

## ***SELECTOR<sup>®</sup> Money Management 2008 Second Quarter Review***

**For the first seven weeks of the Second Quarter equity markets rallied.** But over the next six weeks equity markets declined to finish the first half of 2008 near their lows of the year. There were exceptions, of course, most notably securities associated with the energy markets, basic materials, precious metals, or Latin American markets. For the most part, the first half of 2008 was a reflection of investor concerns about the high price of oil, the ongoing credit concerns within the financials sectors, and the threat of impending recession.

**The official numbers for several common equity indexes are as follows.** The S&P 500 declined by -2.73% in the second quarter, leaving it down -11.91% at the end of the first half at 1280. The Dow Jones Industrial Average, which had declined by -7.5% in the first quarter, closed out the second quarter down -7.4%, leaving it down -14.3% at mid-year at 11,350. International equities, which had been outperforming domestic equities for the past several years, were not spared either, with the exception of Latin American markets. The S&P Europe 350 Index finished the first six months of 2008 lower by -15.9%, while the MSCI Emerging Markets Index was -10.96%.

**The real story of the market action during the second quarter of 2008 was the rally that occurred off the March lows, and ran into mid-May.** This rally gave investors an opportunity to become defensive for the first time in the year. **SELECTOR<sup>®</sup>** took advantage of this opportunity and added 20% bond positions for all management styles except Aggressive Growth, which remained 100% invested in equities. The other positive associated with the second quarter rally was that it helped define a trading range for equities for the next few months.

**Trading range markets are essentially markets that are bound between an upper level, known as a resistance level, and a lower level, known as a support level.** Trading range markets are important developments in market development. As markets travel from the support to the resistance and back, it is possible for astute investors to make portfolio adjustments that can either afford them more protection should markets break lower, or provide them with additional opportunity should markets break higher. Currently, our trading range is approximately 12-14% from top to bottom, and the journey from one level to the other takes about six weeks.

**Bond markets, while still providing safe haven compared to equity markets, were also lower during the second quarter.** The greatest enemy and the greatest threat to bond markets is inflation. During the second quarter, inflation fears resulting from high energy prices began to take their toll. Through the first six months, however, bonds are still in positive territory. The Lehman Brothers 7-10 Year Treasury Index finished the first half of 2008 with a total return of +2.8%. The Lehman Brothers 10-20 Year U.S. Treasury Index ended up +1.8%, while the Lehman Brothers U.S. Aggregate Bond Index closed the first six months up +1.13%.

**Although SELECTOR<sup>®</sup> Aggressive Growth models remain 100% invested in equities, SELECTOR<sup>®</sup> Growth models are now 80% equities/20% bonds. SELECTOR<sup>®</sup> Conservative Growth models have been adjusted to 60% equities/40% bonds and SELECTOR<sup>®</sup> Balanced Growth models are 40% equities/60% bonds. SELECTOR<sup>®</sup> Income & Growth models are 20% equities/80% bonds. Our primary posture remains defensive.**

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