

## **SELECTOR<sup>®</sup> Money Management** **2011 First Quarter Review**

**There is an old tried and true saying that goes, “A bull market loves to climb a wall of worry.”** The phrase originated in the 1950’s and referenced the fact that during bull markets, equities are prone to rise in the face of significant economic or political uncertainties. An ongoing sequence of these uncertainties would be likened to building a ‘wall of worry’ which markets would continue to scale higher even as it grew taller. Eventually, equity markets would ‘top the wall’ and then decline. So sometimes, uncertainty can have a positive influence.

**The first quarter of 2011 provided quite the wall of worry.** U.S and European equity markets started the year focusing on their own tepid economic recoveries, and climbed steadily higher for the first seven weeks. Then in short order, the Middle East and North Africa went center-stage. As the political unrest spread from Egypt to Libya, oil prices climbed higher, currently sitting at 2 1/2 year highs. Equity markets recoiled under the weight of these events, then dropped sharply as Japan was rocked by one of the most devastating earthquakes in history, complete with tsunami and nuclear power plant complications. The Dow Jones Industrial Average lost over 800 points, representing -6.75%, in the 3 weeks following the Japan quake.

**Then, in dramatic fashion, domestic and international equity markets abruptly reversed their declines, rising strongly through the second half of March.** At the end of the first quarter, the S&P 500 Index had gained +5.92%, the S&P 400 Mid Cap Index was up +9.36%, and the Russell 2000 Small Cap Index was up +7.94%. As would be expected with soaring oil prices, energy related securities led the charge. The Dow Jones U.S. Oil & Gas Index climbed +17.18%, with the S&P Global Energy Sector Index rising +14.03%. Real estate securities continued their strength, with the Dow Jones U.S. Real Estate Index up +7.20%. Other strong performances were seen in health care, aerospace and defense, and technology sectors.

**One of the biggest surprises of the first quarter of 2011 was the reemergence of European equity markets.** In spite of continued financial concerns with Portugal, Spain, and Italy, and fresh from situations with Greece and Ireland, their equity markets moved strongly higher. The MSCI Italy Index finished the first quarter up +13.77%, with the MSCI Spain Index close behind at +13.62%. The MSCI Europe Financials Index was +9.62% higher, and the S&P Europe 350 Index ended up +6.75%. As may be expected, however, the MSCI Japan Index ended the first quarter down -7.17%, and the S&P Global Nuclear Energy Index lost -4.81%.

**Bond prices also had a mild rollercoaster ride in the first quarter of 2011.** They played the counter melody to equity markets, declining during the early strength, rallying when equities declined, then receding again as equity markets made their end-of-quarter surge. High yield continued to play a leading role, with the iBoxx \$ Liquid High Yield Bond Index gaining +3.89% for the quarter. International bond markets also enjoyed a good quarter as the U.S. Dollar sank to 12-month lows. The S&P/Citigroup International Treasury Bond Index Excluding U.S. was up +2.93%, and the JP Morgan Emerging Market Bond Index was up +0.89%. TIPS bonds are back in play as well. After declining to their December lows in February, they reversed, and rallied over 5.6% in just four weeks. The Barclays Capital U.S. TIPS Index finished the quarter up +2.28%

**SELECTOR<sup>®</sup> model portfolio adjustments in the first quarter were tactical in nature, shifting from sectors exhibiting relative weakness to sectors demonstrating relative strength.** Additions to equity allocations include large cap value, technology, and developed international equities, especially European equities. Deletions from model allocations include emerging markets, including Latin American equities, and basic materials equities. **SELECTOR<sup>®</sup>** Aggressive Growth and Growth models are 100% invested in equities, and include mid cap, small cap, energy, and real estate equities. **SELECTOR<sup>®</sup>** Conservative Growth models are 80% equities/20% high yield bonds. **SELECTOR<sup>®</sup>** Balanced Growth models are 60% equities/40% bonds, and **SELECTOR<sup>®</sup>** Income & Growth models are 40% equities/60% bonds. Both of these models include high yield bonds and high quality short-intermediate term bonds. **SELECTOR<sup>®</sup>** Income models remain 100% invested in bonds.

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