ANOVA
FINANCIAL CORPORATION

News release.

FINISTAR - Insured Deposits - Short Term Income Market Update

It continues. It is what we have come to refer to as the ***credit crunch*** of 2007. It is also known by other names such as the sub prime mess, the structured investment vehicle debacle, and the era of easy mortgage lending. All of these descriptions mean that the financial markets are still deep in the throes of a true and possibly extended credit and liquidity crisis.

A credit crisis as demonstrated by the high rate of mortgage foreclosures contributing to the default of fixed income derivatives backed or collateralized by these mortgages. A liquidity crisis caused in part by the lack of a consistent market for trading these fixed income derivatives.

The Federal Reserve has been infusing liquidity into the market through its money market operations as well as lowering its target Federal Funds rate 75 bps from 5.25% to 4.5%. Of course, it is not just the fixed income markets that have suffered. Whenever there is a perceived threat to the global financial system, real or not, all markets are influenced. We have seen the stock market with wild swings, the commodities markets with gold and oil at unprecedented levels.

Having said all that, with the exception of housing, the US economy continues to expand with a third quarter Gross Domestic Product growth rate of 4.9%. It also appears that consumers, despite their debt load, continue to spend as shown in the merchant sales on “Black Friday” and “Cyber Monday”.

All of the above factors lead to an age old conclusion. You must know the risk you are taking with your fixed income investment choices and you must be able show diversification. Being able to reduce both market and credit risk in this economic environment should be a consideration. In addition to reducing risk, you must be assured of liquidity.

We have linked several articles discussing the credit crunch and how they have affected money market funds and short term investment funds – “Flight to Safety”. Florida has suspended withdrawals in its pooled investment fund due to substantial withdrawal demand that reduced the fund from 42 billion to 15 billion in less than a month. The reduction was caused by the disclosure that the fund had over 700 million in defaulted assets. As one official said “Our primary goal is to protect our funds”.

In light of these recent defaults and delinquencies in the subprime mortgage market and steps taken by local governments and schools in states such as Florida and Washington that participate in pooled investment funds we wanted to re-emphasize to our local government investors that their Finistar deposit accounts are 100% FDIC Insured for both principal and interest. All deposit accounts are held by “well capitalized” banks and these Finistar deposit accounts have no exposure to the subprime mortgage market or asset-backed commercial paper.

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