



Foy Financial Services, Inc.

12501 Holdrege St.
Lincoln, NE 68527
(800) 456-4380

(402) 483-2004/ FAX (402) 488-9658/ EMAIL: Info@selectoronline.com/ www.selectoronline.com

SELECTOR[®] Money Management 2002 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, 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 goals to the client's benefit.

The first quarter of 2002 had equity markets seesaw within a two-tier trading range, following the highly productive fourth quarter of 2001. At quarter's end, while it may appear that there was no significant progress, a closer examination gives us important clues as to the market's accomplishments during the first quarter. The most important revelation was that the economy is on much firmer ground than originally thought. This has been confirmed by leading economists, including Federal Reserve Chairman Alan Greenspan. The domestic equity market swallowed the Enron horse pill, and was encouraged by the news that the economic recession may be one of the mildest in history. Now we wait for first quarter earnings reports during the month of April.

According to Morningstar, at the end of the first quarter of 2002 the average of 7,762 domestic stock funds closed down 0.04%, the average of 1,924 international stock funds closed up 3.65%, and the average of 2,376 taxable bond funds closed up 0.24%. The best relative performances were seen in small cap value, REIT, small cap blend and mid cap value sectors for domestic stock funds. The standout in the international stock funds was diversified emerging markets. The taxable bond funds best domestic showing was seen in high yield bonds, while the emerging markets bond funds were very strong. Small cap and mid cap stocks historically perform better in the first stages of a new bull market, so it is not surprising to see them at the front of the pack year-to-date. SELECTOR[®] allocations include these sectors whenever the appropriate funds are available. Value stock funds performed better than growth stock funds during the first quarter, also consistent with the early stages of a new bull market. SELECTOR[®] continues to overweight value funds over growth funds in our allocations.

Bull markets are a complex orchestration of dramatic advances followed by profit taking followed by trading ranges, and then the cycle repeats. The tempo will change. The movements are often surprising. The passion is enchanting. And the drama and beauty of a composition that has captured the imaginations of investors for generations remains. The greatest risk at this moment is being caught under-invested when equity markets move up and out of the current trading range, while the most ill advised response is impatience. Basic elements of a classic bull market are in play and unfolding in sequence. Never has it been more important to be focused on long-term objectives and the prudent disciplines of real-time asset allocation. The possibilities are just as enticing statistically as during any bull markets in history. It is early. It is worth the wait.

Edward D. Foy
Manager, SELECTOR[®] Money Management
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Sources: Standard and Poor's, Morningstar, Bloomberg, The Wall Street Journal.

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