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SELECTOR® Money Management 2002 Third 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 third quarter of 2002 will go into the history books as one of the most volatile ever experienced, with negative price action taking the lead. In July selling continued until new Bear Market lows were set on July 23rd. This indicated that the overall trend for equities was no longer a sideways trading range, but a downtrend. Reallocations were indicated since equity portfolios had been positioned for the first leg of a new Bull Market, not a reappearance of the Bear. But July selling was relentless and provided no favorable opportunity for a well-executed defensive move. Portfolio managers and money managers, including SELECTOR®, were allowed to make only minor adjustments until prices stabilized. After ten straight weeks of lower prices, a respectable three-week rally ensued until August 23rd, and SELECTOR® took advantage of the strength to take additional defensive action the end of August by moving more equities into bonds.

September is historically the most difficult month of the year for equities, and this year was no exception. Weakened by the harsh declines and high volatility of the summer, institutional portfolios were swamped with candidates for the "housecleaning" that typically accompanies September "window dressing" activity. By the time the third quarter finally grinded to a close the DJIA and the S&P 500 indices had fallen 18% for the quarter, with the NASDAQ index down 20%, the fifth worst quarterly decline in the past 50 years. We are now experiencing one of the longest running Bear Markets in history. An average Bear Market runs for just 13 months and this old silver hair is in its 30th month. That hints that the end must be near, but caution is still indicated. Volatility is excessive, and Bear Markets generally end with a bang, not a whimper.

October has spawned more market rallies than any other month of the year, despite its bad reputation. Professional investors are quite aware of the potential for positive market developments as we head into the end of the year. Equity markets are very oversold. Earnings expectations for the third and fourth quarter are being lowered in sympathy with the prevailing prices, creating an atmosphere for positive surprises in the coming months. Interest rates remain at 40-year lows, and the Fed has yet to play their remaining Aces by lowering interest rates even further. It is important to remember that emotional pendulums swing strong in the investment world. "Darkest before the dawn" may sound trite to investors who have been bravely weathering the current Bear Market, but this is exactly the type of sentiment that precedes major market reversals. SELECTOR® positions are currently defensive, yet we are extremely watchful, as the greatest profits are realized by those who are the first to recognize and react.

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

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