Financial Concepts Unlimited, Inc.

30B West Street
Annapolis, MD 21401
Phone: (301) 315-6344
Fax: (301) 315-6343
http://www.fcuinc.com

John R. Taylor Jr., President & CEO

Michael S. Standridge,
Portfolio Analyst

FINANCIAL CONCEPTS, INC. – QUARTER 1 - 2012

MARKET RESEARCH & INVESTMENT COMMENTARY 17:

Dear Clients:

As we commented last quarter, investors are well advised not to be blinded by the bright lights of the current "good news" just as we reminded ourselves not to overreact to the negative headlines in the middle of last year. The stock market as defined by a broad index measures built on their winning streak the end of last year to have a blockbuster first quarter.

Strong corporate profits and improved economic data set the stage for the stellar performance we have recently seen.

Our attention remains tightly focused on the long term and, as we have frequently mentioned in this space, it is important not to "take our eyes off the ball" and be influenced by the temporary emotional shifts based on yesterday's headlines which gloss over important investing details.

While the equity market direction has been upward, two important facts should be noted, rising volatility recently and that the indexes have been greatly affected by the movement of a few large tech stocks that have experienced remarkable run-ups.

Indeed, as this quarter's commentary is written after the markets closed for the week of April 20 th, there are some signs of sector rotation as investors take their gains and consider portfolio risk rebalancing as the pace of first quarter corporate earnings reports accelerates [1], and in much anticipation of the Fed's FOMC scheduled meeting for April 24 th and 25 th.

Our long term approach requires a focused attention to what economic data and the markets are telling us.

Based on that perspective, we pay great attention to a reasoned understanding of data and the market signals. Only after deliberate evaluation will adjustments be made, for example, identifying market conditions where locking in gains is advantageous and selectively moving to additional opportunities for incremental risk-managed returns.

The philosophy has served us well in the turbulent market environment of the last several years. These considerations have and will continue to lead our strategy and have every expectation that they will continue to offer favorable risk-adjusted returns to our clients across cycles and for the long term.

The Financial Concepts operating philosophy is based on being long-term investors and highly focused on capital preservation. Just as we emphasized last quarter and, in fact, over the last few years, the only certainty in today's market environment is volatility.

To give only the most recent example, the third quarter was one mired in disappointing to mixed economic data combined with the shock of the S&P downgrade and the effect of global events such as the continuing European debt crisis, and the political and policy stalemate that defines Washington especially during an election year.

[1] Washington Post, April 22, 2012 quoting Robert Pavlik, chief market strategist of Banyan Partners.

While these considerations still must be taken into account, the economy and markets have benefitted from better news and optimism since then. Corporate profits, shareholder friendly corporate investment strategies such as dividend and buyback programs and positive U.S. macroeconomic trends drive our optimism.

The reasons for caution are still the housing and employment market challenges, the risk that the European crisis perhaps is close to a "tipping point," and the political positioning typical of an election year with the specific concerns about the lower dividend and capital gains rate set to expire as well as the long term budget deficit overhang.

We continue to adhere to three long-term themes:

1. Volatility is part of today's investment environment and that risk should be acknowledged and managed.

2. Focusing on capital preservation while looking for opportunities that may offer growth and appreciation.

3. Developing and maintaining a long term strategy and risk management objectives for all of our clients.

With these concepts foremost in mind, more than ever, we make every effort to remain diligent and proactive in monitoring world events and have not been in the habit to be remotely tempted to engage in short-term speculation or market timing.

Our investment philosophy is driven by the mission of protecting the clients' principal. This philosophy is incorporated in the FCU Model Portfolios that are diversified using a macro view, rather than concentrated in any one area or asset class.

This strategy helps preservation of capital that may be applied regardless of the ever changing market conditions. Our goal is to invest in places that can offer favorable risk adjusted rates of return, and we view the world as fertile ground for identifying such opportunities. Indeed, our quarterly commentaries are intended for you to gain insight into our approach.

Above all, we believe that wealth creation is only possible by avoiding a permanent impairment of capital. The most effective and perhaps only certain way to accomplish this objective is to structure investments with a margin of safety that allows for capital preservation. This requires a more patient time horizon. It also means that we do not blindly mimic or duplicate broad equity indexes, including the S&P, Dow, and NASDAQ.

These benchmarks tend to be highly concentrated and tightly correlated to the present business cycle. We diversify to minimize risk, using multiple asset classes, such as fixed income. Diversification may provide solid long-term risk-adjusted return performance. There is no investment class that is immune from volatility, but we believe that our strategy controls the effects of such risks. Attempting to "beat" the market at any random time is simply futile.

Our diversification extends across market sectors including government, corporate and global fixed-income sectors and similarly across equity investing styles, including value, growth and market cap groups. We take pride in staying committed to who we are, and always look to minimize the downside. Therefore, we may lag the returns of leading benchmarks in a particular period because our strategy seeks to produce solid and more consistent investment results.

You merely need to refer to the beginning of this discussion when we compare the out-sized pessimism in the third quarter to the effusive optimism more recently. Investing is about looking objectively at data, information and markets and understand but not be consumed by emotions driven by the latest news or headlines.

OUTLOOK

Our longer term investment perspective has been rewarded as the markets and economy moved from the roller coaster third quarter to the more placid and upbeat year-end and even stronger first quarter. The continued economic upswing is still considered tenuous, as demonstrated by importance placed on the Fed's maintenance of accommodative polices and close to 0.00 % target Fed funds interest rate.

These are some of the trends that we are looking at:

- A commitment by the Fed to step in more aggressively with monetary policy tools as needed
- Record corporate profits and shareholder friendly strategies for investing balance sheet cash
- Attention to finding a European growth crisis resolution amongst multinational finance agencies

- Return of investor's risk appetite coupled with gains in job creation and consumer spending
- Solid GDP (gross domestic product) growth suggesting acceleration of economic activity

The clouds on the horizon suggest prudence:

- Subdued global economic growth as emerging market growth rates subside, especially in China
- Less fiscal stimulus as economic policy shifts to deficit reduction and long term unemployment
- Higher energy prices that appear to be now subsiding and ongoing commodity price volatility
- Correction in the housing market complicated by foreclosure documents and servicing issues
- Longer term risks associated with a shorter term Europe debt crisis and recessionary threats

Retail Investor Outlook Trending Positive

As noted in prior commentaries, the individual investor remains liquid based on holding nearly $ 7 billion held in cash and assets as reported by Federal Reserve data through its "flow of funds" report.[2] A strong fourth quarter market improved individual balance sheets.

According to the "flow of funds" report, the household net worth was $ 58.4 trillion at the end of last year, about $ 1 trillion above the end of the previous quarter but still less than the peak held during 2007.[3]

The stock performance in the first quarter should also buoy the household net worth position which would appear to be a market positive when combined with the reported cash available for investment, U.S. consumer credit outstanding rose in February, the most recent available data, and for full-year 2011, reversing the trend since 2008 of annual declines, but remains below the third quarter of 2008 peak levels.

The year 2011 marked the first year that both fixed term and revolving consumer credit increased but both remain well below pre-financial crisis peak levels.[4]

ECONOMY

GDP Growth Accelerates, Labor Market Improves But Remains Fragile

The economy continues to grow as it did for each quarter in 2011,[5] including the fourth quarter by the 2.8 percent compared to 2.5 percent in the third quarter and 1.3 percent in the second quarter.[6] The private sector – business investment and consumer spending – are now the larger drivers of the economy relative to government spending.

The 2.8 percent growth rate approaches the economy's long-term potential and is the strongest quarterly growth rate in more than a year but failed to match the 3 percent estimate predicted by several leading economists.[7] The consensus view is that GDP probably would do well to match that rate in the coming year as the second half of the year performance was helped by production constraints from earlier in 2011.[8]

A separate report last quarter showed U.S. wholesale inventories and sales both posted solid increases in December, part of a broad restocking by businesses that helped propel economic growth at the end of 2011. Inventories rose 1.0 percent from November. Much of that improvement was attributed to the buildup in business inventories, a factor that will very likely be temporary.[9]

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[2] The Federal Reserve's Flow of Funds data combine individual and nonprofit organizations in their tabulation. http://www.federalreserve.gov/releases/z1/current/z1.pdf

[3] http://www.stockmarketsreview.com/news/2011q4_flow_funds_net_worth_borrowing_trend_households_292005/

[4] http://www.federalreserve.gov/releases/G19/Current/

[5] Washington Post, January 28,2012

[6] U.S. Department of Commerce data

[7] http://www.mcclatchydc.com/2012/01/27/137132/us-economy-grew-at-28-percent.html

[8] Bond Dealers of America economic survey, for example, bdamerica.org

[9] CNN Money, February 2012

Should growth exceed expectations, interest rates could rise sooner than anticipated. Under such a scenario, the Federal Reserve policy makers would potentially be able to reverse its accommodative strategy but, given recent Fed communications and policy strategy, appears unlikely.

The consumer is the economic “king” accounting for 60 percent to 70 percent of our economy. Retail spending gained 1.45 percent in the fourth quarter, a lower rate than a year ago but higher than the first three quarters of the year.

The deleveraging consumer in the form of reduced debt balances is a good sign for the spending capacity of households.

Despite these positive data trends, longer term, the consumer is still going through a period of deleveraging, which places a ceiling on consumer spending. Since hitting a peak in the summer of 2008 through August, non-mortgage household debt has fallen by roughly $ 100 billion or 4 percent.[10] Whether consumers prefer to borrow versus save will affect consumer spending as do wages and disposable personal income which remain “stuck in neutral” territory.[11]

The recent employment pickup in the workforce is still below its pre-recession peak of 145 million.[12] The jobless rate remains elevated despite declining to 8.2 percent in March from 8.5 percent in December and 9.1 percent in mid-2011 and from a peak of 10.1 percent registered during 2009.[13] March employment increased by 120.000 in new job creation.

The favorable trend is tempered by the fact that some of that job growth was slower than the previous three months and that the long-term unemployed (defines as more than 27 weeks) was virtually flat in March and account for 42 percent of the total unemployment number.[14]

Faster economic growth is required to put a dent in the unemployment rate which is likely to stay in the 8 percent range.[15]

The number of people applying for jobless benefits over the past few quarters has fallen and is now down to levels not seen since the early months of the recession, a sign that hiring has accelerated and gives rise to the opinion that labor market improvement may finally be self-sustaining.[16] Initial claims in March set a 4-year low, though the recent weekly initial claims reduction for the week of April 14 was less than expected.[17]

Initial claims for jobless benefits are a measure of layoffs, so they aren’t a direct indication that companies are looking to expand and hire. This measure historically has been considered a good predictor of labor market strength because, given the huge number of hires and fires in any given month, a decline in layoffs suggest an overall tilt toward more hiring.[18]

Consumer confidence and spending have benefited from the labor market improvement as well as the favorable stock market trends. Retail sales rose 0.8 percent in March, nearly three times the consensus estimate,[19] and Michigan Consumer Sentiment Survey confidence index was at the highest point in a year.[20]

Housing Correction Still Has a Way to Go: Prices and Credit Standards Hold Back Housing Recovery

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[10] http://www.federalreserve.gov/releases/G19/Current/

[11] U.S. Department of Commerce, Bureau of Economic Analysis, http://www.bea.gov/

[12] Washington Post, January 28,2012

[13] http://www.tradingeconomics.com/united-states/unemployment-rate

[14] http://www.bls.gov/news.release/pdf/empsit.pdf

[15] The Bond Dealers of America Economic Survey, for example, November 1, 2011, bdamerica.org

[16] Yahoo Finance, April 2012

[17] Bloomberg, April 19, 2012

[18] Washington Post, March 2012

[19] Bloomberg, April 19, 2012

[20] Yahoo finance, April 2012

As measured by the closely followed S&P Case-Shiller index, as of the most readings through January, the national housing price decline has continued from the additional slide in 2010 with prices more than 3 percent lower than a year ago. Only Phoenix, Miami and Washington, D.C. have shown positive housing price trends in the past year.[21]

The National Association of Realtors reported that sales of existing homes fell 0.9 percent in February after an upward revision to the prior month, as better job prospects, lower priced homes and warm weather led to the best start in years.

Existing home sales declined again in March by 2.6 percent. However, the median price of existing home sales nationally as well as the existing sales volume is higher from a year earlier.[22]

Together with foreclosure overhang and negative equity mortgages, the credit standards are holding back housing recovery but with the one positive sign of investor pools purchasing foreclosed properties in bulk. The stricter underwriting standards and "underwater" mortgages have resulted in a large homeowner market segment that is unable to refinance.

Core Logic estimates that about a fifth of mortgaged properties are now "underwater" or mortgage balances higher than the value of the residential property itself.[23]

Many leading economists expect signs of recovery to finally take hold this year, citing positive economic data.[24] One positive indicator for housing is long term mortgage rates remain near record lows and have been well below 5 percent for virtually the entire year and at 4 percent or below for much of this year. But lenders typically require homeowners to have equity in their homes to refinance and lenders are typically approving most borrowers with higher credit scores.[25]

Will Relaxed Lending Standards Lead to More Business Lending?

Banks have eased standards on commercial and industrial business lending for the last several quarters through the most recent survey after an extended period of tightening, according to the Federal Reserve's quarterly senior lender report.

The survey showed mixed results in loan demand after reporting rising business loan and consumer real estate demand in the previous survey.[26] The Fed survey is closely watched as a barometer of the business lending and credit markets.

Cash Rich Corporate Balance Sheets, Profits Remain the Source of Hope for Accelerated Economic Expansion

Business willingness to invest and hire is a function of consumer demand and confidence in the global economy. Corporations are still cash-rich, buoyed by continued record profit levels. Corporate profits and investable liquid funds are a source of potential economic expansion once deployed. Fourth quarter increases in business spending are encouraging in that regard but greater business capital investment requires faith that the operating environment is favorable.

But with the economy stabilizing and the market rising, investors are looking to companies now for activity that would boost their equity — in particular stock buybacks, dividend increases or mergers and acquisitions. Dividends and buybacks should amount to $ 250 billion this year, as indicated by the fact that 123 companies in the Standard & Poor's broad index have already increased dividends by $ 20 billion.

Mergers and acquisition are the one corporate investment strategy yet to take hold, although the deal volume in the first quarter was higher than 2011 transaction levels.[27]

Inflation Remains Controlled, Re-emerges as Risk; Where are Energy Prices Headed?

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[21] http://www.standardandpoors.com/servlet

[22] Memphis Business Journal, April 20,2012

[23] http://www.corelogic.com/

[24] Source – U.S. Commerce Department – February 2012.

[25] Source – Fortune – February 2012.

[26] http://www.federalreserve.gov/boarddocs/snloansurvey/201111/default.htm

[27] Investors Business Daily – February 2012.

Inflation remains historically low. The most recent CPI index reading as of March rose 0.3 percent easing from a 0.4 percent rate the previous month with the core rate, excluding energy and food, up 0.1 percent and 0.2 percent respectively for February and March. The March headline rate was 2.7 percent year over year (2.2 percent core CPI) with the energy index up 4.6 percent and food 3.3 percent.

The headline CPI annual rate edged down slightly from February when it was 2.9 percent.[28] With excess capacity and a soft labor market, core inflation appears to be under control but with signs of some escalation in capacity use as economic and employment data pick up.

As China begins to experience moderation in growth and with the effect of the European debt crisis driven volatility, agricultural commodity market prices have moderated and slowed.[29] The reduced commodities price trend is undoubtedly a relief to the Fed and gives the Fed greater flexibility to keep the target rate low, that is, close to 0.25 percent. Crude oil price escalation in recent months with growing tensions with Iran has raised the threat of a disruption in global supplies.

There have been reports than Iran had cut off sales to six European countries in response to the European Union's newly stepped up sanctions. Factors that could mitigate rising oil prices include low natural gas prices, and a warm winter.[30]

Global Growth Affected By Emerging Market Growth Moderating

Inflation fighting strategies in emerging markets lead analysts to worry about dampened demand for exports and global growth, further slowing economic activity in developed countries. Global manufacturing activity was subdued with the euro zone's industrial sector showing recent declines, and Asian factory activity mixed.

There is concern about China, the world's second-largest economy, especially in the construction sector.

The Bank of China said it would cut the reserve requirement by 0.5 percent, the second such move in three months, following several increases since 2008. Beijing seems to have shifted its focus to restoring China's growth rate and away from the inflation problem potential bubble.

The decision comes as China tries to manage "a soft landing": It must let economic growth slow enough to prevent inflation -- but it doesn't want growth to slow too much.

Inflation in China is already a concern, rising at a rate of 4.5 percent as of January, though that is more than last summer when prices were rising 6.5 percent.[31]

Longer term, despite the pullback, we continue to see the emerging (and frontier) markets as engines of global growth. We continue to be persuaded by the analysis that says that emerging economies with growth generated through internal consumer demand – such as India – may outperform external growth oriented economies – such as China – which are dependent on growth in the developed markets affected by the European economic disarray and recessionary threats.

Need for Fiscal Discipline in an Election Year: Lower Investment Tax Rate Uncertainty

On the fiscal side, there is a public consensus for restraining the budget but the degree to which it translates into action is the critical issue. The economy faces another fiscal year of $ 1 trillion plus deficits, and indeed the forecast is for record deficits in this fiscal year. The political will is a critical variable.

While borrowing rates still remain low, there is no assurance that the markets will continue to keep yields on U.S. government debt low and thus the cost of financing the deficit at the current levels.

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[28] http://www.bls.gov/news.release/cpi.nr0.htm

[29] Wall Street journal, January 27,2012

[30] Bloomberg – March 2012.

[31] Investor's Business Daily, March 2012

Longer term, entitlement and especially Medicare expenses are looming. Medicare's trust fund for inpatient care has been projected to run out of money in 2024.[32] The future of the health care reform law, including the impending Supreme Court decision, creates additional uncertainty.

What is clear is that deficit reduction is the focal point of economic debate and fiscal expansion is largely off the table. Economic policy “stimulus” is on the monetary side. Barring congressional action, the broad tax cuts, including lower dividend and capital gains tax rates.

Adopted during the Bush administration, these tax shelters will expire at the end of the year, with the top income tax rate rising to 39.6 percent, which undoubtedly will have a dampening effect on the markets this coming year.[33]

The Fed reiterated the intent to keep its target rate low or close to 0 percent but extended the time period from mid-2013 to the end of 2014. Federal Reserve policymakers leave open the possibility of additional asset purchases.[34] The upcoming FOMC meeting is not expected to change the strategy or time timetable.

The “news” that may be coming is whether there will be a “Quantitative Easing (QE) 3” announcement with Wall Street split whether it is needed or likely.[35]

The State and Local Finance Drag on Economic Prospects Moderating

Overall state tax revenue increased 3.6 percent in the final quarter of 2011 from the fourth quarter of 2010, according to the New York-based Rockefeller Institute, a think tank that closely watches state revenue. Revenue was also 3 percent higher than in the last quarter of 2007 and 7.4 percent higher than in the fourth quarter of 2008, the group said, indicating a return to pre-recession peaks.[36]

Unlike the Federal government, most states are required to balance their budgets and the economy and related tax revenues have hit state budgets which have led to some states raising tax rates and dipping into their “rainy day” funds and other one-time sources.[37]

In addition to the local government effect on the national economy, the state and local finances of course have implications for municipal bond prices and credit quality.

Although municipal securities have recovered since early 2011, the markets are increasingly differentiating between financial strong and weaker municipal bond issuers, especially with the removal of bond insurers from the marketplace.

MARKETS

Equity Markets Trend Up After a Volatile 2011: Prospects Depend on Continued Profit and Dividend Levels, Fed Policy, Economic Growth Trends and European Crisis Management

Equities across sectors experienced historically high rates of volatility in 2011 with that volatility showing signs of pick up over the last few weeks after a moderating volatility trend in the first quarter.[38] The three major broad indices rallied over the fourth quarter and continued with a historically strong advance into the first quarter. The NASDAQ and S&P broad index are up double digits through April 20th.[39]

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32 CNN – Money November 2011

33 Yahoo – Finance February 2012

34 http://federalreserve.gov/newsevents/press/monetary/20120125a.htm

35 Business Insider April 20, 2012

36 http://www.reuters.com/article/2012/04/19/usa-states-revenue-idUSL2E8FJ7MA20120419

37 Baltimore Sun, December 2011

38 Washington Post, January 29, 2012

39 Market Watch, April 20, 2012

There are three dominant factors that may affect future equity market performance at least in the near term. First, there is the corporate profit growth with earnings at record levels but with a cautious economic growth outlook for 2012 by both the Federal Reserve and the International Monetary Fund.

Corporate profits represented in the broad Standard & Poor's 500 Index appear to be trading comfortably relative to previous peaks.

Companies in the benchmark trade for close to 14.1 times earnings after advancing 102 percent over the last three years. Profit margins are forecast to rise 12 percent this year and 13 percent next year based on data compiled by Bloomberg. Nine quarters of earnings growth have left valuations 14 percent below the five-decade average of 16.4 percent.

Low valuations and rising hedging costs reflect investor concern about earnings after the profit margin run-up over the past 2 plus years. Depending on the outlook, strategists see the shrinking multiples as a margin of safety should the profit results fail to match forecasts or that equities are in fact not cheap because the profit estimate optimism following multiyear profit expansion.[40]

The profit gains have led to substantial dividend growth, boosting stock prices. The dollar amount of dividend payments from the S&P 500 stock index should increase 15 percent this year, according to S&P. Despite a record 22 new dividends announced by these companies last year, only 397 of the 500 now pay dividends, versus an average since 1980 of 413.

Dividend payments as a percentage of company profits now stand at about 30 percent, versus a historical average of 52 percent.[41] However, the dividend tax rate currently capped at 15 percent is set to expire at the end of 2012, and without action from Congress, the maximum dividend tax rate will revert to 39.6 percent.

The second pillar is the expectation of Fed policy to keep the recovery on track and "remove the punchbowl" at the correct time to manage inflation and inflationary expectation threats. The Fed's low rate stance reveals ongoing growth concerns.

The third consideration is the outcome to the European debt crisis and global market contagion risks which is the biggest reason for prudence in market strategy and outlook.

Bonds

<u>The United States</u>

As higher quality (lower credit risk) bond yields have fallen and prices appreciated, there is heightened interest up the "risk curve" in order to generate yield and thus the attraction of corporate bonds. The liquid balance sheets and positive profit trends reduced fundamental corporate credit risk. Going forward, a few investment considerations need to be taken into account: whether corporate bonds are approaching full value and supply to take advantage of low funding costs.

Finally, the highly liquid corporate balance sheets are likely to be pared down when corporations put the cash to work in response to shareholder demands and public policy pressures. Default rates globally have been scaled back through 2011 based on rating agency metrics to the lowest rates since 2008.[42]

There is a growing consensus that default rates may edge up to no more than (but maybe less) than long term figures.[43]

With benchmark yields moving back down due to political and economic risks outside of the U.S., corporate issuers have taken advantage of low rates with elevated issuance levels which are now subsiding in the wake of the earnings season. Corporate bond prices have picked up during the year but have since pared back a bit recently.

<u>The International Bond Perspective: European Debt Situation and Global Growth</u>

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[40] New York times, January 2012

[41] S&P, January 2012

[42] http://www.usatoday.com/money/perfi/stocks/story/2011-10-11/corporate-defaults/50796848/1

[43] http://blogs.barrons.com/incomeinvesting/2011/12/08/u-s-default-rate-holds-steady-at-2-0-in-november/; http://uk.reuters.com/article/2011/11/21/debt-defaults-ing-idUKL5E7ML2M820111121

Much rests on the outcome of the European negotiations, including the expanded European rescue fund, as well as the political fallout from the requisite national austerity strategies. As European lenders expand borrowing from the European Central Bank, individual central banks in the euro zone are expanding the types of assets that can be pledged.

The new standards come as the ECB already has assumed the role of lender of last resort to hundreds of European banks. To guard against risks with some types of collateral, the ECB traditionally imposes "haircuts" on the assets. With the new collateral, the average haircuts will be 60 percent to 70 percent.[44]

Central banks including the European Central Bank and the Bank of Japan have tried to avert a double-dip recession by injecting more liquidity into their banking systems. Growth in developed economies almost ground to a halt in the last three months of 2011, according to the Organization for Economic Co-operation and Development (OECD).

Gross domestic product (GDP) in the 34 economies in the OECD, including the U.S., Germany, Japan and the UK, grew by just 0.1 percent in the last quarter from the previous one. It rose 1.3 percent from the same time a year earlier – the slowest rate of growth in two years – all of which has led to a concern of the U.S. becoming the sole engine of growth.[45]

Gold

The price has more than doubled in value over the last 5 years but has drifted down over the first quarter. The metal's price is at $ 1641 per ounce[46] on April 20th, compared to $ 1,700 at the end of January.[47] Four factors are at play – near term factors including the European debt crisis aftermath; Mideast instability; how much is being bought and sold by national central banks; and long term fiscal and monetary policies.

Certainly, a case can be made for gold and other commodities in a diversified investment portfolio. While prices have surged over the past year, gold prices can be volatile. The recent gold price dip brought with it lessons to gold investors and recognition that there is no such thing as the price of gold always rising and being immune from price volatility.[48]

Real Estate

Commercial real estate typically follows economic cycles, and as the labor markets improve, so do the numbers of occupancies, which then result in rising rents with generally a lag of a few quarters. Due to the ever increasing population in the United States, demand for real estate should eventually lead to increases in occupancies an income from rents.

The U.S. FTSE EPRA/NAREIT REIT index bounced back in 2009 through to-date 2012 to recover the 2007-2008 losses. The index increased by 7.3 percent in 2011 but a robust 9.8 percent year-to-date in 2012 through April 20.[49] The rebound enabled REITs to recapitalize and gain favor with dividend-motivated and distressed asset investors.

Financial Concepts Unlimited Approach

Financial Concepts Unlimited continuously monitors and assesses its investment strategy, informed by market valuations and trends along with the underlying data. FCU will evaluate the events and variables as summarized throughout this document. It will then act with prudence upon clear market signals, taking account of potential risk exposures.

We continue to stand by our philosophy of the long term perspective and capital preservation and are always looking to manage client wealth with attention focused on the downside. The asset classes and investment managers we have

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[44] Business Week – January 2012.

[45] CNN Money, February 2012.

[46] http://www.cnbc.com/id/47111664

[47] http://www.goldprice.org/

[48] Investment Adviser

[49] http://returns.reit.com/returns/DomesticReturns.pdf

chosen to provide diversification within our portfolios continue to offer what we think to be an excellent benefit as we incrementally invest our way back into the stock market. This approach has served us well in the past…

In closing,

I wanted to thank you again for your continued support and state that we remain confident in the enduring power of the financial market's potential to create wealth over the long term, despite the challenges and risks that are a necessary part of the investment process. The overall sentiment from the investment community appears to be increasingly positive as reflected in recent trends.

The markets in the coming year may certainly experience challenges, and we take into account market volatility and the risks that it presents. We must never forget that opportunities for creating wealth are constantly evolving, and as part of our commitment to managing your assets, we are always looking for the best way to implement them.

Finally, permit us to wish you a healthy and prosperous 2012.

Sincerely,

Michael S. Standridge

Portfolio Analyst
Financial Concepts, Inc.

FINANCIAL MARKET DATA AND STATISTICS FOR MAY 10, 2012

Year to Date Statistics*	**Current Rates***	**Current Yields***
DOW – ▲ 5.10 %	Oil Price @ $ 96 barrel	Federal Funds @ 0.25 %
NASDAQ – ▲ 12.70 %	Gold Price @ $ 1593 ounce	30 Y Mortgage @ 3.94 %
S&P 500 – ▲ 7.70 %	Euro per Dollar @ 0.7734	10 Y Treasury @ 1.84 %
Russell 2000 – ▲ 6.50 %	Core Inflation – ▲ 2.65%	5 Y CD'S @ 1.39 %
CBOE VIX – ▼ 14.20 %	Unemployment @ 8.20%	Money Market @ 0.49 %

- YTD statistics, current rates, and current yields are all from the Wall Street Journal as of May 10, 2012.

There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio in any given market environment. The price of commodities such as currency and gold is subject to substantial price fluctuations of short periods of time and may be affected by unpredictable international monetary and political policies. The market for commodities is widely unregulated and concentrated investing may lead to higher price volatility.

Foreign investments involve special risks including greater economic, political, and currency fluctuation risks, which may be even greater in emerging markets. Indexes cannot be invested in directly, are unmanaged and do not incur management fees, costs or expenses. Investors should be aware that there are risks inherent in all investments, such as fluctuations in investment principal. With any investment vehicle, past performance is not a guarantee of future results.

Sector investing may involve a greater degree of risk than investments with broader diversification.

The material contains forward-looking statements and projections. There are no guarantees that these results will be achieved. The information is not intended to be a substitute for special individualized tax, legal or investment planning *advice. Information is based on sources believed to be reliable, however, their accuracy or completeness cannot be guaranteed*

The views expressed are not necessarily the opinion of FSC Securities Corporation and should not be construed directly or indirectly, as an offer to buy or sell any securities mentioned herein, Individual circumstances vary.

Bonds are also subject to other types of risks such as call, credit, liquidity, interest rate, and general market risks. In general, the bond market is volatile as prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity maybe subject to a substantial gain or loss.

Investments in real estate have various risks including possible lack of liquidity and devaluation based on adverse economic and regulatory changes.

NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE, INCLUDING LOSS OF PRINCIPAL. NOT INSURED BY ANY STATE OF FEDERAL AGENCY.