

SELECTOR[®] Money Management

2004 Third Quarter Review

The third quarter of 2004 has been a quarter of contrasts. Oil prices rose to all-time highs, yet inflation rates remain benign. The Federal Reserve Board raised short term interest rates again, yet the yields on intermediate-term bonds, long-term bonds, and mortgage rates fell dramatically. Equity markets set new lows for the year in August, even as U.S. corporations were reporting record earnings. Terrorist activity overseas picked up, while employment numbers improved on the home front. And in spite of all of this data, the S&P 500 closed out the quarter at 1114, up just two points from where it started out the year.

If you were trying to sell a movie script that included all of these seemingly conflicting events, who would have guessed that the S&P 500 would be at breakeven? The trading range that has contained equity markets thus far this year has been one of the longest and the strongest that we have ever witnessed. Equity markets would normally be jumping all over the board with this much good new/bad news, but even when the volatility picks up, the volume slows down to restrict any over-exuberance. This could be a vital clue as to the intentions of institutional investors down the road.

One of the interesting upcoming hurdles for financial markets will be the November elections. Our nation's most sophisticated and expensive political machines are in overdrive right now and the whole world is watching our democracy in action. Historically, Presidential Election Years are good for stock markets. Since World War II, eleven of fifteen Presidential Election Years finished with positive returns for the DJIA, including eight of the last ten. Year 2000 was one of the losers, most probably because it followed the phenomenal Y2K-inspired technology rally of 1999, in addition to being plagued with the "Hanging Chads" incidents in Florida. The 2000 Election Year November was the worst since Truman upset Dewey in 1948.

We remain in a long-term secular Bull Market for equities that has rewarded the patient and punished the impetuous. Our asset allocations remain tilted towards the conservative side, and we expect this to continue until equity markets gain the strength to break out of this tenacious trading range. The bond positions that have been maintained in SELECTOR[®] asset allocations have proved to be quite beneficial. It will be interesting to see how the Bond Market behaves in the event of an Equity Market breakout.

As we move into the final quarter of 2004, it is important to remember the historic performances of November and December. Since 1950, November has been the best month for the S&P 500 and the second best for the DJIA. December has been the second best month for the S&P 500 and the DJIA since 1950. Interestingly, October, which used to be the worst month of the year, is now the seventh best month of the year for the S&P 500 and the DJIA since 1950. September is now at the bottom of the list. The final quarter of 2004 should be very interesting.

Edward D. Foy

Manager, SELECTOR[®] Money Management

© 2004 Edward D. Foy Sources: Standard and Poor's, Morningstar, Bloomberg, Lipper Analytical, CBS.Marketwatch.

Foy Financial Services, Inc.
12501 Holdrege Street
Lincoln, NE 68527

**SELECTOR**
Real-Time Money Management

Advisory Services offered through Foy Financial Services, Inc.