

SELECTOR[®] Money Management

2005 First Quarter Review

For the third year in a row equity markets have gotten off to rocky start during the first quarter. The S&P 500 slipped 2.15% in the first three months of 2005, while the Russell 2000 declined 5.34% and the NASDAQ Composite fell 8.1%. This has also been the third consecutive year that the fourth quarter was very strong. At some point, markets need to 'exhale.' During the final year of our recent Bear Market, and in the first two years of our current Bull Market, equity markets have 'exhaled' during the first quarter.

Once again, international equities outperformed domestic equities, although they too had a quieter quarter. The Dow Jones Stoxx Index of 600 European companies rose 4.5% in the first quarter while the Dow Jones Pacific Index of Asian companies declined 1%. Interest rates are relatively low world-wide, and global economic growth is projected to grow at about 3.6% for 2005. The U.S. Dollar had its best quarter against the Euro in four years, although further weakness is predicted by economists.

The Federal Reserve lifted federal funds rates and discount rates again in the first quarter. There is some controversy as to the Fed's intentions at this juncture. Some feel that they are almost done raising short-term rates, and that they may even take a break and hold rates steady for some time this year. There are those who think that rising oil prices will spark inflationary pressures and force the Fed to increase rates to combat inflation. We are primarily interested in intermediate-term interest rates rather than short-term rates. The 10-year Treasury yield started the year at 4.25%, declined to 3.97% in mid-February, and ended the quarter at 4.49%. These are still historically low rates and conducive for economic growth.

Oil prices stole the show during the first quarter, and stocks associated with oil benefited. The best performing stock in the Dow Jones Industrial Average was Exxon Mobil. The best performing equity index was the AMEX Oil Index. The two best-performing industry sectors were Oil Exploration and Production, and Integrated Oil & Gas, followed by Coal, with Oil Equipment and Services in fifth place. In the Growth stocks versus Value stocks game, oil stocks play for the Value team, so Value equities outperformed Growth equities in the first quarter of 2005.

SELECTOR[®] Money Management made portfolio adjustments for most managed accounts in March. The March portfolio adjustments consisted of upgrades into selected funds that exhibited strong relative performance for the first quarter, and away from funds that were weak. Our equity/bond ratios within all managed styles remain consistent with the long-term trend of our current Bull Market.

Edward D. Foy

Manager, SELECTOR[®] Money Management

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

