

# **SELECTOR<sup>®</sup> Money Management**

## **2007 Second Quarter Review**

**The second quarter of 2007 was very productive for equities.** After a virtually flat first quarter that included a mild correction, domestic and international equities were off to the races, with the S&P 500 gaining +6.28% in the second quarter, to stand at +6.96% for the first half of 2007. The Russell 2000 was +4.42%, and the Dow Jones Industrial Average climbed +10.47% in the very active second quarter. Through the first half of 2007, these indexes are now +6.45%, and +13.67% respectively. International equities also rallied in the second quarter with the S&P Europe 350 Index climbing +8.79%, and the MSCI Emerging Markets Index surging +14.96%. For the year, these two international equities indexes are now +13.68% and +17.65%, respectively.

**Bond prices fell in the second quarter as money flowed out of bonds and back into equities.** Debt markets, as always with an ear out for bad news, retracted as concerns grew regarding the impact of subprime lending practices on financial markets. A retracting real estate market helped to fan the flames. Worries about negative Federal Reserve actions on interest rates were unfounded as short-term lending rates were left unchanged during the second quarter. The Lehman Brothers Aggregate Bond Index fell by -0.52% in the second quarter, leaving it at +0.98% through the first half of 2007.

**As for the best performing sectors through the first half of 2007, oil & gas equities and basic materials equities are at the head of the class.** Adjustments in SELECTOR<sup>®</sup> managed portfolios during the second quarter reflected this leadership. Mid Cap equities are also assuming leading roles for 2007, and occupy prominent positions in SELECTOR<sup>®</sup> accounts. Conversely, the weakest performances of the year are found in the real estate sectors. The Dow Jones U.S. Real Estate Index dropped -8.56% in the second quarter, and is now down -6.32% through the first half of 2007. The hardest hit sector is the Dow Jones U.S. Select Home Construction Index, -25.40%. Fortunately, SELECTOR<sup>®</sup> managed portfolios sold all real estate securities late in 2006.

**After the first quarter's correction, market volatility decreased as markets rallied and moving averages reclaimed their positive slopes in the second quarter.** In recognition of these improvements SELECTOR<sup>®</sup> portfolios were readjusted to maximize equity exposures. Equity sectors feature Oil & Gas, Basic Materials, and Mid Cap equities, in addition to Large Cap Growth. SELECTOR<sup>®</sup> Aggressive Growth and SELECTOR<sup>®</sup> Growth model allocations are 100% invested in equities. The SELECTOR<sup>®</sup> Conservative Growth model portfolios are 80% equities/20% bonds, and SELECTOR<sup>®</sup> Balanced Growth model portfolios are 60% equities/40% bonds. SELECTOR<sup>®</sup> Income & Growth model portfolios are now 40% equities/60% bonds.

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