Fagan Financial Report

Registered Investment Advisors

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TO OUR CLIENTS

Investors in the U.S. stock market seemed to have a classic case of "bubble-phobia," loosely defined as "fear that this bull market will collapse in a similar fashion to ones in the not so distant past." These symptoms can afflict both the experienced professional as well as individual investors and include a failure to commit an appropriate percentage of assets to stocks based upon a fear that the current bull environment is unsustainable. This "bubble-phobia" can further manifest itself in a lack of action by the investor thereby keeping said investor out of the stock market and reducing one to being reactive rather than pro-active.

Our prescription for the above referenced malady is simple – set up disciplines and follow those disciplines. One way or another, decisions are made. Either you make them, or through procrastination, they are made for you.

To help ease your case of "bubble-phobia," we point to several reasons why the stock market is not in a bubble. First and foremost, investors can feel comfortable that relative stock valuations are reasonable. The thirty stocks that comprise the Dow Jones Industrial Average are expected to earn an aggregate of $945 this calendar year. With the Dow trading at just over 11,800 this places the Dow's Price-to-Earnings (P/E) Ratio, a common tool used for valuation, at 12.5, somewhat below the normal historical range.

Corporate profits benefit from a stable interest rate environment, one which makes for a more healthy current business climate as well as enabling business to better predict future trends. Over the past two years, the ten-year U.S. Treasury Note has traded between 3.00% and 4.00%, very predictable indeed. Furthermore, the Federal Reserve appears to be on hold with regard to raising interest rates. In fact, some believe that the next move from the Fed will be to lower rates.

At this time, rampant inflation appears not to be an issue. Due to the slack in the economy, both the Consumer and Producer Prices Indices, key measures of inflation, are subdued and now, with oil trading somewhere around $90 per barrel, the pressure on manufacturers and service providers to raise prices appears to have ebbed.

The leading stocks over the past few months have been quality companies with sound earnings and foreseeable growth in corporate profits. They have not been speculative companies. Historically, a market led by the "blue chip" companies, usually has not reached its peak. It is when it is led by the speculative companies, those that retail investors like, the market has historically topped out.

Finally, retail investors have not fully embraced this rally. As long as "bubble-phobia" continues to persist, there is most likely room left to run. At this point in time, stocks are still climbing that venerable wall of worry. At this time and if history is any guide, after a brief, relatively shallow pullback, we look forward to strong stock market at least over the first half of 2011.

ECONOMIC SHIP SLOWLY TURNING

As songwriter and poet Bob Dylan once wrote, “The Times They Are A Changin’” and indeed they are. Calendar year 2010 closed out with a bang for most of the major stock market indices while bonds went out with a whimper, quite different from the prevailing winds prior to the fourth quarter as the economic ship seems to be slowly righting itself after a tumultuous three years. Furthermore, despite the challenges of a weak housing and labor market, we believe this recovery has staying power at least into the third quarter of 2011 when the stimulus from the current tax package will begin to wane. At that time, at the latest, we’ll see if the U.S. economy has reached a sustainable, non-government induced, recovery.

For the investor this means, that unlike 2010 which was back-end loaded, we believe that if history is any guide, investors, after a brief pullback, will reap the majority of their returns during the first half of 2011. In fact, after analyzing the third year of a Presidential Election Cycle, which happens to be 2011, back to the year 1900, it can be determined that this year outperforms all others on nearly a 2:1 ratio with the vast majority of these gains coming during the first half. Given the level of stimulus coming from the Federal Reserve in the form of Quantitative Easing and low interest rates as well as the continuation and enhancement of the Bush-era tax cuts, until proven otherwise, we see no reason why this “third year” will prove to be any different.

What we believe will ultimately be good news for stock investors will probably be bad news for fixed income (bond) investors. After a twenty-year year bull market in bonds due to declining interest rates, we believe that interest rates will slowly, but surely head higher, thereby pushing bond prices lower. With this in mind, investors should focus on bonds with maturities of less than seven years and non-U.S. Treasury securities like corporate bonds and bond funds.

Our belief as stated above is that at this time the U.S. economy is in a cyclical or short-term recovery, one that has gained its footing in great part due to the massive injection of dollars by the Federal Government. However, whether or not this turns into a secular or multi-year sustainable economic recovery, one that is led by the private sector, remains to be seen. That said, there are some signs that the trend for our economy has taken a turn for the better. Initial claims for unemployment benefits have been declining, exports remain strong, orders for durable goods have recovered, consumers have greatly reduced their depen- dence on revolving debt such as credit cards, temporary staffing has increased and the just passed holiday shopping season was buoyant.

Some specific thoughts as we move through this initial month of calendar year 2011. First, we believe that the large-cap, blue chip companies will regain the spotlight from the mid- to small-cap stocks that have outperformed from the bottom. Individual names like Ford, General Electric, BP, Pepsi, ExxonMobil, Conoco Phillips, Motorola, JP Morgan and Intel are all names that could work this year. Funds that investment domestically that we like include the Jensen Fund, Oakmark Fund, Marsico Focus Fund, Schwab 1000, Yacktman Fund and of course, our old stalwart, the Baron Asset Fund.

Secondly, bond funds, bend but don’t break. Our motto that we mentioned elsewhere within this newsletter of “be short, be greedy” supports this outlook. Returns might be meager for bonds during 2011, but this type of approach could save you from having a negative year. As noted elsewhere mix in some high-yield with shorter, higher quality bonds and bond funds.

Don’t swing for the fences. Accept dividends with a substantial portion of your equity portfolio and use high quality growth stocks like Apple Computer and Transocean or growth funds for the balance. Ignore the speculation in rare earth stocks like Molycorp or Rare Elements and invest in securities that focus on regular earth. Names like Monsanto, Mosaic, Syngenta, Caterpillar, John Deere & Company and FMC Corporation fit this bill.

Avoid the big blunder. We have seen a couple of local, prominent companies involved in sketchy partnerships, etc…. These kill your retirement plans and your plans for retirement more quickly than any stock or bond decline. Know what you own and where it is. Get this confirmed by more than one source.

Don’t get sucked into the vortex that is volatility. Stocks go up and stocks go down. Investors who have adequate diversification should be willing to accept this movement. In our opinion, the investors that have been most hurt by recent market action are those who exited during the crisis and didn’t reap the recent rally.

Finally, we believe that given the results of this past November’s election, the voting public has put both parties on notice, indicating their unhappiness with the status quo. We can once again quote Bob Dylan who writes “come Senators, Congressmen please heed the call, don’t block up the doorway, don’t block up the hall.” In other words, either get the job done or we’ll vote you out. Let’s hope this sentiment continues.

Summarizing, after a brief single-digit percent pullback, we believe stock investors would be well-served to add to their investments, be they either mutual funds or individual securities. For bond investors, be wary of long-dated bonds and bond funds, concentrating on shorter-dated maturities of less than seven years. Finally, keep an eye on the economy. After all, “it’s the economy stupid” was a phrase used by Bill Clinton nineteen years ago that still applies today.

PRESIDENT OBAMA-REPUBLICANS PASS TAX REDUCTION PLAN

President Obama along with cooperation and what some may call it coercion from Republicans passed an all encompassing tax reduction plan, comprised of an extension of the Bush-era tax cuts for the next two years along with several new initiatives, all intended to stimulate economic growth. The package recently signed into law by President Obama will cost approximately $900 billion over the next two years and is intended to propel the U.S. economy into a sustainable, more rapid path to recovery, rather than the sluggish trajectory we are currently travelling. There is something in the tax package for every American, from the least to most wealthy, a fact that caused some pushback from both parties. However, unlike over the past two years, both sides of the political aisle were able to suppress some of the fringe opinions and come to a consensus. Hopefully, this is a sign of positive compromise to come.

First and foremost, according to data supplied by the American Society of Certified Public Accountants (AICPA) and reported by *The Wall Street Journal*, the average individual filing single with adjusted gross income of approximately $40,000 will save around $400 per year, the average individual filing single with adjusted gross income of approximately $80,000 will save around $1,600 per year while the average individuals filing jointly with adjusted gross income of approximately $80,000 will save around $2,200 and those individuals filing jointly with adjusted gross income of approximately $160,000 will save around $5,500 for each of the next two years. All of this is in comparison to what their federal tax burden would have been if the Bush-era tax cuts had been allowed to expire at the end of calendar year 2010. The White House projected that the average taxpayer would save approximately $3,000 per year over the next two years.

A second major extension to the tax cuts that was passed was a continuation of the taxation of capital gains and dividends at a maximum rate of 15% rather than the 28% that was the previous cap on capital gains and the taxation of dividends as ordinary income, a rate that would have been as high as 39.6%.

The Child Tax Credit of $1,000 was also extended for the next two years. The credit is available to parents whom have children living with them in their home. It was set to fall to $500 on January 1st if the tax package had not passed. Furthermore, the tax package includes an extension of the Tuition Tax Credit, a credit of up to $2,500 for college students.

The bill also includes several new initiatives, all intended to spur economic growth. For working Americans, the employee contribution to Social Security will be reduced to 4.2% of the first $106,800 of wages from the usual 6.2% that is currently being levied. Although it may not sound like a lot, for joint filers with $80,000 of earnings, this will amount to $1,600 in savings.

The wealthy also stand to benefit from the tax package. The legislation provides an exemption of any Federal Estate Tax for estates up to $5.0 million dollars while those with estates over that will be taxed at 35% beginning in 2011. If the legislation had not passed or had been delayed, the exempted amount would have been $3.5 million dollars with a tax rate of 45%.

Finally, the tax package also allows for businesses to expense rather than amortize or depreciate business investments in 2011 which should provide an incentive for investment. Analysts expect this benefit will save corporations approximately $100 billion, marking the largest temporary incentive to businesses in the history of the United States.

We, like many others, view this as another stimulus package, designed to help the United States economy permanently emerge from its deepest recession since World War II. We also believe that this package could have been better designed, perhaps allocating more of the $900 billion to those with incomes at or around the median and less for those with incomes above. However, we also believe that the provision for companies to expense capital investment is a home run as is the extension of the income tax rates and the reduction in the employee component of Social Security. That said, it better work. We, as a country, are running out of time and money. All in all, we give this program a B+.

21 Years Serving the Investors of the Capital Region

PRESIDENTIAL COMMISSION MEETS TO DISCUSS DEFICIT

Having been charged with closing the enormous federal budget deficit, after a series of meetings and thorough research, a commission established by President Obama and Chaired by Alan Simpson, a former Republican Senator from Wyoming and Erskine Bowles, the Former Chief of Staff for Democratic President Bill Clinton, recently reported their findings via a Draft Document. Explicitly stating that "American cannot be great if we go broke," the commission outlined steps to eventually bring total government spending down to 21% of Gross Domestic Product, a level where it had been for many years before ballooning recently to 24%, thereby compromising the economic well-being of the United States.

Early within the document, the commission notes that "American families have spent the past two years making tough choices in their own lives. They expect us [government] to do the same. The American people are counting on us to put politics aside, pull together not pull apart, and agree on a plan to live within our means and make America strong for the long haul."

Highlighted within the Draft Document is the stark reality that the "Problem Is Real – the Solution Is Painful – There's No Easy Way Out – Everything Must Be On the Table – and Washington Must Lead."

The Draft Document addresses several areas where the Federal Government can improve, some of which include Spending Cuts, Comprehensive Tax Reform, Reducing Health Care Costs, and Reforming Social Security.

In order to Cut Spending, the commission states that congress should consider cutting both defense and non-defense spending by $100 billion each by calendar year 2015 when compared to the current budget scenario offered by the White House; Extend the Budget Cycle over two years rather than one and potentially freeze the salary of Federal Workers and reduce the number of overseas military bases by one-third.

Regarding Comprehensive Tax Reform, the Commission cites the following areas where changes Can be made. Simplifying the Tax Code by eliminating the vast majority of deductions and exemptions, including an elimination of the mortgage-interest deduction and earned-income tax credit; lowering personal income tax rates to brackets ranging anywhere from 8% to 23%; reducing the Corporate Tax Rate from 35% to 26%; Tax Dividends and Capital Gains as Ordinary Income and gradually raise the gas tax by $0.15 beginning in calendar year 2013.

The Draft Document then addresses the potential for Reducing Health Care Costs by reimbursing physicians and other health care providers less is they see patients covered by Government programs such as Medicaid or Medicare; Overhaul Tort Reform and Enact Comprehensive Medical Malpractice Liability Reform. Finally, beginning with 2021, there would be an already established body to "regularly evaluate cost growth, and take additional steps as needed if projected savings do not materialize."

Finally, the Draft Document addresses Reforming Social Security with an ultimate goal of strengthening it "for the long haul by returning the system to sustainable solvency." Some of the recommendations of the committee include putting into place a special minimum benefit to reduce poverty; Switch to a more accurate measure of inflation for calculating Cost of Living Adjustments; Gradually Increase the Taxable Maximum to Capture 90% of Wages by 2050 from the current level of 86% and the projected level of 82.5% by 2020; Raise the Retirement Age to 68 in 2050 and 69 in 2075 and finally to retain the retirement age of 62 for those workers in physically demanding industries.

We agree with Senator Simpson that this report has "harpooned every whale in the ocean" as it is broad and encompassing. However, we also think that this is a great place to start and if through cooperation and collaboration between both political parties steps can be taken to begin to move the United States in a more fiscally sound direction, we are all for it. Stocks will be all for it as well.

ASSET ALLOCATION CONSIDERATIONS

At Fagan Associates, we manage portfolios on an individual basis. That said, all portfolios initially fall within one of the three types outlined below. After an initial allocation and if need be, the Investment Advisor (IA) can further tailor how your money is invested by placing tighter restrictions on the percentages allocated to each asset class or perhaps by requiring a specific level of income either on a dollar basis or as a percentage of your portfolio. However at no time, will the IA knowingly stray from the signed Asset Allocation Models.

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 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 greater 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 that has been applied to your investment with Fagan Associates is noted either at the top or bottom 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. 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 either at the top or bottom 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 either at the top or bottom 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.

Largest Holdings Regardless of Asset Class *Ranked by Market Value as of December 31st, 2010.*					
Percent of Total Assets Managed	***Company Name***	***Symbol***	***As of Dec 31st, 2010***	***As of Nov 30th, 2010***	***As of Oct 31st, 2010***
10.59%	Cash & Equivalents		1	1	1
5.24%	Payden GNMA Fund	PYGNX	2	2	2
3.34%	Apple Computer	AAPL	3	3	3
2.35%	Loomis Sayles Bond Fund	LSBRX	4	4	4
2.16%	SPDR Dividend ETF	SDY	5	5	5
1.75%	General Electric	GE	6	9	9
1.69%	Hewlett Packard	HPQ	7	7	7
1.68%	PIMCO Total Return	PTTDX	8	6	6
1.63%	JP Morgan Chase	JPM	9	11	10
1.61%	Conoco Phillips	COP	10	12	12
1.53%	Ridgeworth High Income	STHTX	11	10	11
1.52%	McDonald's Corp.	MCD	12	8	8
1.36%	Nike, Inc.	NKE	13	13	15
1.32%	MasterCard, Inc.	MA	14	14	13
1.31%	iShares Barclays TIP Bond	TIP	15	15	14
1.20%	Schwab 1000 Fund	SNXFX	16	16	16
1.12%	Intel Corporation	INTC	17	17	17
1.10%	Exxon Mobil	XOM	18	19	20
1.07%	Baron Asset Fund	BARAX	19	20	21
1.07%	MetWest Tot Ret Bond Fund	MWTRX	20	18	18
1.02%	Ford Motor Co	F	21	21	25
0.92%	Johnson & Johnson	JNJ	22	23	22
0.87%	Emerson Electric	EMR	23	25	24
0.85%	Cisco Systems, Inc.	CSCO	24	24	19
0.84%	Mosaic Companies	MOS	25	28	31
0.80%	Pepsico, Inc.	PEP	27	22	23

Portfolio Concentration: Top 25 holdings represent 49.47% of the Assets Managed at Fagan Associates as of December 31st, 2010.

Largest Mutual Fund Holdings as of December 31st, 2010.		
Domestic Equity Funds	***International Equity Funds***	***Hybrid/Fixed Income/ Muni Fund/ETF***
Schwab 1000 Fund	SPDR International Dividend ETF	Payden GNMA Fund
Baron Asset Fund	William Blair International Growth	Loomis Sayles Bond Fund
Parnassus Equity Income Fund	Harbor International Fund	PIMCO Total Return
Oakmark Fund	Tweedy Browne Global Value	Ridgeworth High Income
Marsico Focus Fund	Janus Overseas	iShares Lehman Bros TIPS

BE SHORT, BE GREEDY

Interest rates are low. The 10- year Treasury bond (even after an increase of 100 basis points) sits at a historically low 3.5%. Your average bank CD investor or money market owner earns less than 1% for commitments under a year. Investment professionals are calling for a continued run up in interest rates and have been doing so for better part of a year.

As younger people borrow money on credit cards, home equity loans and defy the Shakespearean adage of "neither a borrower or a lender be," older fixed income investors are left pining for the days of bigger returns on their bank deposits and higher rates on their bond investments. It seems dramatically unfair that while condemning debt as the source of many of our economic woes, we are discouraging folks from saving as we keep rates this low and encouraging them to borrow.

What's an investor to do??

First, paralysis will get you less than meager returns in a money market fund so here's couple of ideas. Keep your maturities short when purchasing fixed income investments. This will enable you to reinvest at a potentially more lucrative rate. When looking for fixed income funds, look for quality and a good track record (most bond funds have that these days) but almost as importantly a short maturity. One name that seems to stand out to us is the Payden GNMA Fund (PYGNX). It has proven itself with positive returns for a decade and has a maturity of roughly five years. This fund will erode with a dramatic run up in interest rates but seems positioned to weather the storm well. In fact, this fund has only had seven down quarters in the past 40 and all but one of the declines was less than 1%. We believe this to be a solid bond holding.

Secondly, by taking on more risk (and being "greedy") investors are diversifying and seemingly reducing the overall risk on their portfolios. Most bond funds respond negatively to rising interest rates and an improving economy. Generally speaking, High yield – aka junk bond funds do better than those of high credit quality in an improving economy. We have been employing the RidgeWorth High Yield Fund (STHTX) in our fixed income portfolios. Standing alone, this is a volatile holding. However, in a portfolio of fixed income funds, especially in a rising interest rate environment, it should help temper volatility. The fund has returned over 9.4% annually over the past 5 years but has had many down quarters and indeed in the 4th quarter of 2008 it lost some 21%. Investors should allocate some of their fixed income portfolio to this type of fund but with the realization that it is volatile and should be coupled with more conservative positions.

Finally, hold some cash. At times, cash is king and we believe that for fixed income investors holding some cash at least makes you a duke or prince. Should interest rates rise, you will have some dry powder to deploy at these higher levels. Holding some cash will also provide you the ability to dollar cost average into the bond market at various times.

Our mantra is "be short, be greedy" and don't fall prey to the glossy past performance numbers of some longer term bond holdings achieved during falling interest rate periods. Look closely at fund's downside numbers as well as the 5 and 10 year numbers.

SCHWAB MAIL DATES FOR FORM 1099 FOR BROKERAGE ACCOUNTS

"If your account contains only equity positions for which we have all the necessary tax information, your original Form 1099 will likely be included in the first mailing" at the end of January 2011. "If your account contains at least one investment for which the issuer won't be able to provide tax information in time for mailing your Form 1099 in January 2011 we'll mail your original Form 1099 in our second mailing" in mid-February 2011. These types of investments will most likely include:

- Mutual Funds
- Certain foreign and domestic equities
- Real Estate Investment Trusts (REITs)
- Unit Investment Trusts (UITs)
- Original Issue Discounts (OIDs)
- Widely Held Fixed Investment Trusts (WHFITs)

The **2010 Year-End Gain/Loss Report** for those accounts that have "had tax-year gains and/or losses for securities you've sold or other closing transactions in your account" will be mailed in mid-February 2011.

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 you within seven days.

•A Recap of the financial markets, including company specific and economic news.

•"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.

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Additional information including management fees and expenses is provided on our Form ADV Part II. The actual return and value of an account fluctuate and, at any time, the account may be worth more or less than the amount invested. Bond Investments are affected by interest rate changes and the credit-worthiness of the issues held in the portfolio. A rise in interest rates will cause a decrease in the value of fixed income positions. **Past performance results are not indicative of future results.**

Presentation is prepared by: **Fagan Associates, Inc.**