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SELECTOR[®] Money Management 2001 Year End Review

SELECTOR[®] Money Management Programs are designed for mutual funds, variable annuities, and variable life insurance contracts. SELECTOR[®] monitors the performance of all of the funds and subaccounts within the managed product. Client accounts are then allocated according to specific management styles, such as Growth, Balanced, Conservative Growth, or Aggressive Growth. SELECTOR[®] follows a doctrine of trend-following asset allocation. The measure of a trend-following program lies in the timely recognition of profitable trends. The charge of an asset allocation program is to diversify accounts into funds representing multiple asset classes. SELECTOR[®] Money Management Programs seeks to realize both of these goals to the client's benefit.

The final quarter of 2001 saw recoveries in equity markets but not enough to salvage the year. The official record shows that the S&P 500 closed down 13% for the year and the NASDAQ Composite down 21%. These losses were on top of significant losses incurred during the year 2000, and marked the first time since 1973-1974 that U.S. equity markets declined two years in a row. Even actively managed portfolios took their share of torpedoes, as Lipper Analytical reported that in 2001 the average large cap domestic growth mutual fund lost 23%, the average mid cap domestic growth fund lost 21%, the average small cap domestic growth fund lost 10%, and the average international equity fund lost 22%. Factor in September 11th, and then the unavoidable recession that was declared in the fourth quarter, and you are looking at one of the most difficult years ever experienced.

As bad as 2001 was, a number of events initiated in 2001 have the potential to produce an extremely favorable environment for equities in 2002, and this has not gone unnoticed by institutional investors. The most obvious of these positive developments is the unprecedented decline in interest rates. Interest rates are lower than any time in the past 40 years. This is called "monetary stimulus" and benefits the borrowing public as well as corporations. A second positive is the "fiscal stimulus" package that is working its way through Congress. This contains a mixture of tax cuts and incentives for corporations to grow and expand. Once again, this will directly benefit the civilian as well as the professional business community. A third positive result from 2001 will be the year-to-year corporate earnings comparisons during 2002. Corporations took huge write-downs on earnings in 2001 as the economy slowed. Everyone was doing it, and by late spring there was no penalty for bad corporate earnings news. A fourth development is the delayed impact of the Tax Relief Act of 2001 that contained a number of provisions that don't take effect until 2002. These include increasing the amount one can put into their IRA by up to 50%, including make-up provisions for certain investors. A fifth positive was the official noting of an economic recession. Since WW II, every recession experienced in the United States has spawned a Bull Market.

And finally, a sixth positive is the huge outpouring of patriotism since September 11th. Patriotism is the magic juice that pushes people past their fears, their doubts, and their concerns about the ultimate outcome. This magic has never failed the American people, who truly believe that we can win, and will win. This confidence in the future is also what drives long-term Bull Markets. Normally, two or three of these developments would be enough to spark and fuel a secular Bull Market. We have six. You don't want to miss this. Payback is sweet.

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Sources: Standard and Poor's, Lipper Analytical, Bloomberg, The Wall Street Journal.

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