

1. Wall Street Journal, 11/1//08

Prepared by: Martin Cosgrove, CFA
Director of Investment Research
Research Department, ING Advisors Network

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Monthly Market Monitor

November 2008

There are two times when people forget their investment principles...

At the top of the market and at the bottom

With the current market conditions the most frequent question I have been getting lately is “should I cash out of my investment and put my money into a certificate of deposit?” It’s understandably troubling to open your monthly or quarterly statement and see a significant decline in your account balance.

The issues I consider when I am asked this question are:

- How will we be able to recover lost assets if we cash out now?
- Will there be a tax ramification if we sell off the assets?
- What are the client’s goals?
- What is the client’s timeline?

When possible I recommend staying invested since I am confident that the market will recover from this current chaotic state. Why do I think this? I look at the historical returns from 1925 and see that we have been through situations similar to these many times, including a world war, and the market has recovered. In fact I recently came across a statistic that really makes an impression on me. Over the last 30 years (12/31/77 to 12/31/07) the Standard & Poor 500¹ average rate of return has been 12.8%. If we subtract the gain from the best 50 days, the average return is 5.8%². The question that follows is “How can I predict when the best 50 days will be?” The answer is I can’t. In order for investors to reap the benefits of the best days of the market we have to be invested in the market through up and down market trends.

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Linda Specht
Investment Advisor Representative*

For more information or to schedule an appointment please call

209-444-3354

2001 W. March Ln.
Stockton, CA 95207

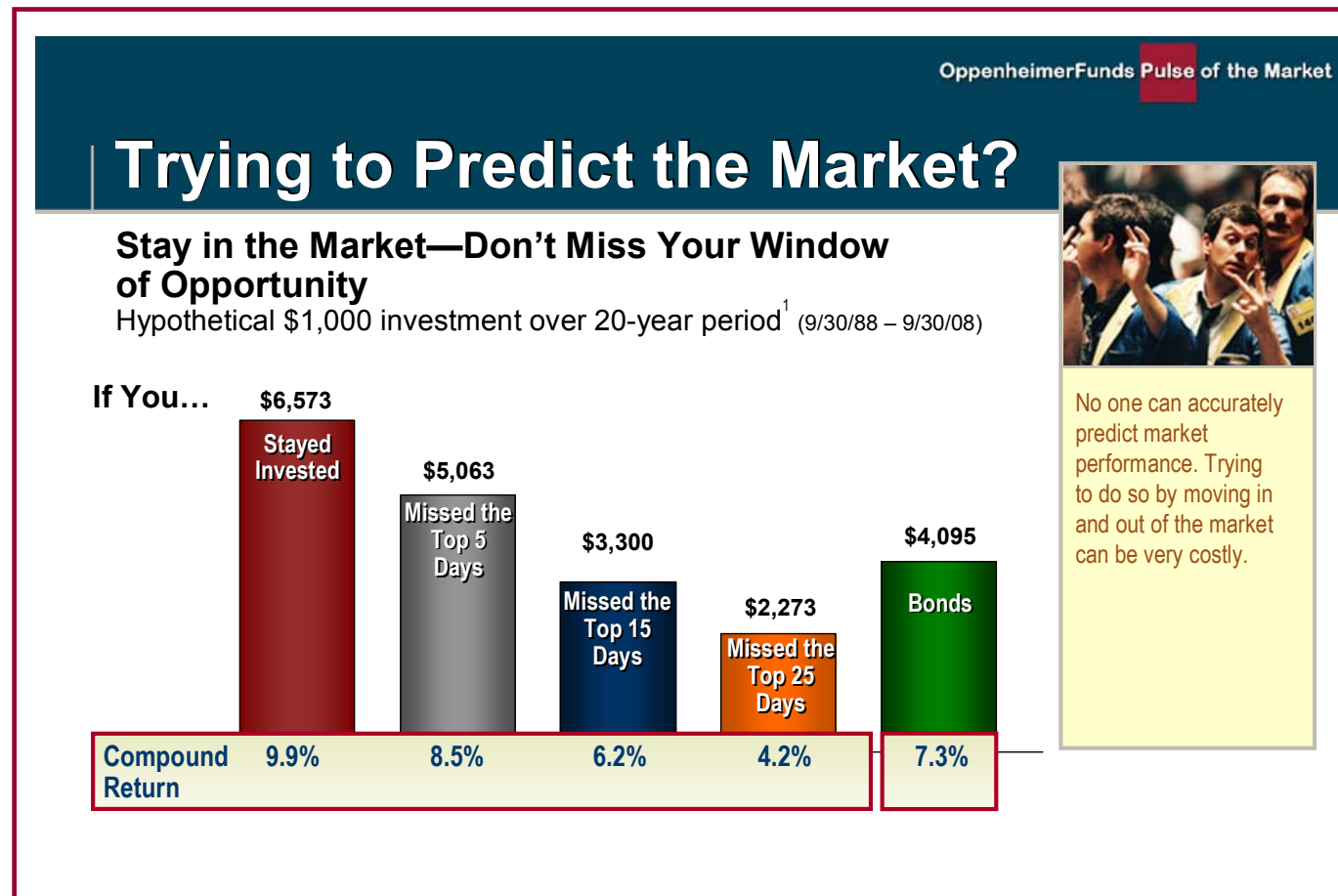
¹ The S&P 500 Index is unmanaged. You cannot invest directly in the S&P 500 Index.
² Data Source: Ned Davis Research 1/08

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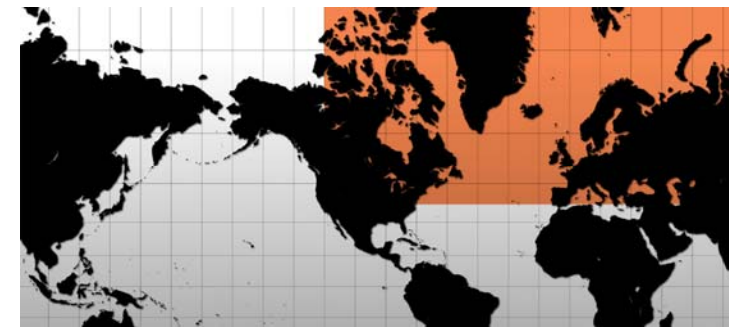
The second most common question I hear from my clients is “What if my account drops to zero?” My response to that is, “for that to happen the greatest companies in the world would have to completely collapse.” These would include giants like General Electric, Microsoft, Exxon, Proctor & Gamble, Phillip Morris and Chevron. Just a few of the hundreds of fine companies included in the mutual funds portfolios I use.

The main thing to keep in mind right now is not to panic. I sense that we are nearing the bottom of the market, and that this is the time to be investing into the market, not cashing out of the market. Remember the basic principle of investing is “buy low, sell high”.



¹ Source of chart data: Ned Davis Research, 9/30/08. The chart shows the results of a \$1,000 hypothetical investment in the S&P 500 Index on 9/30/88 held through 9/30/08 compared to similar hypothetical investments in stocks that were not invested on the days that were the market highs during the period. The S&P 500 Index is a broad-based measure of domestic stock market performance that includes the reinvestment of dividends. The index is unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. For comparison, an investment in bonds is shown, represented by the Lehman Brothers Aggregate Bond Index. Indices are unmanaged and cannot be purchased directly by investors. This chart is for illustrative purposes only and does not predict or depict the performance of any Oppenheimer fund. **Past performance does not guarantee future results. Stocks and bonds have different risks, where bonds, if held to maturity, may offer both a fixed rate of return and a fixed principal value.**

Past performance does not guarantee future results. Due to ongoing market volatility, current performance may be more or less than the results shown in this presentation. The performance information does not show the effects of income taxes on an individual's investment. Taxes may reduce your actual investment returns or any gains you may realize if you sell your investment. An investor's shares, when redeemed, may be worth more or less than the original cost.



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Market Indices ¹	October Change	Year-to-Date (10/31/08)
S&P 500	-16.9%	-34.0%
MSCI EAFE	-20.2%	-45.0%
Dow Jones Industrial Average	-14.1%	-29.7%
Russell 2000	-20.9%	-29.8%

Another Rough October

Historically October has been one of the worst months for the stock market --- think 1929 and 1987. Double-digit losses for most of the major indexes caused this October to be the worst in a decade.¹ The impact of the deepening credit crisis and the attempts to avert permanent damage to the global financial system produced wild swings. *Twice* the major indices reached lows not seen in over five years only to rebound 800-900+ points quickly thereafter. As the month ended, global stock and bond markets remained very unsettled despite repeated programs to stabilize the world's financial institutions. However, early signs of freer lending between banks are encouraging. This provides some confidence that, after several piecemeal attempts, the latest governmental efforts will finally get to the root of the primary problem: lack of trust among financial institutions. The fact that there is now a more holistic global program being undertaken by most of the major countries of the world has helped significantly.

The markets remain reluctant believers. However, regaining investor confidence after past major financial crises has not occurred immediately and the depth of the current banking problems suggests this could take some time. Many of the fixes have never been tried in our financial system or have not been used for over seventy years. Several US governmental departments, including the Federal Reserve, the US Treasury, and the Federal Deposit Insurance Corporation (FDIC), are involved. Details of the many moving parts of the new programs are still being worked on and require the coordination of many of these participants. For example, a program introduced several weeks ago for the Fed to support money market funds was only up and running this past week. Overlooked in the \$700 billion “bailout” for Wall Street was plenty of flexibility to attack the many aspects of the problem, including direct aid for home owners. There are now signs of a new program for more direct relief to mortgage holders being put together. Other unforeseen offshoots of the credit crunch may show up over the next few months. Markets will likely continue to be nervous, but it is clear that global authorities are better anticipating new problems and will continue to use whatever resources are needed to solve them. The threats of a global financial meltdown have faded significantly.

“Deleveraging” the Markets

One major offshoot of the frozen credit markets has been the forced selling by aggressive investors that had borrowed money to invest in an effort to boost their returns. In an era when money was plentiful and all markets were going up, most outside “hedge” fund gains were created by this borrowing or leveraging. With the value of their holdings now going down, leverage users have been forced by their lenders to put up more collateral or sell (deleverage) those holdings to pay down their balances. With a quickly declining market, the hedge fund managers have chosen to sell holdings to pay back the debt. Particularly in this environment, the assets that are easiest to sell (or can be sold) and have declined the least are the largest or safest. This explains why many of the traditionally safest asset classes, including municipal bonds and even gold, and the strongest companies have been subject to unusually large price declines. The huge increase in the number of hedge fund managers in the past few years has aggravated the problem because there are many more assets that need to be sold at the same time. Moreover, because of the particular lack of transparency of hedge funds, the inability to predict the size of the leverage that needs to be “unwound” continues to weigh on the markets. That has added another important layer of daily volatility to the markets. Traditional buyers wanting to take advantage of good fundamental values have run into these waves of forced selling, accounting for many of these huge market swings this past month. This again is not unexpected given the disruptions the financial system has undergone and the size of the borrowing built on the upside. Many analysts believe these violent swings are actually encouraging signposts in the normal process of markets wringing out excess speculation and beginning to stabilize.