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SELECTOR® Money Management 2003 Mid-Year Review

All major equity market indices scored gains for the 2nd quarter of 2003 and are in positive ground year-to-date. The S&P 500 had its best performance since the 4th quarter of 1998 and year-to-date is up 10.76%. The Technology-rich NASDAQ had its best quarter since the 4th quarter of 2001 and is up 21.51% for the year. Finally the Dow Jones Industrial Average had its best quarter since the 4th quarter of 1999 and is up 7.72% year-to-date. This is the first time since 1999 that domestic equity markets have had gains at mid-year.

In our opinion the 2nd quarter of 2003 will be recorded in history as the official Date of Death for the Great Bear Market of 2000-2003. Equity markets declined to a cyclical low on March 11th, which was followed by a powerful rally and finally a mild retracement. At the end of the first quarter the Bear was still in charge. But in April institutional buying pressure accompanied by impressive volume took command. For the next five weeks equity markets embarked on a relentless drive that carried them up to a long-term downtrend that had been impenetrable for almost three years. Then on May 9th, institutions bolstered their forces and carried equity markets through this downtrend. The S&P 500 was up only 6.1% year-to-date at this juncture but market technicians including us at **SELECTOR®** recognized the significance of this action and started making portfolio adjustments.

SELECTOR® increased equity allocations in mid-May for every style. The Aggressive Growth allocations went to 100% invested in equities. Growth equity allocations were increased to 80% and Conservative Growth allocations were moved up to 60%. Finally the Balanced Growth portfolio allocations were increased to 40%. The remainders of these allocations were invested in bonds. Interestingly, bond markets were able to contribute to portfolio returns in addition to providing added stability, as the Federal Reserve Board began to hint that they were considering lowering short-term interest rates even more. This reduced the attractiveness of money markets even further, and the **SELECTOR®** change in allocations in May eliminated money market allocations as a defensive position.

More positive price action was seen through mid-June when markets finally began to exhale for the last two weeks of the quarter. The advances made during the second quarter of 2003 were impressive, and typical of the explosive reversals that mark the end of major market cycles. We are now in a new Bull Market. Every major market index is emitting positive trend and volume signals. There will still be retracements and market pullbacks, which is quite healthy. These demonstrate the vitality of institutional portfolios rebalancing and adjusting their massive equity positions so they can continue on their long-term objectives. **SELECTOR®** allocations will be adjusted to include more equities as we are presented with opportunities during a market pullback. Our Growth, Conservative Growth and Balanced Growth allocations still have room for another measured shift from bonds to equities. We also remain diligent for opportunities to take advantage of sector rotations within equities.

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