



Monthly Market Monitor

Bank of Agriculture & Commerce | ECC Bank

A Unique Community Banking Experience

January 2010

Looking into 2010



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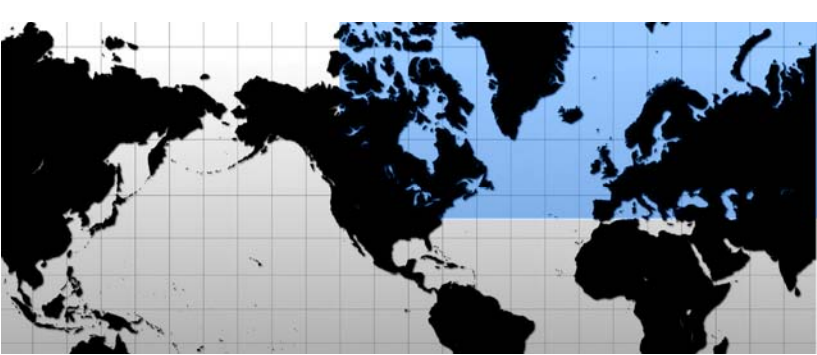
I recently hosted a Lobby Day in each of the Bank's branches, visiting with customers and answering questions about investing and the market in general. The most common question asked was, "When do you think our economy is going to improve?" I wish I knew the answer to that question. We survived 2009, but at what price? We are a nation in a deep recession and cannot yet see the light at the end of the tunnel.

During the year I counseled my clients to maintain their investment discipline. My advice to them is continue to dollar-cost-average* as much of their incomes into their retirement plans as their budget can afford. But most of all, to stay invested in a well-diversified portfolio and to not cash out of the market due to fear. As I look at my own 401(k) portfolio returns for 2008 and 2009, I can see the proof of the wisdom. Although share prices of my

funds are still down about 12% from their highs in 2007, I own more shares due to purchasing more shares at the lower price. The market will get better in the future, how far in the future is the question.

What is most concerning about our economy right now is the effect of unemployment in our area. We all know that San Joaquin, Stanislaus and East Contra Costa Counties have some of the nation's highest defaulted mortgage and unemployment numbers. What I'm seeing as a result of those numbers, is an unprecedented amount of premature distributions from retirement accounts due to job loss, or clients (who are primarily contractors) not being paid for jobs they have completed in the past .

For distribution purposes the IRS says that retirement age is 59½. If you take a distribution from a traditional retirement account prior to the day that you turn 59½, you must pay a penalty of 10% to the federal government and 2% to the state, in addition to any taxes due on the distribution. Money taken from any traditional retirement account adds to your ordinary income and is taxable at your tax rate. There are a few exceptions to these rules, but job loss is not one of them. Many retirement accounts including IRAs do not have provisions for loans so an investor has only 60 days to put the money back in a retirement account to avoid these penalties.



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Market Indices ¹	December Change	Year-to-Date (12/31/09)
S&P 500	2.8%	23.5%
MSCI EAFE	1.4%	27.7%
Dow Jones Industrial Average	0.8%	18.8%
Russell 2000	7.9%	25.2%

Year Ends on Positive Note

As has often been the case, December provided investors with an additional holiday gift as major market indexes continued their climb upward. From 1943 through 2008, the Dow Jones Industrial Average and the S&P 500 have both gained 1.8% on average in December.² These gains are generally ascribed to both the winding down of year-end tax loss selling as well as investor optimism with respect to the coming year. Despite rising market values, questions persist regarding the strength of the underlying economic recovery. The Federal Reserve left its ultra-low interest rates in place during its December meeting. On a positive note, the Fed noted in its statement that “economic activity has continued to pick up” and that the “deterioration in the labor market is abating.”³ On the other hand, it did not make any changes to its previous stance that “economic activity is likely to remain weak for a time.”³ Eventually, the Fed will have to raise rates to slow the growth of the money supply and temper inflation. Market strategists are at odds over when this will happen. Some see a rising rate environment in the first half of 2010, while others don’t see higher rates until 2011.

In a welcome change from 2008, consumer spending rose during this year’s holiday season. Last year, holiday sales declined 3.4% as people tightened their wallets during the recession.² Initial estimates for sales in 2009 show an increase of 3.6%.² While this is only based on a short time period, it hints at a potential improvement in overall consumer spending. And since consumer spending typically accounts for about 70% of GDP, any upticks can have a large impact on GDP growth. Another sign that consumer sentiment is improving came from recent Conference Board data. The Conference Board Consumer Confidence Index rose to 52.9 December, up from 50.6 in November. The index attempts to gauge consumer confidence through a monthly survey of 5,000 households. The increase indicates a rise in consumer confidence, which is obviously a good sign for the economy. However, the index was above 100 back in 2006, so there is still plenty of room for improvement.

Housing Outlook Still Uncertain

The seeds of recession were largely sown in the housing market, which has been undergoing a long and slow healing process. Over the summer, home prices began to rise for the first time in three years. The government tax credit for new homebuyers was partially responsible, as it drove up demand. Recent data, however, has not been as encouraging. The S&P/Case-Shiller index, which tracks housing prices in 20 major markets, rose 0.4% (seasonally adjusted) from September.⁴ Without the seasonal adjustment, the index was flat. Prices are now back at the same level they were in the fall of 2003. Some analysts think that prices could fall further due to a

potential rise in foreclosures. Currently one in four mortgages is greater than the value of the underlying house.⁴ While not all of these homes will end up in foreclosure, some certainly will. The question is how many.

The housing market is important in many respects, one of which is as a store of wealth for consumers. Declining home prices were one driver of the reduction in consumer spending during the recession. Thus an improvement, or even stabilization, in home prices could help drive up GDP through the effect it might have on consumer spending.

1. Wall Street Journal, 01/04/10
2. Ned Davis Research, 12/30/09
3. Federal Reserve Board, 12/16/09
4. Wall Street Journal, 12/30/09

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People through no fault of their own are being forced to sell investments while the market is low and pay federal and state penalties and taxes on the funds they receive. Many predictions have said the new average retirement age will be 70 not 65. In addition to creating jobs and getting Americans back to work, we need to see Congress be more tolerant about premature distributions due to financial hardship, and allow people to contribute a higher amount of their income into retirement accounts.

I am available to discuss your retirement plans or review your retirement portfolio. Together we can help you plan to ensure you are maximizing your retirement funds. Call me at (209) 444-3354

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*Dollar cost averaging does not assure a profit and does not protect against loss in a declining market. Such a plan involves continuous investment in securities regardless of fluctuating price levels of such securities. Investors should consider their financial ability to continue their purchases through periods of falling prices, when the value of their investments may be declining.

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