SELECTOR® Money Management
2006 First Quarter Review

The first quarter of 2006 ended with gains for all major stock indices, resulting in the S&P 500's strongest first quarter in seven years. The Dow Jones Industrial Average (DJIA) had a +4.25% quarterly gain, its best first quarter since 2002. The NASDAQ Composite rose +6.1%, its best first quarter since 2000, and the S&P 500 gained +4.21%, its best first quarter since 1999. The Russell 2000 index, a common indicator for Small Cap equities, rose an impressive +13.94% in the opening quarter of 2006. International equities continued their strong performance from 2005, with the MSCI EAFE index gaining +9.40% and the MSCI Emerging Markets Index gaining +11.51% in the first quarter. Domestically, the best performing industry sectors were real estate and the technology sub sectors of networking and telecommunications.

Interest rates continued to rise in the opening quarter as the Federal Reserve increasing their short-term rates for the 15th consecutive time. This put pressure on bonds, with the Lehman Brothers U.S. Aggregate Bond Index falling by –0.65% and their 20+ Year Treasury Index declining by –4.7%. The current yield on the 10 Year Treasury Note rose to 4.85%, from 4.39% at the beginning of the year. The best performing bond sector year-to-date has been High Yield bonds, with Morningstar reporting that the average High Yield bond fund rose +2.6%. Emerging Markets bonds followed close behind at +2.4%. High Yield Municipal bond funds gained +1.2% for the quarter.

The general state of the economy remains strong. In spite of the upward pressure on short-term interest rates, longer term interest rates have been stubborn, giving investors a relatively flat yield curve from 5 years all the way out to 30 years. Corporate earnings for the first quarter, due to be released in the next few weeks, are carrying optimistic forecasts. Inflation as measured by the core PCE price index remains at the low level of +1.8% annualized as of February. Oil prices were more volatile during the first quarter, giving energy stocks a push. Like real estate prices, oil prices remain under a great deal of scrutiny and are starting to gather a crowd of skeptics as to how much longer their strength can last, but it is difficult to argue with their success thus far.

SELECTOR® allocations were adjusted in the first quarter and continue to reflect the positive environment for equities. Changes in portfolio allocations were made to accommodate superior performances by Small Cap equities, as well as the ongoing strength of International markets. High Yield bonds were also reintroduced to Conservative, Balanced and Income & Growth portfolios. SELECTOR® Aggressive Growth and SELECTOR® Growth allocations are 100% invested in equities. SELECTOR® Conservative Growth portfolios are 80% equities/20% bonds. SELECTOR® Balanced Growth is 60% equities/40% bonds, and SELECTOR® Income & Growth is 40% equities/60% bonds.

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 Sources: Standard and Poor's, Morningstar, Bloomberg, Lipper Analytical, CBS.Marketwatch.

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