SELECTOR® Money Management
2009 Second Quarter Review

The second quarter of 2009 was very constructive for both domestic and international equity markets. The S&P 500 gained over 130 points to close at 910.14, a quarterly gain of +15.9%. This move also put the S&P 500 in positive territory for the year, with a gain of +3.16%. The MSCI EAFE Index, the NASDAQ Composite, and the Russell 2000 also moved into positive territory for the year after impressive second quarter gains. There is still a great deal of repair to be completed from the market turmoil in the second half of 2008, and on March 9th , just four months ago, equity indexes were at Bear Market lows. But significant progress was made in the second quarter.

The best performances of the year continue to showcase emerging markets and those sectors which have historically performed well during inflationary periods. The MSCI Emerging Markets Index (SM) ended the second quarter up +36.31% for the year. The Dow Jones U.S. Technology Index was up +26.18%, the Dow Jones U.S. Select Oil Equipment and Services Index closed up +26.51%, and the Dow Jones U.S. Select Basic Materials Index was +19.03% higher by the end of June. While financial services and real estate securities continued to trail, they also had impressive gains in the second quarter. The Dow Jones Real Estate Index finished down -8.70% at mid-year, after being down -30.09% at the end of the first quarter. The Dow Jones U.S. Financial Services was -2.43% lower at mid-year after being down -25.76% at the end of the first quarter.

Bond markets had a diverse quarter. High yield bonds made impressive gains in the second quarter and are the best-performing bond sector year-to-date. Short and intermediate-term corporate bonds continued to show relative strength. The Barclays Capital U.S. Intermediate Credit Bond Index was up +7.53% and the Barclays 1-3 Year U.S. Credit Index was up +6.85% year-to-date at the end of the second quarter. Treasury Inflation Protected Securities (TIPS) closed the first half of 2009 with a gain of +6.21%. Municipal bonds were also strong with the S&P National Municipal Bond Index finishing up +5.94%. Meanwhile long-term U.S. Treasury bonds buckled under the impending pressure of trillions of dollars of new bond offerings coming to market to fund the economic stimulus packages. On June 30th, the Barclays Capital 10-20 Year U.S. Treasury Index was down -8.35% and the Barclays 20+ Year Treasury Bond Index was down -19.25% year-to-date.

As encouraging as the second quarter was, the Bear Market is still in play. Bear Markets and Bull Markets are functions of both time and price. The moves in equity markets from the March lows were adequate, but the timeline for defining a Bull Market from the lows is still six months, so we are at least a couple of months away from that general consensus. In the meantime, markets may still be vulnerable to pullbacks as the sharp gains of the second quarter are digested, and the profits redistributed. The safest way to identify a true Bear Market bottom continues to be from a safe distance. Upon making that determination, ample opportunities remain.

Early in June, SELECTOR® Money Management made allocation changes that added a 20% measure of equities and reduced bond exposure by a 20% measure. Currently SELECTOR® Aggressive Growth models are 100% invested in equities, SELECTOR® Growth models are 80% equities/20% bonds, and SELECTOR® Conservative Growth models are 60% equities/40% bonds. SELECTOR® Balanced Growth models are now 40% equities/60% bonds, and SELECTOR® Income & Growth models are 20% equities/80% bonds. Our investment discipline dictates that we make measured shifts into, and out of equities as markets transition between Bull and Bear Markets. We still have one more ‘shift’ available before we are fully invested in equities.

We fully expect economic news to be rough for the next few months. This is normal, as trailing statistics will continue to lag even as equity markets continue to anticipate future developments. Historically, equity markets tend to preceed economic recoveries by approximately six months. Market moves thus far this year are consistant with expectations for the general economy to be improving by year’s end. Of course, there are no guarantees and no concrete timelines for either of these events and therein lies the opportunity and the risk. Most certainly, financial markets made significant improvements during the second quarter of 2009.

Edward D. Foy
Manager, SELECTOR® Money Management
Chief Investment Officer, Foy Financial Services, Inc.

 Sources: Bloomberg, Standard and Poor’s, Morningstar, CBS Marketwatch, Lipper Analytical.

Foy Financial Services, Inc.
12501 Holdrege Street
Lincoln, Nebraska 68527

SELECTOR
Real-Time Money Management