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SELECTOR® Money Management 2002 Year End 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.

Stock markets closed out 2002 with their third straight losing year, a feat not seen since the period of 1939-1941.

Adding insult to injury, December, which has been the best performing month of the year on average since 1950 with an average gain on +1.8%, had its worst performance since 1931. For the year, the S&P 500 declined 23.4%, while the NASDAQ declined 31.5%. According to Morningstar, as of 12-31-02, the annual return for the average Large Cap Growth Fund was -27.85%, the average Mid Cap Growth Fund was -27.38%, and the average Small Cap Growth Fund was -28.15%. These are the cold, hard facts. If we are going to be realistic about future, we have to start out by being realistic about the present. And the reality is that we have just experienced one of the most difficult Decembers, and years, and 3-year periods, in history. So if you ever wondered what an extremely oversold, uncomfortably agonizing market bottom felt like, this is it.

Bear market bottoms also represent the most unusual investing opportunities in history. Ironically, almost all of the investors that are invested at market bottoms wish they weren't there. They are generally fixated with the recent market declines, and investigating alternatives to equity markets. Consider our own current experience and the alternatives we have to consider. The three investment sectors that did not decline in 2002 were gold, bonds, and funds that utilize futures and options to wager on falling markets. Are these sectors still attractive after a very rare three-year bear market? Do you want your retirement plan accounts invested in gold, futures, and options accounts? Bond markets are currently yielding about 4% on interest, and interest rates are at 41-year lows. Do you remember what happens to bond markets when interest rates rise? And do you know how many decades (yes, decades) it will take to recover the recent bear market losses at current interest rates? Now consider this fact. Since the end of World War II, we have experienced 12 major bear markets, with declines of 20% or more on the S&P 500. On average, those investors that hung in through these bear markets and were fully invested at the market bottom had a 32.5% return over the next 12 months. On average, it took them a year and a half to recoup all of the losses endured in the bear market.

Of course, the big question remains, "Where exactly is or was the bear market bottom?" Many feel that the lows were seen in October of 2002. If that proves to be the case, there still are no guarantees as to the pace of a subsequent recovery. The nation's economy as measured by the Gross Domestic Product (GDP) numbers grew in 2002 by 1-2% and is expected to continue at a slightly better rate in 2003. There are strong indications that technology stocks have shifted from growth to value equities, as their percentage market capitalization of the S&P 500 grew from 7% in 1985, to 35% in 1999, and is now a reasonable 15%. The accounting fraud and corporate scandals that plagued equity markets in 2002, and which many say extended the bear market by an entire year, after already being extended by 9/11, appear to be behind us. And last, but not least, many investors are looking at normally unacceptable alternatives. Could the bear market bottom be far off?

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