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Dear First Investors Fund Shareholder:

We have just marked the end of the most trying year in the financial markets since the Great Depression. The credit crisis that first surfaced in 2007 as a result of reckless mortgage lending precipitated a full-blown global economic crisis during 2008. The financial landscape was forever altered as large and venerable institutions were forced to sell themselves or seek massive federal assistance to survive in the aftermath of the mid-September Lehman Brothers bankruptcy filing. These troubled firms had made bad and often leveraged bets on the overheated housing market, and their fortunes unraveled as home values fell sharply throughout the year.

By late 2008, many financial firms were forced to confront the painful reality that they had been using unsustainable amounts of borrowed money to finance their operations. As these firms fought to survive, they stopped lending and laid off workers. Consumers, rocked by the falling value of their homes and investment portfolios, constrained by their sudden inability to borrow, and concerned about the security of their jobs, abruptly ceased their free-spending ways. This caused the pain to spread into other sectors of the economy, and a severe economic slump took hold. In December, the National Bureau of Economic Research declared that the U.S. economy had been in recession since December 2007. GM and Chrysler teetered on the verge of bankruptcy before receiving government loans. Retailers suffered through their worst holiday shopping season since 1970, the unemployment rate soared to a 15-year high, and consumer confidence reached an all-time low.

An extremely weak economy, rising unemployment, a severe lack of credit, and an abundance of fear and uncertainty created a toxic mix for stock market performance. For the year, all major equity market indices have fallen by historic proportions. The bellwether S&P 500 Index was off 37%, its worst result since 1937. The S&P MidCap 400 Index was down 36.2%, and the small-cap benchmark Russell 2000 Index fell 33.8%. International stocks fared even worse, as the MSCI EAFE Index plummeted 45%. The unnerving effect of such poor performance was made even worse by unprecedented levels of volatility.

The bond market was also extremely volatile throughout the year. The U.S. Treasury market experienced a huge rally, as yields fell to their lowest levels in modern times, and Treasuries posted a return of nearly 14% according to Merrill Lynch, their best result since 1995. The rally reflected a flight-to-quality, concerns about a severe recession, and reductions in the federal funds rate that brought it to an all-time low. High quality mortgage-backed bonds also performed well, as the Merrill Lynch Mortgage Master Index rose 8.3%.

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In sharp contrast, investment grade corporate bonds performed poorly, with the Merrill Lynch Corporate Bond Master Index falling 6.8%, the worst showing since the Index was created in 1973. High yield corporate bonds had their worst year ever, as the Merrill Lynch U.S. High Yield Master II Index fell 26.4%. Despite its high credit quality, the municipal bond market fell 3.9%, as measured by the Merrill Lynch Municipal Master Index. Problems affecting this sector included concerns about the companies that insure municipal bonds, the failure of the auction rate securities market, the departure from the municipal market of non-traditional investors such as hedge funds, and decreased market liquidity.

The returns of the First Investors funds generally reflected their respective markets. However, many of our equity funds were underweight financials during the year and therefore were able to mitigate losses in that sector. As long-term investors, many of our funds have used the downturn as an opportunity to purchase securities at attractive valuations. We believe that these actions will benefit the funds when the markets recover, as they eventually will.

While a recovery may not seem imminent, there are some hopeful signs when one looks past the gloom. The federal government has taken unprecedented steps to stabilize the financial system, and has indicated its willingness to do even more, especially to aid the troubled housing sector. Certain segments of the bond market have begun to show signs of stability in recent weeks, and even the stock market has been stronger since its November 21st low. In addition, President-elect Obama has signaled his intention to pass a massive stimulus package early in his administration. There has even been a silver lining in the economy’s struggles, as the prices of oil and gas have fallen dramatically in recent months.

We recognize that investors who have seen their account values fall sharply, and who hear only bad news about the economy, may be tempted to abandon their investment plans. Many have done just that, which has exacerbated the decline in the markets. It is important to recognize that such actions serve to lock in losses, and limit the opportunity to participate in the markets’ recovery when it occurs. Generally, investors with long-term horizons are best served by maintaining their commitment to their investment plans. History has shown that it is not wise to make investment decisions based on what has happened recently in the markets, whether good or bad. We strongly encourage you to be in contact with your representative, who can give you guidance based on your specific circumstances.

Thank you for placing your trust in First Investors.

Sincerely,

Kathryn S. Head
Chairman