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SELECTOR[®] Money Management 2001 Third Quarter Review

While we recognize the short-term impact that September 11th has had on our portfolios, the human tragedies infinitely outweigh this loss. We extend our deepest sympathy as we know that we all have shared emotionally in this tragedy.

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, 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 seeks to realize both of these goals to the client's benefit.

The September 11th terrorist attacks temporarily extended a Bear Market that was about to be officially declared DOA as of the April 4th lows. From April to August equity markets had been in the process of developing a foundation for a brand spanking new Bull Market. But the market declines the week of September 17-21, after markets had been closed for the four days, have momentarily delayed this process. Historically, as in the attack on Pearl Harbor in 1941, the invasion of South Korea in 1950, The Kennedy Assassination in 1963, and the Iraqi Invasion of Kuwait in 1990, markets decline initially then recover dramatically to continue within a normal market cycle. The week of September 24-28 we witnessed a sharp recovery in our markets, which makes us believe that this may continue to hold true during this most challenging time in history.

The Federal Reserve Board reduced interest rates by one half percent when markets reopened on September 17th, and promised to provide ample liquidity both domestically and abroad. European bankers also reduced interest rates by a similar amount the same day. This will have a significant impact on domestic and international economics and should provide financial stability beyond the initial emotional reaction that is both normal, and justifiable. Additional interest rate cuts are being forecast as the Federal Reserve Board meets the first week of October. Interest rates have been reduced a total of eight times this year, thus far. This is a very positive leading indicator as to future equity market activity.

Although it had appeared that the U.S. economy might slip past a recession, the loss of most of September's economic production has all but assured that the 3rd and 4th quarters will register negative Gross Domestic Production (GDP), which officially defines a recession. We have not had a recession for ten years, although we have experienced a total of nine since WWII. The best news is that historically U.S. equity markets have turned upward in the midst of all nine of these business slumps in anticipation of the inevitable economic recovery, and risen to new highs following each recession. This recession is anticipated to be mild, with a rapid recovery forecasted as early as the first quarter of 2002. On average the S&P 500 hits its low five months before the end of the nine post-war recessions. This suggests that stocks should begin a sustained advance soon.

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