

SELECTOR[®] Money Management

2005 Third Quarter Review

The third quarter of 2005 was the best quarter of the year for the Standard & Poors 500 Index (+3.6%), the Dow Jones Industrial Average (+3.44%), and the NASDAQ Composite Index (+4.61%). For the year, these three indexes now stand at +2.77%, -0.34%, and -1.09%, respectively. International equities continued their strong performance in the third quarter, especially the Emerging Markets. Year-to-date the MSCI EAFE Index is +9.08%, with the MSCI Emerging Markets Index +21.98%. Natural Resources sectors had the most dramatic gains for the quarter and the year, rising in conjunction with sharp increases in energy prices. In the third quarter alone, crude oil prices climbed almost 13%, unleaded gasoline prices jumped 44% and natural gas futures exploded upward by 80%. Morningstar reported that Natural Resources Funds were +22% in the third quarter and are now +41% year-to-date. Bond markets as measured by the Lehman Brothers Aggregate Bond Index were -0.67% in the third quarter and +1.82% year-to-date.

Fundamentally, financial markets held several legitimate concerns during the third quarter Record oil prices, declines in consumer confidence, the impact of two major hurricanes, airline bankruptcies, and rising short-term interest rates are all significant bricks in the market's 'wall of worry.' But technically, and from a seasonality perspective, equity markets present a much different picture. In July, domestic equity markets broke out of a trading range that had contained prices all year. The breakout was accompanied by a high-reliability technical pattern known as the 'inverse head-and-shoulders' that was clearly demonstrated in both the S&P 500 and the NASDAQ Composite. Seasonally speaking, equity markets are at the doorstep of what has historically been their strongest three-month period from November through January. Historically, when ugly fundamentals meet up with strong technical developments, the technical side wins the battle.

In recognition of the equity markets' technical strength that occurred in late July, SELECTOR[®] Money Management reversed the slightly defensive position taken back in May, and added equities to all styles of management. Asset allocations include Natural Resources in addition to Utilities and Emerging Markets, depending on availability and suitability associated with the various styles of management. SELECTOR[®] Aggressive Growth and SELECTOR[®] Growth allocations are now 100% invested in equities. SELECTOR[®] Conservative Growth portfolios are 80% equities/20% bonds. SELECTOR[®] Balanced Growth allocations are 60% equities/40% bonds, and SELECTOR[®] Income & Growth allocations are now 40% equities/60% bonds. We remain vigilant and mindful of the risks of the many fundamental issues associated with financial markets. But currently, the technical and seasonal arguments for higher equity prices are compelling. Therefore, we are fully invested in equities according to the styles of management, and in recognition of the relative performances of those funds offered within the managed account.

Edward D. Foy

Manager, SELECTOR[®] Money Management

© 2005 Edward D. Foy Sources: Standard and Poor's, Morningstar, Bloomberg, Lipper Analytical, CBS.Marketwatch.

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


Real-Time Money Management
Advisory Services offered through Foy Financial Services, Inc.