point since 2006 measured by Census Bureau/Haver Analytics).

2. The emotion of "fear" of an economic collapse is giving away to "confidence". Increasing confidence in our economy and markets should continue as our economy produces more jobs, lending conditions improve and the real estate market stabilizes.

   As confidence increases, many retail investors may allocate more resources to investing in stocks/equities. The additional demand for these securities may support the rise in the market that we've seen over the last several months, and may be an important ingredient to push the markets higher in 2011.

Of course, I don't expect the markets to move up in a straight line. 2011 will have its events to shake investor confidence. When investing, you always have to expect the unexpected. Here are some events that I would anticipate to happen in 2011.

1. There will be more sovereign debt issues in Europe that will rattle the markets as they did in 2010. There may be larger countries, such as Spain, that require financial

assistance. These events will continue to remind us that we must get our own deficits and spending under control in the United States.

2. As the economy continues to improve, interest rates will move higher creating problems for bond investors. Mainly US government bonds will suffer the most. Currently, I am using bond investments in portfolios that can maneuver in a rising interest rate environment to potentially protect principle.

Like any other time, investors must stay flexible with their investment approach to meet their financial objectives. Even though I believe the markets will move higher in the upcoming year, there will be bumps along the way.

Thank you for the trust and confidence you have in my firm. I look forward to working with you in the upcoming year.

Sincerely,

Mike

Mike Ovshak
CFP®

[1] All indices are unmanaged and investors cannot invest directly into an index. Past performance is not indicative of future results. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. Diversification does not assure a profit or protect against a loss in declining markets.