

# MUTUAL SELECTION FUND, INC.

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May 21, 2001

Dear Fellow Shareholder:

## **FIRST QUARTER 2001 REPORT**

**Moving Ahead with Reorganization.** We continue to move ahead with the reorganization plan previously approved by shareholders. We filed a registration statement for Pearl Mutual Funds with the Securities and Exchange Commission on January 8. We will notify you when this registration becomes effective. At that time:

Mutual Selection Fund will become a series of Pearl Mutual Funds. This means your Fund will be one of two no-load mutual funds within the Pearl Mutual Funds family. Pearl Mutual Funds is a newly-created Massachusetts business trust. This will be a tax-free reorganization.

Mutual Selection Fund's name will change to Pearl Total Return Fund.

Mutual Selection Fund's current seven-member Board of Directors will be the Board of Trustees of Pearl Mutual Funds.

**Total Return.** The first quarter of 2001 (January-March) was volatile and difficult for stock markets in the United States and around the world. Mutual Selection Fund's quarterly total return in this environment was **-3.04%**. Our **March 31** net asset value was **\$10.22** per share.

Stock markets have shown continued volatility but have performed much better since March 31. On **May 17** your Fund's year-to-date total return was **+5.41%** and the Fund's net asset value was **\$11.11** per share.

Your Fund's total return was **1.56%** in the year 2000, **26.99%** in 1999, **4.60%** in 1998, **14.75%** in 1997, and **14.19%** in 1996.

**Comparative Performance.** We continue seeking to outperform the average U.S. equity mutual fund on a long-term risk-adjusted total return basis. We compare our performance with three broad stock indexes: Morgan Stanley Capital International (MSCI) World Index, Value Line (Geometric) Index, and Wilshire 5000 Index. We also compare with the All Equity Funds Average (Lipper) and the All Long-Term Taxable Funds Average (Lipper).

## Total Returns of Mutual Selection Fund and Comparison Indexes:

	3 months to 3-31-01	YTD to 5-17-01
<b>Mutual Selection Fund</b>	<b>-3.04%</b>	<b>5.41%</b>
MSCI World Index	-12.85%	-4.87%
Value Line Index	-6.16%	4.61%
Wilshire 5000 Index	-12.34%	-1.88%
All Equity Funds Average	-13.52%	-3.89%
All Long-Term Taxable Funds Average	-8.68%	-2.24%

While we are disappointed with your Fund's negative first-quarter **-3.04%** total return, we are very pleased that it soundly outperformed all five of our comparison indexes. Of course, we work hard for a long-term positive total return. We also seek to protect our shareholders' capital when (as in the first quarter) there is a general market decline.

In the more positive market since March 31, your Fund has gone up along with our comparison indexes. On **May 17** your Fund's year-to-date total return was **+5.41%**. This year-to-date return was still ahead of all five comparison indexes. However, past performance does not predict future performance.

**Risk-adjusted Return.** Two factors should be considered together in assessing a mutual fund's performance: its total return and its risk. Therefore, we measure your Fund's total return in relation to the risk (volatility) it incurred and we also seek to outperform the five comparison indexes on a risk-adjusted total return basis.

We were pleased that in 2000 your Fund's risk-adjusted total return was better than all five comparison indexes. See our 2000 Annual Report, pp. 4-6. We seek to achieve this again in 2001. The results will be included in our 2001 Annual Report. For accurate measurement of risk-adjusted returns, it is best to use a period of at least one year. Again we caution that past performance does not predict future performance.

Your Fund has sought to limit our shareholders' risk by holding a modest defensive position at times and by selecting some mutual funds that have a history of low volatility or that use a "value" investment style or both.

**Investments.** Throughout 2001 to date, about 90% to 92% of your Fund's total assets have been invested in equity mutual funds, with the remainder (about 8% to 10%) in bond and money market mutual funds. On March 31, 92% of the Fund's total assets were invested in equity mutual funds, 7% in two bond funds, and less than 1% in a money market fund and cash. These investments are listed on page 4 of this report.

A more precise way to measure your Fund's asset allocation is the investment portfolio asset breakdown, which counts the Fund's indirect investments through the mutual funds in the portfolio, using our most recent information on the portfolio assets of the mutual funds the Fund holds. For example, on May 17 your Fund's direct cash position was 1%, but this increased to 11% cash when we added the various amounts of cash held by the mutual funds in the Fund's portfolio. Using this method, on these dates the Fund's investment portfolio asset breakdown was:

	Dec. 31, 2000	March 31, 2001	May 17, 2001
Total stocks	83%	83%	82%
U.S. stocks	43%	45%	45%
Foreign stocks	40%	38%	37%
Bonds	8%	9%	7%
Cash	9%	8%	11%

During 2001 to date, we have kept most of the Fund's assets in a diversified group of equity mutual funds investing in U.S. and international stock markets. We believe total U.S. stock market risks (especially in tech and many growth stocks) remain moderately high, but the reward/risk ratio is improved and somewhat positive (especially for value stocks) for the short to intermediate term. We believe international stock market risks are also moderately high but the reward/risk ratio is still slightly better overall than in the U.S.

While the above table shows little change in your Fund's investment asset breakdown during the year to date, we did make some moderate shifts of assets among portfolio funds. We also eliminated one fund (Invesco Dynamics Fund) and added three new ones (Artisan Mid Cap Fund, Meridian Value Fund, and Oakmark International Fund) in an attempt to have better exposure to the areas of opportunity we perceive.

We continue to seek equity funds that have recently outperformed their peers and have a record of above-average performance (below-average loss) in bear markets and corrections. These funds are hard to find. We continue to search diligently for good performers with better-than-average risk characteristics. We believe the Fund's current investments provide a favorable reward/risk ratio in this market environment.

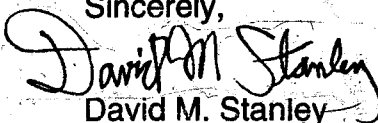
**Shareholder Votes.** During the shareholders' meeting on March 9, 2001, the shareholders of Mutual Selection Fund voted to re-elect the seven Directors: John W. Axel, Jeffrey R. Boeyink, Douglas B. Coder, Dr. David N. DeJong, David L. Evans, David M. Stanley, and Robert W. Toborg. The shareholders voted to ratify the Board's selection of Deloitte & Touche LLP as the Fund's auditors and independent public accountants for the year 2001. The shareholders also approved the addition of a concentration restriction to the Pearl Total Return Fund Fundamental Policies previously approved by shareholders. For each vote, 5,488,062.928 shares were voted for the proposal; there were no shares voted against, no shares abstaining, and no broker non-voted shares.


**Our Goals.** We continue working to improve your Fund's performance, wisely select and change investments in mutual funds, and achieve long-term growth of your capital.


**Privacy Notice.** Please read the enclosed privacy notice.

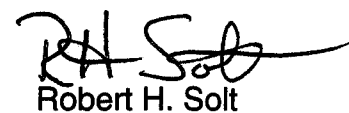
**Please call or write if you have any question.**

Sincerely,

  
David M. Stanley  
President

  
Janet R. Van Alsbury  
Executive Vice President,  
Secretary, and Treasurer

  
Kevin J. Burns  
Vice President of  
Investment  
Management

  
Robert H. Solt  
Vice President

**MUTUAL SELECTION FUND, INC.**  
**STATEMENT OF NET ASSETS**  
**March 31, 2001**

**ASSETS:**

**INVESTMENTS in mutual funds, all common**  
**stocks of unaffiliated issuers:**

**Equity mutual funds:**

	Shares owned	% of net assets	Market value
American Century International Discovery, Instl.	138,329	2.67%	\$1,549,287
Artisan Mid Cap Fund .....	72,870	2.97%	\$1,716,808
Berger Small Cap Value Fund, Institutional .....	270,835	12.12%	7,017,330
First Eagle SoGen Overseas Fund, Institutional .	671,312	13.23%	7,659,670
Longleaf Partners Small-Cap Fund .....	86,846	3.41%	1,971,398
Meridian Value Fund .....	158,678	7.79%	4,511,207
Nicholas-Applegate Intl. Small Cap Growth, Instl	102,674	4.32%	2,503,194
Oakmark International Fund .....	353,608	8.62%	4,989,415
State Street Research Aurora, Class A .....	138,986	6.90%	3,991,673
Tweedy Browne Global Value Fund .....	349,579	11.79%	6,823,786
Wasatch Core Growth Fund .....	136,596	6.83%	3,954,460
Weitz Partners Value Fund .....	309,573	11.38%	6,584,620

TOTAL EQUITY MUTUAL FUNDS

92.03%      53,272,848

**Income mutual funds:**

PIMCO Total Return, Institutional.....	42,071	0.76%	442,587
Strong High Yield Bond Fund .....	397,119	6.38%	3,693,204

TOTAL INCOME MUTUAL FUNDS

7.15%      4,135,791

**Money market mutual fund:**

Vanguard Money Market Prime.....	518,405	0.90%	518,405
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TOTAL INVESTMENTS (cost \$59,611,920,  
including reinvested dividends and  
distributions)

100.08%      57,927,044

Cash.....

0.00%      1,730

Accrued interest on bank account.....

0.00%      529

TOTAL ASSETS

100.08%      57,929,303

**LIABILITIES:**

Investment advisory fee payable .....	0.07%	38,567
Payable to adviser for expenses .....	0.01%	8,329
Other liabilities.....	0.00%	737

TOTAL LIABILITIES

0.08%      47,633

**NET ASSETS, applicable to 5,664,882 shares of**  
**outstanding capital stock, \$.01 par value,**

20,000,000 shares authorized.....

100.00%      \$57,881,670

**NET ASSET VALUE PER SHARE.....**

**\$10.22**

**NET ASSETS CONSIST OF:**

Capital (par value and paid-in surplus).....	\$59,186,120
Accumulated undistributed net investment income	181
Accumulated undistributed short-term capital gains	175
Accumulated undistributed long-term capital gains	381
Net unrealized appreciation (depreciation) in value of investments	(1,305,187)
<b>TOTAL NET ASSETS</b>	<b>\$57,881,670</b>