

SELECTOR[®] Money Management

2008 First Quarter Review

Equity markets continued their declines from the fourth quarter of 2007 through the first quarter of 2008. In the first quarter the S&P 500 declined by -9.44%, and was down -15.5% from its highs in October of 2007. The NASDAQ fell -14.5% in the quarter, and ended down -20.4% from the October highs. International equity markets also declined in the first quarter with the S&P Europe 350 Index down -9.89% and the MSCI Emerging Markets Index down -10.99%. These international indexes are now down -15.7% and -19.6%, respectively, from their October 2007 highs.

The S&P 500 has now extended its losing streak to five straight months, its longest losing streak since 1990. As indicated by this statistic, it is uncommon for equity markets to track lower for extended periods of time, even during Bear Markets, without experiencing counter-rallies. As a result, equity markets are deeply oversold and overdue for rallies back to their longer-term moving averages. The breadth and duration of these counter-rallies will provide us with more evidence as to the intermediate and long-term future of this very mature secular Bull Market.

Bond markets have continued to provide safe harbor during the first quarter of 2007, in spite of the highly publicized credit crunch. High quality bonds continued to provide dominate performances. The Lehman Brothers 7-10 Year Treasury Index led all bond indices by finishing the first quarter up +6.18%, while the Lehman 10-20 Year U.S. Treasury Index ended up +4.14%. The broader Lehman Brothers U.S. Aggregate Bond Index closed the quarter up +2.17%. The iBoxx Liquid Investment Grade Index finished up +0.39%, while the S&P National Municipal Bond Index closed down -1.38%, and the iBoxx Liquid High Yield Index ended down -2.86% at quarter's end.

Meanwhile, selected commodities prices soared during the first quarter in response to generalized fears of recession. Precious metals and oil prices surged to record levels, with gold futures touching \$1,000 an ounce, and oil crossing the \$100 a barrel level. Accordingly, securities sectors associated with these commodities stood up well in the first quarter. For example, the Dow Jones US Select Oil Exploration & Production Index was up +3.67% in the first quarter.

The absence of significant counter-rallies in the first quarter eliminated any opportunities to make defensive portfolio adjustments. Instead, the wisest tactical response was to remain invested in those equity sectors that were the most profitable prior to the correction and await the inevitable inflows back into equities. When prices rebound and re-approach their long-term moving averages, now 7-10% higher than current prices, we will learn more about institutional investors' intentions. Should they continue to buy aggressively, the past five months will be marked down as a severe correction. Should they sell at those levels, a new Bear Market may be in our immediate future.

SELECTOR[®] Aggressive Growth and Growth models remain 100% invested in equities. SELECTOR[®] Conservative Growth models are 80% equities/20% bonds, while SELECTOR[®] Balanced Growth model portfolios are 60% equities/40% bonds. SELECTOR[®] Income & Growth models are 40% equities/60% bonds. Our primary posture is defensive, and we will utilize any opportunities to increase bond allocations in all portfolios.

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