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SELECTOR[®] Money Management 2003 Year-End Review

A fourth-quarter surge in U.S. stocks of 12.8% drove equity funds to their best year since 1995. According to Lipper Analytical diversified U.S. stock funds on average gained 32.8% in 2003. International equity funds rose 32.1%. The strongest performances for the year came from technology and gold-oriented funds, which saw average increases of 56.4% and 58.9%. All of these sectors outperformed the S&P 500 which advanced by 26%, and the Dow Jones Industrial Average which gained 25% in 2003. The NASDAQ Composite, however, benefited from its heavy exposure to technology stocks and finished the year up 50%.

Bonds markets had a more demure performance in 2003, but the final results were still positive. Short-term interest rates remained at historic lows, with the Federal Reserve Board maintaining a steady hand on the throttle. This allowed 'supply and demand factors' to work in these markets and resulted in total returns for 2003 that ranged from 2% from short-term U. S. bonds up to as much as 8% from long-term U.S. bonds, according to Morningstar. By far the best performances of the year for bonds were in the high yield bond funds, which averaged 24% gains for 2003, and in emerging market bond funds, which averaged 30% gains for the year.

From a sector perspective, small cap equities had the strongest performances of 2003. Towards the end of the year, we began to see evidence of rotation back to the large cap value stocks. Historically, small cap stocks outperform mid and large cap during the first stage of a Bull Market. Then as the Bull Market matures, institutional investors will redistribute their profits from the small cap sector into other equity sectors. This sector rotation continues throughout the Bull Market, and participation in the ongoing market advances can be greatly enhanced by careful monitoring and reaction to these rotations.

SELECTOR[®] allocations, in accordance with the styles of management, were fully invested in equities throughout the fourth quarter. This means that Aggressive Growth and Growth styles were 100% invested in equities, Conservative Growth was 80% invested in equities and 20% invested in bonds, Balanced Growth was 60% invested in equities and 40% invested in bonds, while Income and Growth was 40% invested in equities and 60% invested in bonds.

Investors became more aware of their risk tolerances during our recently completed 3-year Bear Market and most have learned that it is more important to maintain a style consistent with your investment objectives than to chase performance. It is also important to be realistic with your expectations, both from a positive and a negative perspective. The Bear Market is over. A new Bull Market is underway, and the average Bull Market over the past 100 years has run for over three years. That being said, there is still plenty of time to get involved. The economy is improving, the Federal Reserve is keeping close watch and a firm hand, and finally, 2004 is a presidential election year. Presidential elections have profound impacts on the economy and the stock market. These are indeed fertile times.

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