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SELECTOR[®] Money Management 2002 Second 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 story of the second quarter of 2002 rests in the month of June. April was a gentle spiral quickly followed by May's tender bounce. At May's end, SELECTOR[®]'s well-diversified portfolios were only slightly lower on the year as equity markets remained within the trading range that had corralled prices since January. But in June, amid more news of corporate financial betrayals, equity markets slid under the fence, which sparked institutional sell programs that in turn triggered capitulation selling. Capitulation selling is a good news/bad news event. It is bad in that all equities fall in price, regardless of whether they are large cap or small, growth or value. It is good in that it is a relatively short-lived, it establishes market bottoms, and recoveries are as rapid as the declines.

Fundamentally, we are dealing with a healthy dose of the abnormal. Normally, U.S. equity markets anticipate economic recovery by several months, rebounding before the actual good news is on the table. But this market is being stubborn, as the Bulls remain on the sidelines in spite of documented economic recovery. Compounding this abnormal market psychology is a reverse polarization of the fear/greed cycle. Normally, fear drives the Bear Market, while Greed entices the Bull Market. In our current environment the Bulls are being rewarded by remaining on the sidelines as equity markets decline. There is a tremendous "stash of cash" on board with professional investors, with no incentive to put the money to work. When markets start to rebound, (and they will,) the investment apathy that prevails will be replaced with the fear of missing an outstanding buying opportunity. This "fear" will fuel the initial market recovery and prime the pump for a run.

Looking ahead from a seasonal standpoint the month of July historically is the best performing month of summer. July is also an Earnings Reporting month and the preliminary reports are positive. U.S. equity markets are deeply oversold with the latest round of capitulation selling and long overdue for a recovery rally. Deeply oversold conditions always reconcile themselves rapidly towards the long-term trend. Although the long-term trend is now a sideways trading range, that range is significantly higher than current market levels. The second half of 2002 has outstanding potential as corporate earnings and economic reports are expected to continue to improve. The market's recent surly behavior is being considered an anomaly, and prudent investors don't change proven long-term investment disciplines in an attempt to conform to short-term irregularities.

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Sources: Standard and Poor's, Morningstar, Bloomberg, The Wall Street Journal, Stock Traders Almanac 2002.

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