

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

## **2007 Year End Review**

**The record books will show 2007 as a positive year for most equity markets, in spite of a fourth quarter decline.**The S&P500 index closed the year with a gain of +5.49%, after giving up -3.33% in the fourth quarter. The Dow Jones Industrial Average finished 2007 with a gain of +6.42%, while the Russell 2000 ended the year with a loss of -2.83%. International equity markets were not immune to the fourth quarter pullback, yet still managed to outperform domestic equity markets. The S&P Europe 350 Index gained +11.93% for the year, while the MSCI Emerging Markets Index gained a very respectable +29.57%.

**Market volatility became excessive the final six months of the year.**High volatility significantly reduces market efficiency as investors find themselves having to 'take the same hill' repeatedly. In the second half of 2007 the S&P 500 rose as high as 1555 in July, approaching all-time highs. It then experienced a -11.9% correction in August, trading as low as 1370. The S&P 500 recovered and rose to regain that lost ground plus set new highs in October, trading as high as 1576, only to experience another -10.79% correction in November that took prices back to 1406. These large price movements exhausted investor enthusiasm, and a December ended with an uncharacteristic whimper.

**Bond markets steadied during the fourth quarter with a 'flight to safety' to high quality bonds, away from the twists and turns of equity markets and the uncertainties of low quality bonds.**There is still a great deal of concern about the subprime mortgage markets, particularly as the secondary effects ripple into other bond sectors, and as the housing markets outlook continues to deteriorate. On the positive side, the Federal Reserve is still on course for further interest rate reductions in 2008, as interest rates continue to hover above near-historic lows. For the year, the Lehman Brothers U.S. Aggregate Bond Index finished up +6.97%.

**In 2007, the strongest sector performers were 'anything associated with oil.'** Energy, natural resources, and basic materials turned in outstanding results as oil prices climbed to record levels. Other strong sectors included the utilities, healthcare, and technology. Conversely, the weakest sector performers of 2007 were 'anything associated with real estate.' Housing, mortgage, and banking sectors all buckled under the waves of bad news from home builders and subprime mortgage lenders. The difference in relative performance between these winners and these losers was dramatic. The Dow Jones U.S. Oil and Gas Index was up +34.84%, with the Dow Jones U.S. Select Oil Equipment and Services Index up +43.14%. The Dow Jones U.S. Real Estate Index was down -18.15%, with the Dow Jones U.S. Select Home Construction Index down -57.43%.

**SELECTOR<sup>®</sup> Aggressive Growth and Growth models are currently 100% invested in equities.**The SELECTOR<sup>®</sup> Conservative Growth models are 80% equities/20% bonds, while SELECTOR<sup>®</sup> Balanced Growth model portfolios are 60% equities/40% bonds. SELECTOR<sup>®</sup> Income & Growth models are 40% equities/60% bonds. We are maintaining core positions in energy, technology, and basic materials equities, as well as international equities. Our equity allocations emphasize Growth over Value, and our bond positions emphasize High Quality.

### **Edward D. Foy**

Manager, SELECTOR<sup>®</sup> Money Management

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



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