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## 2001 First Quarter Review & Outlook

**SELECTOR® Money Management Programs are designed for mutual funds, variable annuities, and variable life insurance contracts and monitor the performance of all available funds within the managed products.** Client accounts are allocated according to specific management styles, such as Growth, Balanced, Conservative Growth, or Aggressive Growth. Portfolio performances are reviewed regularly and asset allocations are adjusted when indicated. SELECTOR® Money Management 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 multiple funds representing multiple asset classes. SELECTOR® Money Management Programs seeks to realize both of these goals to the client's benefit.

**The fourth quarter of 2000 delivered the uppercut to our long-running Bull Market, and the first quarter of 2001 the left hook.** The media has not yet decided whether to officially declare the Bear Market, but the professionals know that it is here. Bear Markets are a component of investing in variable markets, and they are not confirmed until after they are firmly upon us. The nastiest part of a Bear Markets is that it can shake the confidence of investors, who then become susceptible to very bad investing habits. The worst habit that develops is a decision to invest only in fixed markets, and abandon the wonderful opportunities available in variable markets. Other bad habits include changing advisors in mid-stream, losing sight of long-term investment objectives, and checking account values as often as the time of day. Bear Markets test all investors' resolve. They also validate the importance of maintaining a sensible investment discipline that reflects long-term goals.

**January of 2001 was actually a very profitable month, with the trouble beginning mid-February.** Just as Bull Markets don't go straight up, but rather advance in stages, Bear Markets decline in stages. The severe Spring 2000 correction in the NASDAQ, the bitter post-election market decline in November, and the extremely poor market action of the past 6 weeks in spite of an interest rate decrease, have combined to finally crown the Bear as the victor. SELECTOR® Money Management made defensive adjustments in portfolios during the first quarter of 2001. First we reduced Growth Equities, introduced Value Equities, and added High Yield Bonds, the best performing asset class year-to-date, to asset allocations. Late March, further defensive measures were indicated when the markets failed to respond to the ½% interest rate decrease. We responded by positioning Intermediate-Term Investment Grade Bonds and additional Value Equities to managed account portfolios.

**The greatest risk of a Bear Market, aside from the bad habits mentioned previously, is missing the transition point, when market conditions dramatically reverse, and another Bull is born.** The length of Bear Markets and Bull Markets are not determined until long after their demise. Nobody knows when that will happen, especially the media. The opportunity risk of missing the initial reversal, the opening kick-off, can be quite significant. We constantly check the market's vital signs to assess the overall condition and stage the situation. Right now, we know that the markets were fully unresponsive to the interest rate cut in March. That is so significant, like a patient not responding to proven medicine. So we remain cautious until signs of improvement reappear. And they will. Remember that every Bear Market in history has been followed by higher prices. Right now, we are working to preserve capital, and remain vigilant to the activities of institutional investors.

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