

SELECTOR[®] Money Management 2008 Third Quarter Review

The Third Quarter was actually a bit dull during July and August, before September came bursting into the room. The S&P 500 was at 1280.00 at the end of June, and on August 29th closed at 1282.83. The long-term Bear Market trend had been established and confirmed, but equity markets had been experiencing a modest rally from the July lows. A number of professionals, including SELECTOR[®] Money Management, were targeting 1335-1350 on the S&P 500 Index as a zone to take additional defensive measures, and we were a mere 3-5% away.

Unfortunately, the financial sector was about to flash the party with a disturbing sequence of disclosures. Before the month of September came to a close, the three largest investment bankers in the United States, the largest savings and loan in the United States, the largest broker dealer in the United States, and the largest insurance company in the world were in the process of being reorganized, recapitalized, sold, or just plain drawn and quartered. The largest trees in the financial services forest, and we are talking giant redwoods, were being harvested.

The Federal Government, because of its intense regulatory oversight over the financial services industry, was rapidly swept into the fray. At first it just ministered over 'shotgun weddings' between troubled firms and hesitant bridegrooms. But soon it just wasn't enough to be the matchmaker, as calls for immediate action began to ring out from Washington and fears of a financial 'bird flu' intensified. Congressional hearings ensued and a number of possible solutions were presented. On September 29th a \$700 billion bailout plan was put to a vote, and failed to carry in the House of Representatives. Equity markets dropped sharply, then rebounded dramatically on the last trading day of the month.

Financial markets don't like surprises, especially ones that pop in their own back yard. In the month of September, the S&P 500 Index fell -9.1%, and is -19.3% year-to-date. The Dow Jones Industrial Average dropped 6.0% in September and is -16.6% for the year. International equities markets had an even more difficult time. The S&P Europe 350 Index declined -14.1% in September, down -30.4% year-to-date. The MSCI Emerging Markets Index fell -17.5% in September, down -35.5% for the year.

High Quality Bonds once again provided sanctuary in the storm, especially during a tumultuous September. The Lehman Brothers 7-10 Year Treasury Index closed the Third Quarter with a total return of +6.8%. The Lehman Brothers 10-20 Year U.S. Treasury Index ended up +6.3%, the Lehman Brothers U.S. Treasury TIPS Index gained +3.0% and the Lehman Brothers Aggregate Bond Index closed out the Third Quarter up +0.63%.

September's action surprised us as well. Our primary posture remains defensive, and we were prepared to take additional defensive measures, but now is not the time for selling. Rather, SELECTOR[®] Money Management chooses to sell on relative strength, at prices that are a healthy distance higher than current levels. SELECTOR[®] Aggressive Growth models remain 100% invested in equities, SELECTOR[®] Growth models are 80% equities/20% bonds. SELECTOR[®] Conservative Growth models are 60% equities/40% bonds and SELECTOR[®] Balanced Growth models are 40% equities/60% bonds. SELECTOR[®] Income & Growth models are 20% equities/80% bonds. We are patient and poised to make further adjustments when the time and the price are right.

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