SELECTOR ® Money Management
2006 Third Quarter Review

The third quarter was generally good for equity markets. The market correction that began back in May was resolved in July and followed by two productive months leading into the quarter's end. There was also a change in leadership during the late stages of the correction rally as large cap value equities advanced ahead of mid cap and small cap equities. For the quarter, the S&P 500, a blend of both large cap growth and large cap value equities, gained +5.67%, giving it a gain of +8.53 % YTD. The S&P Midcap 400 Index, on the other hand, dropped by –1.08% in the third quarter, leaving it with a gain of +3.12% YTD. The Russell 2000 Index gained +0.44% in the third quarter, and stands at +8.69% YTD.

International equity markets also enjoyed a very positive third quarter. The MSCI EAFE Index had a gain of +3.93% during the third quarter and is now +14.49% YTD. The MSCI Emerging Markets Index also continued in its volatile ways and gained +8.37% in the third quarter to finish at +12.39% YTD. Real estate securities had a surprisingly strong quarter and continue to lead the pack for domestic equity sectors, closely followed by the telecommunications and utilities sectors. Energy and natural resources sectors pulled back in the third quarter as oil prices declined. The Dow Jones U.S. Oil & Gas Index declined –2.71% in the third quarter, although it still shows a gain of 10.42% YTD.

During the third quarter the Federal Reserve twice elected to maintain the federal funds at its current level of 5.25%. This action was received quite positively by bond markets, which experienced a strong rally into the end of the quarter. The Lehman Brothers Aggregate Bond Index gained by a total of +3.81% in the third quarter, and now stands at +3.06% YTD. The CBOE 10-Year Treasury Index Yield fell from a high of 5.245% the end of June to a low of 4.53% the end of September. Mortgage rates also fell during this period, undoubtedly one of the factors that bolstered the real estate securities sector during the quarter.

SELECTOR® allocations were adjusted in July to reduce the excessive volatility experienced during the correction and to recognize the shift in leadership to large cap value equities. The adjustments reflect our confidence in the long-term positive trend of our ongoing Bull Market. SELECTOR® Aggressive Growth and SELECTOR® Growth allocations are 100% invested in equities. SELECTOR® Conservative Growth portfolios are 80% equities/20% bonds. SELECTOR® Balanced Growth portfolios are 60% equities/40% bonds, and SELECTOR® Income & Growth portfolios are 40% equities/60% bonds.

Looking forward into the fourth quarter of 2006 we remain quite positive on equity and bond markets. We have 'room to give' during the month of October as institutional investors put the finishing touches on their portfolios for the year. Then we once again enter the historically favorable November-January period. We are as optimistic looking forward as we are pleased with the progress seen thus far.

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

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