

Fagan Financial Report

VOLUME 12 ISSUE 1

FIRST QUARTER 2009

Inside this Issue

To Our Clients	1
Nine For '09	2-4
Asset Allocation Considerations	5
Reports and/or Support Documents	6
Tax Guidance & Prep	6
Fiduciary Protection	6
Common Stock Portfolio Holdings	7
Largest Mutual Fund Holdings	8

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To Our Clients

Calendar year 2008 proved to be one of the most challenging in the history of the U.S. stock market with the S&P 500 dropping 38.49%, the Dow Jones Industrial Average 38.68%, the NASDAQ Composite 40.54%, the Russell 2000 34.80% and the Wilshire 5000 38.68%. Indeed, it was the second worst performance on record for the S&P 500, the most severe being the 43.34% drop in 1931. Finally, more than one-half of the losses sustained by the S&P 500 during 2008 were confined to the fourth quarter.

Unlike many other bear markets for equities, conservative fixed income investors fared littler better than those invested in equities as those securities were battered by a very weak corporate bond market. In fact, the only sectors of the bond market turning in positive returns during 2008 were those issued by the U.S. Government.

Many consider calendar year 2008 a near "perfect storm" of negative events that resulted in the carnage noted above. Far be it from us to disagree considering the year-end results and considering the events of the past year, including the dramatic decline of real estate values; the collapse of several major investment banks; the failure and eventual federal seizure of many century old commercial



and consumer banks; the near collapse of our domestic automobile manufacturers and the creation and initial implementation of the Troubled Assets Relief Program (TARP). As 2008 drew to a close, more salt was thrown into the wounds sustained by investors in the revelation that Madoff Securities, an investment firm managed by

Bernard Madoff and claiming to have \$50 billion in assets under management, was nothing more than a ponzi scheme. Not surprisingly, investor skepticism remains very high.

Despite the difficult year we have just exited, we want to assure all our clients that we come to work each and every day with a firm resolve to do our best in order to help you reach your financial goals, recognizing that you have entrusted to us assets that represent your standard of living, your security and your way of life.

As 2008 came to a close, we must say that we wished all we saw and spoke to a Happy New Year with a deeper degree of sincerity than we perhaps had in other years! Now as we begin a new year with a new President, we do so with a cautiously bullish outlook, one which we outline through out this newsletter.

NINE FOR '09



The year 2008 left investors gasping for breath, one that will go down as one of the worst years for investors. All investors, not just those invested in equities, are reeling from losses and are left scurrying for safety. Assets within money market funds and securities backed by our United States Treasury have ballooned as risk left the scene quicker than Elliot Spitzer.

We are confident that 2009 will be better (how can it not be?). Our projections for this coming year are based on a couple of assumptions, the first being that as the new year gets underway negativity will be in vogue at various points as the economic and corporate data that is released will paint a picture of an economy whose total output as measured by Gross Domestic Product will most likely shrink at an annualized rate of between six and ten percent during the first half of 2009. Any bouts of market upside will be met with skepticism. Skittish investors, those that believe it is different this time, will be scared out of the market again this year. That said, as sure as the sun rises after a cold, dark night, greed will eventually overtake panic and capitalism will once again win out.

Despite our sour economic news, a new sense of optimism will arrive along with the administration of President Barack Obama. Eventually, many who believe the glass is half empty will now look at that same glass as half-full. The psychology of the American economy and along with it the American Economy will improve as we progress throughout this New Year. Furthermore huge government infrastructure programs, meant to upgrade the bridges, roads, tunnels and schools of our nation, whose price tag will approach \$1 trillion will mask economic weakness and create jobs.

Change is coming not only to Washington but throughout the United States. Last year around this time, consumers labored under \$4 per gallon gasoline. Any discussion of lower energy prices was met with a lecture on the forces of supply and demand from economists. We even bought into the higher energy prices forever scenario. But, lo and behold, the unthinkable happened and gas prices tumbled. It is our belief that after a rocky start the unthinkable will happen again in 2009 and that is that the markets will make their way higher as the year progresses. We believe that slowly the pendulum is shifting and the risk will once again be with those that are out of the bond and stock markets rather than in them.

With the above in mind, the following represents our "Nine Investment Themes for 2009."

1 Number One, all good things must end. Absent economic Armageddon, the rally in U.S. Treasury prices has pushed the yield to levels that make them wholly unattractive. The yield on the ten-year U.S. Treasury is currently 2.37%. We believe that investors should sell longer dated Treasuries and invest the proceeds into corporate bond funds. They should consider Loomis Sayles Bond (LSBRX) as well as the Oppenheimer International Bond Fund (OIBAX), both of which were pummeled during 2008 along with the "non-treasury bond market" but have solid long term records. In addition, the Oppenheimer International Bond Fund may also benefit from a dollar that could weaken during the year as our national budget deficit mounts.

2 The second investment theme for 2009 is "big is beautiful". We are 6'4" and weigh over 200 pounds (please no scales) hence big is some-

thing we embrace. The economy has shredded the competition for some of America's larger companies, also known as "category killers." Consider Bed Bath and Beyond (BBBY) which has delivered a knockout punch to Linens 'N Things. Nike (NKE) continues to run circles around its competition as it benefits from a strong balance sheet and strong international sales. Finally consider Intel (INTC) as its balance sheet has \$12 billion in cash, a seventy percent market share and is built to withstand a weak economy as its major competitor, Advanced Micro Devices (AMD) struggles.

3 Number three, don't get too comfortable. This market humbles everyone so it makes sense to get paid to wait. Dividends are an important component of total return with U.S. Treasury yields at these historically low levels and Certificates of Deposit yielding a nationwide average of barely two-percent for a one-year commitment. How about an investment in Verizon Communications (VZ) with a dividend of 5.3%? FIOS and the Blackberry Storm are providing some pizzazz in these tough times and we believe Verizon rides through difficult times with its somewhat recession resistant business model. Exchange Traded Funds (ETFs) also provide diversification so we believe the iShares S&P U.S. Preferred Stock Index (PFF) whose dividend yield exceeds ten percent as well as the iShares Dow Jones Select Dividend Index (DVY) whose dividend yield exceeds five percent may be appropriate for your investment portfolio. One note of caution is that the DVY has a forty-percent exposure to financials which may provide unwanted volatility.

Continued on page 3



Continued from page 2

4 Number four, take some risk. It is ironic that many investors want to become more cautious AFTER stocks have already fallen forty-percent. They forget the time-tested adage of “buy low and sell high” choosing instead to lock in these losses and move to more conservative investments. Despite the fact that RISK became the ultimate four-letter word in 2008, many solid companies that got pounded will survive and eventually thrive. Consider Manitowoc (MTW), the huge crane maker from Wisconsin, one of many companies that will surely benefit from President Obama’s proposed stimulus package. Other similar companies include Chicago Bridge & Iron (CBI) and Shaw Group (SGR). Also, equity investors may be wise to consider an ETF that mirrors the NASDAQ 100, the Power Shares QQQ (QQQQ), a tech laden composite that is forty-plus percent from its fifty-two week high. Once again, the new administration seems to have made an upgrade to tech infrastructure a priority.

5 Number five, inflation will come back and it will be somewhat welcomed. During the first half of 2008 as Americans pumped \$4 per gallon gas they moaned and complained. Food prices soared and gold spiked BUT (and this is a big but) the economy held up pretty well. Now nobody wants a return to \$4 gas and rampant inflation but with the Federal Reserve printing money willy-nilly to combat this crisis, the dollar should weaken and long-term interest rates should rise. For this reason some exposure to commodities makes sense. Consider Exxon Mobil (XOM) the world’s largest integrated oil company or the Energy Select SPDR (XLE) to benefit from rising energy prices. Oil service companies Schlumberger (SLB) and

Halliburton (HAL) could also make some sense. Finally, take a look at the Vanguard Inflation Protected Securities Fund (VIPSX), a no-load, open-ended mutual fund that invests in inflation protected bonds. In a world of rising inflation these bonds could provide solid risk-adjusted returns.

6 Number six, “infrastructure” will become the buzz word of the new Obama administration much like energy independence was the buzz word during the latter years of the Bush administration. We believe that the infrastructure play might be a bit different than was initially viewed. Yes, traditional “shovel in ground plays” like those companies noted under number four above will benefit, but technology infrastructure and alternative energy plays may endure longer with more upside potential. For this, symbol QQQQ is interesting but so is Cisco Systems (CSCO), a company that provides the highway to the inter- as well as to the intranet. We may look back on the monetary commitment to the technology portion of President Obama’s infrastructure investment much like that which was spent to get companies past “Y2K.” Education, long an Obama focus, could make countrywide internet access a priority. John Chambers, CEO of Cisco Systems, has done an excellent job managing through this financial crisis and with \$ 27 billion in cash, Cisco should ultimately thrive. Trinity Industries (TRN) has struggled recently as the economy has stalled. However, this heavy cyclical corporation, a leading manufacturer of rail cars, guardrails, barges and wind towers should be a major beneficiary of an infrastructure program. We believe that Trinity’s stake in wind tower production has not been fully recognized by Wall Street. We can envision wind, (that cheap, efficient

and environmentally friendly source of power) as a great alternative to carbon fuels for an administration aiming to be different and innovative.

7 Number seven, are you scared? A little bit of fear and adrenalin is never a bad thing. However, that historic level of fear that investors felt during 2008 will never be completely out of one’s mind. The bitter taste of 2008 will linger throughout this year. What to do if you will not dare put even a toe back into the stock market but want better returns than the meager one to two-percent offered at your bank? First and foremost avoid the temptation of fixed-income investments of longer-dated maturities as you may discover that “interest rate risk,” the risk that you are stuck in a low-yielding investment as interest rates climb, is as nasty as the principal risk shouldered by investors into the stock market. For that reason, we believe that the PIMCO Total Return Fund (PTDDX), a fund with a track record of eight up years over the last nine, a fund with a positive total return during 2008, might limit some of that risk for bond investors. With an average maturity of five years and a meaningful percentage of the assets of the fund sitting in cash, renowned fund manager William Gross, should be able to admirably navigate the rising waters of inflation. Want a stock that’s relatively safe? (notice the word ‘relatively!’)? Johnson and Johnson (JNJ) may be as close as you can get. This healthcare and consumer products company with its Band Aids, baby powder and diverse nutritional and OTC health care products may be the perfect antidote for an ailing economy. Its three-percent dividend makes JNJ even more attractive.

Continued on page 4

Continued from page 3

8 Number eight, we regress back to the mean, aka semi-normal times, when stock investors are compensated for taking risk and those out of the market are punished. Winston Churchill once stated, "may you live in interesting times." To that we respond "c'mon Guvnor, gives us those boring but happy times that we loved so well and miss so much!" Any whiff of an economy that is stabilizing may send stocks sharply higher with some of the beneficiaries being JP Morgan Chase (JPM), Three M Company (MMM) and Deere (DE). These large companies have all been in both out of favor and exist in economically sensitive areas. However, they possess strong balance sheets, international exposure (for better or for worse) and at this time pay dividends that are generous and secure.

9 Finally, number nine, cash is king. But remember, so was George III and Marie Antoinette for the politically correct and we all know what happened to them. We believe that we are well in the midst of a bubble in cash as investors shun risk like the plague. That cash, now sitting in money markets, U.S. Treasuries and short-term Certificates of Deposit will eventually look for a new home, one whose return is not so meager. As investor appetite for risk returns, we believe this bubble in cash will burst resulting in a slowly accelerating exodus into first bonds and then stocks, ultimately helping these markets to begin to gradually repair themselves during 2009



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- “The Record Review” – an outline of our column that appears in the Troy Record every Sunday.
- “Widely Helds” – a look at the price action and news releases from the most widely held stocks.
- A spotlight on one or some of our **mutual fund holdings or EFT holdings**.
- A look at the upcoming week, including economic data and earnings reports.
- Monthly notable changes to our investment portfolios after the close of the prior month.
- * Periodic interviews with other industry professionals, including mutual fund managers, insurance professionals, accountants & attorneys.
- * Periodic interviews with local men and woman making news that affects our lives.



The RECORD Read the Fagan Financial Report every week in The Sunday Record





Asset Allocation Considerations

After such a tumultuous year like the one investors experienced during 2008, it is wise to review how your assets are allocated and whether or not the current allocation still conforms to your long-term investment needs. As a result of past client meetings, Fagan Associates, along with the client have agreed to a range of allowable percentages into which their investable assets much be allocated. The description of which their

investable assets must be allocated. The description of which is noted below.

The Growth Portfolio

Is designed for investors seeking capital appreciation with an investment Time horizon of ten or more years. An investor into this portfolio is willing to accept the volatility inherent in equities and must overlook this volatility for the potential of great gains that would have been made through an investment in either bonds or cash. After an initial period of up to twelve months to allow for dollar cost averaging, the portfolio will generally have a minimum of 75% of the total in equities with the balance in cash or a cash equivalent such as a money market. However, regardless of the parameters outlined within each model described below, Fagan Associates reserves the right, predicated upon advisor perceived market conditions; advisor perceived outlook for available investment opportunities; and/or tax ramifications of portfolio changes, to have an allocation to the asset classes described below that is less than the model dictates. The model

Please read the enclosed Portfolio Model allocation sheet and call immediately should you have any questions, concerns or need clarification regarding the allocation of your investment with Fagan Associates, Inc.

that has been applied to your investment with Fagan Associates is noted at the top of your year-ending portfolio statement. Please read the enclosed Portfolio Model allocation sheet and call immediately should you have any questions, concerns or need clarification regarding the allocation of your investment with Fagan Associates, Inc.

The Growth & Income Portfolio

Is designed for investors whose primary objective is capital appreciation with a secondary consideration for income. This secondary consideration is accomplished by an allocation of 25% to 50% of invested assets into fixed income instruments (bonds, cash & cash equivalents). The portfolio is designed for investors with an investment time horizon between five to ten years and/or investors that have a longer investment time horizon, but whose tolerance to risk is not aligned with this investment time horizon. After an initial period of up to twelve months to allow for dollar cost averaging, the portfolio will generally have a minimum of fifty percent of the account balance in the stock market and a maximum of seventy-percent. However, regardless of the parameters outlined within each model described below, Fagan Associates reserves the right, predicated upon advisor perceived market conditions; advisor perceived outlook for available investment opportunities; and/or tax ramifications of portfolio changes, to have an allocation to the asset classes described below that is less

than the model dictates. The model that has been applied to your investment with Fagan Associates is noted at the top of your year-ending portfolio statement. Please read the enclosed Portfolio Model allocation sheet and call immediately should you have any questions, concerns or need clarification regarding the allocation of your investment with Fagan Associates, Inc.

The Income Portfolio

is designed for investors whose primary objectives include income as well as a preservation of capital. The portfolio is designed for investors with an investment time horizon of less than five years or whose tolerance to risk reduces their appetite for equities. After an initial period of up to twelve months to allow for dollar cost averaging, this portfolio will have at least fifty percent of the total invested by Fagan Associates, Inc. in fixed income instruments, to include, bonds, cash and/or cash equivalents such as a money market. However, regardless of the parameters outlined within each model described below, Fagan Associates reserves the right, predicated upon advisor perceived market conditions; advisor perceived outlook for available investment opportunities; and/or tax ramifications of portfolio changes, to have an allocation to the asset classes described below that is less than the model dictates. The model that has been applied to your investment with Fagan Associates is noted at the top of your year-ending portfolio statement. Please read the enclosed Portfolio Model allocation sheet and call immediately should you have any questions, concerns or need clarification regarding the allocation of your investment with Fagan Associates, Inc.

***Reports and/or Support Documents
Included or Available Upon Request***

Prior to your initial investment with Fagan Associates and after, most likely, two or more meetings determining the appropriate investment strategy in order to help you reach your financial goals you received several documents. These completed documents you should have in your possession. We are compelled to by government regulations to either include blank copies of the documents or make them available to our clients upon request. They include:

- FAI Investment Advisory Agreement detailing the financial relationship between the client and the Investment Advisory.
- FAI Model Portfolio Worksheet confirming that the client has received the required support documents along with models detailing into which asset classes your investment will be made.
- A Privacy Policy notice.
- As required by law and available upon request, but not included is the disclosure material of Fagan Associates, Inc., Form ADV Part II along with Schedule F. Please contact our office at (518) 279-1044 should you require a copy of said form and it will be mailed to your within seven days.

***Tax Guidance and
Preparation***

Enclosed you will find general tax information as well as Realized Gains and Losses for all non-qualified accounts. Additionally, Charles Schwab & Company will provide pertinent tax information. Please bring both to your accountant.

Once again, we are pleased to offer a tax preparation service to our clients with combined household portfolio values of more than \$100,000. As in the past, Fagan Associates will underwrite the preparation fee up to \$200 when you have your return prepared by Mary Grogan, CPA. Please call our office for details and a referral. **Furthermore, any accounting fee above \$200 will be billed directly to you.** It would therefore be in your best interest to contact Mary Grogan prior to your taxes being completed for an estimate of the cost or a history of the cost of prior years.

Fiduciary Protection for Clients

Given the recent uncovering of an alleged \$50 billion Ponzi scheme engineered by Bernard Madoff of Madoff Securities, we thought it timely and important to relate to our clients the steps that we at Fagan Associates have taken in order to fiduciarily protect client assets. That said, please keep in mind that loss of principal and market fluctuation is a risk shouldered by the client with such risk outlined in the Model Portfolio Worksheet enclosed. This column pertains specifically to fraud or a similar act. Fagan Associates, Inc. is built upon three fundamental beliefs. Number one, and the one in which this column pertains to our responsibility to fiduciarily protect client assets. It is for this reason that all accounts are registered in the name of the client and held at the custodian, for the vast majority of FAI accounts, this is Charles Schwab & Company. According to their website, and available upon request, clients of Schwab are protected for cash and securities by through the Securities Investor Protection Corporation (SIPC) in the event of a broker-deal failure. SIPC provides up to \$500,000 of protection for accounts clients hold in each separate capacity (e.g., joint tenant or sole owner), with a limit of \$100,000 for claims of uninvested cash balances. In addition to SIPC protection, accounts through underwriters at Lloyd's of London "provides protection of securities and cash up to an aggregate of \$600 million, and is limited to a combined return to any customer from a Trustee, SIPC and Lloyd's of \$150 million, including cash of up to \$1 million. This additional protection becomes available in the event that SIPC limits are exhausted."

In addition to the fact that client assets are held at the custodian in the name of the client noted above, we protect client assets from fraud by providing them internet access to their account and making certain that all monthly statements, trade confirmations and tax documents are mailed to them directly from Charles Schwab & Company. Rely only upon information received from Schwab in determining account values. Finally, please keep in mind that the old adage "if it sounds too good to be true, it probably is" can be applied to those who invested with Bernard Madoff. They were bitten by the greed bug, ignoring some of the basic cardinal rules of investing noted above.



Common Stock & Equity ETF Portfolio Holdings Ranked by Market Value as of December 31st, 2008.**

<i>Percent of Common</i>	<i>Company Name</i>	<i>Symbol</i>	<i>As of Dec 31st, 2008</i>	<i>As of Nov 30th, 2008</i>	<i>As of Oct 31st, 2008</i>
Stock					
7.32%	Exxon Mobil	XOM	1	1	2
6.34%	Hewlett Packard	HPQ	2	2	1
4.74%	McDonald's Corporation	MCD	3	3	5
4.36%	JP Morgan Chase	JPM	4	4	3
4.24%	General Electric	GE	5	5	4
3.20%	Apple Computer	AAPL	6	6	6
3.13%	Pepsico, Inc.	PEP	7	7	7
2.98%	Johnson & Johnson	JNJ	8	8	8
2.73%	S&P 500 ADR's	SPY	9	12	12
2.61%	Nike, Inc.	NKE	10	9	9
2.43%	Gilead Sciences, Inc.	GILD	11	11	10
2.14%	MasterCard, Inc.	AM	12	10	11
2.09%	Intel Corp.	INTC	13	13	13
1.97%	iShares DJ Select Divd Index	DVY	14	16	15
1.85%	Pfizer, Inc.	PFE	15	15	14
1.82%	Emerson Electric Co.	EMR	16	14	19
1.73%	Cisco Systems, Inc.	CSCO	17	18	16
1.57%	Verizon Communications	VZ	18	31	40
1.39%	Loews Corporation	L	19	19	17
1.37%	Three M Company	MMM	20	17	21
1.28%	Baxter International	BAX	21	20	20
1.24%	Walmart Stores, Inc.	WMT	22	21	26
1.22%	Target Corporation	TGT	23	23	22
1.16%	United Parcel Services	UPS	24	22	38
1.12%	Research In Motion	RIMM	25	26	23
1.06%	Google, Inc.	GOOG	27	28	24
1.03%	Microsoft Corp.	MSFT	29	25	25
0.98%	DuPont	DD	32	24	18

**Common Stock Portfolio Holdings **
Ranked by Share Balance as of December 31st, 2008**

<i>Notes & Stock Splits:/Avg. Cost per Share:</i>	<i>Company Name</i>	<i>As of Dec 31st, 2008</i>	<i>As of Dec. 31st, 2008</i>	<i>As of Dec 31st, 2008</i>	<i>As of Dec 31st, 2008</i>
\$29.82	General Electric	GE	90,752	88,777	87,657
\$43.06	Hewlett Packard Co.	HPQ	60,556	62,646	63,036
\$19.72	Intel Corporation	INTC	49,288	52,156	43,733
\$40.51	JP Morgan Chase	JPM	47,964	48,400	49,818
\$24.76	Cisco Systems	CSCO	36,708	33,073	33,858
\$19.03	Pfizer, Inc.	PFE	36,109	35,280	35,435
\$41.94	Exxon Mobil	XOM	31,756	32,183	31,963
\$40.09	McDonalds Corp.	MCD	26,422	27,122	26,777
\$34.51	Citigroup	C	26,388	26,404	27,628
\$23.91	Corning, Inc.	GLW	25,270	27,765	27,845
\$19.70	Oracle Corporation	ORCL	21,634	21,134	21,444
\$9.34	First Niagara Financial	FNFG	21,604	21,604	21,096
\$64.24	Pepsico, Inc.	PEP	19,808	20,068	19,803
\$28.21	Microsoft Corp.	MSFT	18,310	18,859	19,196
\$60.12	Nike, Inc.	NKE	17,725	16,205	15,725
\$56.53	Johnson & Johnson	JNJ	17,279	17,529	17,389
\$43.74	Emerson Electric	EMR	17,270	17,210	16,555
\$9.36	TrustCo	TRST	17,256	17,522	17,289
\$40.38	Loews Corporation	L	17,021	16,706	17,851
\$20.45	SPDR Select Financial	SPY	16,903	17,178	18,288
\$53.07	iShares DJ Select Divd Index	DVY	16,566	13,423	12,978
\$34.37	Gilead Sciences	GILD	16,440	16,440	17,040
\$32.96	Verizon Communications	VZ	16,083	10,312	8,312
\$29.40	Trinity Industries	TRN	14,055	9,670	10,310
\$46.61	DuPont	DD	13,482	15,832	17,252
\$24.75	ABB, Limited	ABB	13,070	12,985	12,485
\$32.70	Bank of America	BAC	13,067	13,552	13,302
\$106.14	Apple, Inc.	AAPL	12,995	12,975	13,170

FAGAN FINANCIAL REPORT

Largest Mutual Fund Holdings

<i>Largest Mutual Fund Holdings as of December 31st, 2008.</i>		
<i>Domestic Equity Funds</i>	<i>International Equity Funds</i>	<i>Hybrid/Fixed Income/ Muni Fund/ETF</i>
AF Capital Income Builder	William Blair International Growth	Loomis Sayles Bond
Schwab 1000 Select Fund	Tweedy Browne Global Value	Income Fund of America
Baron Asset Fund	Harbor International Growth	Vanguard GNMA
Marsico Focus Fund	Vanguard International Growth	iShares Lehman Bros TIPS
T Rowe Price Growth Stock Fund	Janus Overseas	Vanguard Inflation-Protected Securities

No-Load Mutual Funds as well as Exchange-Traded Funds continue to play an important role in the portfolios of our clients, helping them achieve their long-term financial goals through appropriate asset allocation and diversification. For the purposes of this column, we have divided these holdings into three categories, Domestic Equity Funds, International Equity Funds and Hybrid, Fixed Income, Municipal Bond Funds and Fixed Income Exchange Traded Funds. It is our intention to include information pertaining to our largest holdings of these types within our quarterly newsletter, the Fagan Financial Report.

Of **Domestic Equity Funds**, our largest holding is the advisor shares of the **American Funds Capital Income Builder** (unlike many other funds managed by the American Funds, this is a class of which we can obtain through Schwab without a load and without a transaction fee). The main objective of CIBFX is to provide a steady stream of income that exceeds the average yield of the U.S. Stock Market. The **Schwab 1000 Select Fund** is an index fund that invests in the largest 1000 companies domiciled in the United States and is intended to provide the investor with broad, predictably exposure to the U.S. stock market. **The Baron Asset Fund** complements the Schwab 100 Fund (SNXSX), by investing in companies that have market capitalizations between \$2.5 and \$10.0 billion, defined by investors as “mid-cap” companies. As opposed to CIBFX, the **Marsico Focus Fund** does not generally consider dividends when making an investment, but is rather concerned only with growth.

Of **International Equity Funds**, our largest holding is the **William Blair International Growth Fund** (WBIGX), a fund whose manager, George Greig, has managed this fund since July 1995 and one that seeks capital appreciation by investing in common stock of companies domiciled outside the United States. Rest assured that calendar year 2008 proved challenging for investors who invested in U.S. domiciled companies. However, those challenges paled in comparison with those faced by international investors. When investing internationally, we are more concerned with the tenure of the fund manager compared when investing domestically. Our second largest international equity fund holding, the **Tweedy Browne Global Value** illustrates this point. Fund manager, Christopher Browne has been since its inception back in June of 1993 as has the lead manager of our third largest fund in this category, the **Harbor International Fund**, whose manager Hakan Castegren has run that fund since its inception during December of 1987.

The final category of mutual fund that we will highlight on a quarterly basis is **Hybrid, Fixed Income, Municipal Bond Funds and Fixed Income Exchange Traded Funds**. Unlike almost any other year in the history of investing, the fixed income market suffered along with the stock market as investors found only comfort in securities issued by the United States Treasury, shunning bonds of almost any other issuer. That said the performance of our funds that fit within this category was mixed. We believe that calendar year 2009 holds much risk adjusted promise for investors in these types of mutual funds.

Fagan Associates, Inc. offers a wide variety of assets to meet all of your investment needs. We are an independent, fee only firm. We don't sell you a product to generate a commission. Dennis and Chris structure your portfolio to help you achieve your financial goals, without using any proprietary products.

When you call Fagan Associates, Inc., you will speak with your investment manager, not a salesperson. If you have any questions about ETFs or any other investment asset or strategy; please give Dennis or Chris a call at 518-279-1044 or 800-273-6026

Stocks, Mutual Funds, ETFs, Bonds and Fixed Income

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