

SELECTOR[®] Money Management

2004 First Quarter Review

The first quarter of 2004 came to a close with the Dow Jones Industrial Average (DJIA) and the NASDAQ Composite posting small losses. The S&P 500 managed to preserve a 1.3% gain for the quarter, its fourth-straight quarterly gain. The DJIA fell 1% and the NASDAQ dropped 0.6%. It was the first quarterly decline for the NASDAQ since the third quarter of 2002. The real story, however, is that equity markets experienced their first 5%+ correction in over a year.

Market corrections can be normal and healthy as long as they behave themselves. 'Behaving' means not causing too much technical damage as they dispel excess energy. It is not unlike managing children when they are getting too rambunctious. In this case the NASDAQ got quite unruly in February while falling almost 7.5% from its January 2004 highs. On the way down it broke its 30, 60, and 90 day moving averages, which is like breaking progressively more expensive dishes in Mom's kitchen. At the end of March it chipped a piece of Mom's favorite china, the 120 day moving average. As a result, institutional investors put the NASDAQ in 'time out' for a while. Other major market indices also got out of hand the last two weeks of March.

Market volatility increased dramatically the last half of March. One measure of this increase in volatility is days that the DJIA trades up or down by 100 points or greater. These 100 point days correspond to roughly 1% moves for the DJIA. During the fourth quarter of 2003, nine of the fifty-six trading days, or 16.0%, were 100 point days, all, incidentally, to the upside. In the first quarter of 2004 through March 9th five of the forty-nine trading sessions were 100 point days, three positive and two negative, for a percentage of 10.2%. From March 10th to March 29th, nine of those fourteen trading days were 100 point days, or 64.3%. Five were negative days and four were positive days.

In our current market environment the best way to manage portfolio volatility is to add bonds. The bond market continues to be a source of relative solace to investors. Accordingly, in March we reallocated all of the SELECTOR[®] Management styles to include an additional 20% in bonds. Currently both Aggressive Growth and Growth styles are 80% invested in equities and 20% in bonds. Conservative Growth is 60% invested in equities and 40% invested in bonds, Balanced Growth is 40% invested in equities and 60% invested in bonds, while Income and Growth was 20% invested in equities and 80% invested in bonds.

We are viewing these more conservative allocations as temporary while equity markets work through this 'construction zone.' The long-term equity market trend remains positive. The corporate earnings environment continues to be strong. The economic news has been very reinforcing with the exception of the job markets, which traditionally lag during economic recoveries. We are still in a Bull Market. The going has just gotten quite a bit

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