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### SELECTOR® Money Management 2003 First Quarter Review

**SELECTOR® Money Management Programs are designed for mutual funds, variable annuities, and variable life insurance contracts.** SELECTOR® monitors the performance of all of the funds and subaccounts within the managed product. Client accounts are then allocated according to specific management styles, such as Growth, Balanced Growth, Conservative Growth, or Aggressive Growth. SELECTOR® follows a doctrine of trend-following asset allocation. The measure of a trend-following program lies in the timely recognition of profitable trends. The charge of an asset allocation program is to diversify accounts into funds representing multiple asset classes. SELECTOR® Money Management Programs seek to realize both of these objectives.

**The first quarter of 2003 has been distinguished by both its short, powerful rallies and its time-consuming steady declines.** The year opened with a short, powerful 2-week rally. Then equity markets fell for four straight weeks before stabilizing the last two weeks of February. This decline reversed the gains seen at the start of the year, then mirrored them into negative territory. The first two weeks of March, markets again probed lower, as they attempted to approach and test the Bear Market lows set back in October of 2002. But on March 13<sup>th</sup> the deeply oversold markets started a dramatic surge that by March 21<sup>st</sup> had the Dow Jones Industrial Average 1,100 points (15.5%) higher, the S&P 500 107 points (13.5%) higher, and the NASDAQ Composite 550 points (12.5%) higher than their March 12<sup>th</sup> lows. The last week of March markets again returned to their selling ways. At the end of the first quarter the Dow Jones Industrial Average was -4.19%, the S&P 500 -3.28%, and the NASDAQ Composite +0.39%.

**This market action was not unlike a teenager cruising in his father's car for an hour to get to his best friend's house just down the street.** Markets drag-raced north for two weeks, cruised south for four weeks, grabbed a burger for two weeks before cruising back south to the city limits, drag-raced north all the way across town for a week, then slinked back into the home neighborhood by curfew. A lot of gas got burned up and a lot of mileage put on the vehicle, but the scenery didn't change much along the way. That 'scenery' is the news that we receive 24/7 on the war with Iraq. The final outcome of the war is not a grinding issue. The question is when it will end. There is no news as pressing, as compelling, or as heart wrenching as the struggle that the whole world is witnessing. Corporate earnings, manufacturing backorders, and technological advances all pale in comparison to the real-time life and death issues that we hear and see almost as soon as they happen. It has captured our hearts, our minds, and our pocketbooks.

**Back in the USA, equity markets and bond markets are watching and waiting.** From a technical standpoint, equity markets remain in a trading range supported by the October 2002 and March 2003 lows, and roofed by the November 2002 and January 2003 highs. Interest rates are equally contained, and equally volatile over quite a large range. The nation's economy is sitting on the top row of the bleachers until the contest on the field is completed. Positive relative performance is being seen in the large cap Growth equities versus all other sectors, and this segment continues to encompass our core holdings in equities. We are still maintaining a defensive asset allocation utilizing both bonds and money market funds until we get indications that the trading range is giving way to a positive trend in equities. As explosive as the rallies have been this year, with so much uncertainty as to when the war will end, and with the prospect of a powerful equity market rally celebrating that event, we are retaining our current equity exposures at this time.

Edward D. Foy  
Manager, SELECTOR® Money Management

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