



Monthly Market Monitor

May 2009

Understanding and Surviving Erratic Market Changes

During this challenging economic environment, it's likely that you are growing more concerned about erratic market changes. These events are what history textbooks are made of and we're all anxious about our investments and our future. I encourage you to stay calm and stay the course.

With so much negative press bombarding us daily, the following summary helps make sense of what is really happening:

- Early in this decade, interest rates were lower than usual. Low-cost money perpetuated a quick rise in the value of homes across the country.
- Lenders made it easier and easier to borrow money even to people who should not have qualified (subprime) further driving up the value of homes.
- These insurance-backed subprime loans made it onto various balance sheets and later proved to be non-performing.
- Interest rates were raised in 2003 causing adjustable-rate mortgages to increase drastically.
- Faced with the inability to pay their mortgages, multitudes began to sell their homes. Unfortunately, this timed with the sudden halt of rising home values. As selling increased, house prices plummeted.



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

*A Registered Representative of Financial Network Investment Corporation

Continued p. 2

Financial Network Investment Corporation is a registered broker dealer, member SIPC. Bank of Agriculture & Commerce and Financial Network are not affiliated. Securities, insurance and investment advisory services are offered through Financial Network Investment Corporation.

**Investments are Not FDIC Insured * Not a Deposit * Not Bank Guaranteed
May Lose Value * Not Insured by Any Federal Government Agency**

- Lenders stopped refinancing; the default rate skyrocketed.
- Investment banks holding the toxic subprime loans began to “write down” the value on their corporate balance sheets causing investors to sell off their shares in financial institutions.
- As the losses and bankruptcies mounted, banks became unwilling to readily lend money.
- A bold government rescue plan has been enacted to address the bad assets financial institutions. The goal is to bring stability back to the markets and to encourage banks to resume lending.
- Interest rates remain low.
- While housing values continue to decline, homes are becoming more affordable and attractive to home buyers.

What does this mean for you and your money?

The housing crisis pulled the rest of the economy into the undertow. You’ve likely seen your portfolio take a nose dive and have experienced fluctuating costs in gas and groceries along with deflating values in your home and credit. As tempting as it may be, it’s so important that you not overreact to the bear market and sell your equity holdings.

Going forward

As unsettling as they are, bear markets, even volatile ones like this, are a normal part of the market’s cycles. History shows that those who stay the course during difficult times like we are experiencing will be rewarded. Since you need enough money to fund 10, 20, or more years of retirement, the same is true for you. Statistics point us to the fact that retirees do need stocks in their portfolios. Let’s talk to make sure you have the right asset allocation¹ strategy in place. I’m confident the market will stabilize and grow in due time. In the meantime, there are a few things you can do now:

- Make sure that we review your financial goals.
- Stay within your budget.
- Employ an asset allocation strategy¹: adjust your mix of stocks, bonds and cash investments to meet your situation.
- Don’t put additional money in the market that you aren’t going to leave alone for five years or more.
- Ensure that you are dollar-cost averaging².
- Ensure that you are diversified³.
- Ensure that your bank accounts are insured by the FDIC.
- Don’t watch the stock market on a daily basis.

To schedule a time to meet for a complimentary financial review, contact me at (209) 444-3354.

¹ Asset allocation, which is driven by complex mathematical models, should not be confused with the much simpler concept of diversification.

² Dollar cost averaging involves continuous investment in securities regardless of fluctuating prices. The investor should consider his or her financial ability to continue purchases through periods of low price levels. Dollar cost averaging does not ensure a profit.

³ While diversification may help reduce volatility and risk, it does not guarantee future performance.



monthly market monitor

May 2009

| Market Indices ¹ | April Change | Year-to-Date (4/30/09) |
|------------------------------|--------------|------------------------|
| S&P 500 | 9.6% | -3.4% |
| MSCI EAFE | 12.3% | -4.2% |
| Dow Jones Industrial Average | 7.4% | -6.9% |
| Russell 2000 | 15.4% | -2.4% |

Attention Shifts to Earnings

Markets continued to rally in April after bouncing off of March lows. Investors, at least for the time being, are putting cash to work in both equities and bonds. All of this comes despite a fairly dismal recent earnings picture. Many strategists therefore believe that investors are shifting their focus to an eventual recovery in earnings growth. Standard and Poor's recently released the final earnings numbers for the S&P 500 for the fourth quarter of 2008. GAAP (generally accepted accounting principles) earnings per share were -\$23.25, the first time the number was negative since S&P began collecting the data in 1926. A large portion of the loss can be attributed to write-downs in the financial sector. While the final numbers for the first quarter of 2009 have not yet been released, year over year earnings declines are projected by analysts for almost every sector in the S&P 500. As outlined in the table below, about 40% of companies in the S&P 500 had reported earnings as of April 24, with the median reported earnings per share down 23.5% from the first quarter of 2008. On the positive side, 62% of the companies that had reported actually beat the consensus estimates, while only 28% had fallen short of consensus. This suggests that analysts have now sufficiently marked down earnings estimates and that results for many companies are not as bad as some feared. Many strategists are now estimating an earnings trough in the third quarter of 2009. However, given the many uncertainties in the economy, both stock market and earnings volatility are likely to continue.

| Sector | Q1 '09 Growth % | % Reporting Earnings | % Positive Surprise | % Negative Surprise | % In-Line |
|------------------|-----------------|----------------------|---------------------|---------------------|-----------|
| Energy | -21.7 | 28.2 | 72.7 | 18.2 | 9.1 |
| Materials | -58.8 | 50 | 64.3 | 21.4 | 14.3 |
| Industrials | -36.5 | 56.9 | 57.6 | 36.4 | 6.1 |
| Consumer Disc | -17.4 | 38.3 | 74.2 | 19.4 | 6.5 |
| Consumer Staples | -7.5 | 34.1 | 42.9 | 28.6 | 28.6 |
| Health Care | 5.6 | 44.4 | 62.5 | 25 | 12.5 |
| Financials | -48.8 | 50 | 47.5 | 50 | 2.5 |
| IT | -37.3 | 40 | 73.3 | 13.3 | 13.3 |
| Telco Services | -28.4 | 11.1 | 100 | 0 | 0 |
| Utilities | 0 | 8.6 | 100 | 0 | 0 |
| S&P 500 | -23.5 | 40.2 | 62.2 | 28.4 | 9.5 |

Source: Ned Davis Research 4/30/09

Continued p. 4

Record Budget Passes

Congress passed a \$3.5 trillion budget outline for 2010 with major implications for health care, energy, and education. Current estimates put the budget deficit at \$1.2 trillion for fiscal year 2010 (which begins October 1).¹ For investors, this is likely to heat up the inflation debate in coming months. The current recession has put inflation concerns on the back burner for now as economic weakness has kept a lid on prices. An eventual recovery, however, could spark inflation concerns. And there are some recent signs that the worst of the recession could be over. While the first quarter GDP decline of 6.1% isn't good news, it was a slight improvement for the fourth quarter of 2008. In addition, consumer spending (which accounts for about 70% of GDP) rose 2.2% in the quarter. Some analysts fear that the surge in government spending, combined with liquidity injections from the Federal Reserve, will lead to an excess of money flooding the economy. Whether or not this eventually leads to a significant rise in inflation will depend on the Fed's ability to withdraw liquidity from the market as the economy recovers. One area that investors with inflation concerns traditionally turn to are TIPS (Treasury Inflation Protected Securities). TIPS are Treasury bonds, backed by the U.S. government, but unlike a traditional government bond, the principal and interest payments on TIPS adjust to track changes in inflation. Specifically, the principal and interest on TIPS are indexed to the CPI-All Urban Consumers (CPI-U) so that increases in consumer prices are directly translated into higher principal and interest payments on TIPS. Whether or not TIPS return more than standard Treasury bonds will ultimately depend on the amount of underlying inflation.

1. Wall Street Journal, 5/1/09

Prepared by: Cameron Lavey
Senior Investment Analyst
Research Department, ING Advisors Network

The views are those of Cameron Lavey, Senior Investment Analyst, Research Department/ING Advisors Network, and should not be construed as investment advice. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy.

All economic and performance information is historical and not indicative of future results. The market indices discussed are unmanaged. Investors cannot directly invest in unmanaged indices. Please consult your financial advisor for more information.

Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards.

Financial Network Investment Corporation is an ING company. Affiliates and subsidiaries and/or officers and employees of Financial Network or ING may from time to time acquire, hold or sell a position in the securities mentioned herein.

2001 West March Ln.
Stockton, CA 95207



| |
|---|
| PRSTD STD US POSTAGE PAID PERMIT # 688 STOCKTON, CA |
|---|