

Chapin Hill Advisors, Inc. Market Comment
November 10, 2008

More Market Turbulence

While the week before last provided some welcome relief to battered portfolios as the markets rallied for the week, the markets gave it all back in 2 days of trading in post-election sobriety.

The list of woes is long and depressing. Unemployment rose to 6.5% from 6.1% with total jobs lost this year at 1.2 million. Predictions are now for unemployment to head up to 8%. Long term unemployment recipients now number 4 million. Retailers reported same store sales for October fell more than anytime in the past decade. Circuit City filed for bankruptcy protection. Job losses are piling up in the retail sector. Auto sales hit 1983 levels causing Ford taking a \$3 billion dollar loss and GM declaring that they may be running out of cash and could be bankrupt by year end. The government is trying to figure out how to bailout the auto industry on top of our \$700 billion TARP (Troubled Asset Relief Program). Add to this a possible second economic stimulus plan that incoming President Obama wants to implement and the deficit just keeps growing. No one has really focused on what it is going to take to pay for these programs.

The volatility continues as the market gyrates more than ever in recorded history. In the ten years ending 12-31-07, the Dow had never once swung more than 9% during the course of a trading day and so far this year it has had 6 giant swings. In the 30 years ending 6-30-08, the S&P had 9 days where swung 4% or more in a trading day. In October, the S&P had 14 trading days with 4% swings.

The last hour of trading can go either way – up or down – and it is impossible to tell which way most days until after 3pm. This makes buying or selling especially challenging.

There has been very broad participation in the negative returns of the market. Only 9 stocks in the S&P sported positive returns through October. Compare this to the bear market cycle in 2002 which had a -22% return for the S&P yet 54% of the stocks actually had positive returns. So this bear cycle is taking down many more stocks and making it a challenge to find a safe haven.

Oil has fallen almost 60% since summer highs of \$147 per barrel but that has not provided relief for the market. Currently, oil is trading in the low \$60's and may rise again. That would add one more burden to the homeowner who would have to pay skyrocketing prices to heat their homes and we could be back to higher prices at the pump.

Bankruptcies continue to rise with a 40% increase for October 2008 versus 2007. Foreclosures are supposedly turning 10,000 people per day out of their homes.

Many of the animal shelters have had to stop special programs as they are overwhelmed by pets from people who have lost their homes and have to abandon their animals.

Estimates are that 165,000 people will lose their jobs in financial services in the New York City/metro area over the next year. This will continue to impact the housing market as well as businesses that revolve around the housing industry including architectural firms, contractors, local hardware stores, realtors and many other industries. Over 56% of New York City's commerce is tied to the financial services industry.

The American consumer is officially "dead" and tapped out. The total consumer debt is equal to our GDP. Our budget deficit is heading towards \$1 trillion dollars and if a future stimulus plan goes into effect or they try to bail out the auto industry these astronomical numbers will continue to grow.

In bear markets, actively managed accounts generally underperform the indices. We get lots of calls from folks who are aghast at the performance of their company 401(k) plans and are seeking answers. No safe havens exist in most 401(k) plan choices unless you use the money market. Part of the problem with the average person using the money market as their number one choice in their 401(k) plan (or any other investment account for that matter) is you won't know the bottom when you see it and you can miss a staggering amount of appreciation should the market bottom and take off.

The majority of advisors seem to be telling clients to "buy and hold". Words of wisdom generally include "if you are in for the long term" and "buy value" and "don't sell now, you're almost at the bottom". We are hearing all of these catch phrases from the talking heads on TV as well as wounded investors marching in to our offices looking for relief.

The problem as we see it is that if we are in a secular bear market (which we believe we are in perhaps the 3rd or 4th inning of) you can experience very steep sell-offs such as the ones we have had this year. Most of the advisors as well as clients have most if not all of their experience during the secular bull market from 1982 – 2000. We were all taught to "buy on dips" and "buy and hold".

But losses can ravage a portfolio. You may need a lot more time than you think to recover. Remember that a \$10 stock which loses \$2 is down 20%. But the remaining \$8 stock must now grow by 25% to get back to even. The numbers get much worse and you lose more money. A \$10 stock that loses 50% goes to \$5. That \$5 stock must now grow by 100% to get even.

Many investors cannot seem to face the prospect of selling their stocks at huge losses and hope that they will "come back" before selling. We are seeing new portfolios come in with losses ranging from 20-50%. Unless you can add new money at these depressed levels and have a long time frame, we would prefer to

approach the market with a strategy to attempt to prevent these big losses from occurring.

That strategy is easier said than done and in this volatile market, you must either use a trusted advisor or educate yourself and decide on an unemotional strategy to minimize the losses and attempt to capture gains on bull cycles.

Most money managers have guidelines for their portfolios and the majority of them are supposed to be fairly fully invested or “long”. The manager is doing what they are paid to do but if the markets are going down, so will those long only portfolios. If you listened to the “value crowd” you would have had several “great buying opportunities” which then caused you to lose additional capital in these “values”. Carefully review the strategy you and your managers are employing.

These are challenging times for advisors as well as clients. Our strategy is rather unique and was created as a response to our clients who did not wish to ever go through another 2000-2002 type of period again, suffering losses even close to the market indices.

We created a strategy where we implement with both core and satellite portfolios. Our core portfolios are the more traditional investments and we speak to clients to attempt to assess their downside risk tolerance as well as any needs to capital outflows and time frame for investing. We then choose a core portfolio that hopefully meets their main objective. We pair a satellite account with these core accounts and attempt to “hedge” the core portfolio in bear cycles and hopefully add some alpha in bull cycles. This has been working for our clients but it is not something the average advisor executes nor is it easy to implement on your own.

In a market as volatile as this one, with such severe losses both year-to-date and from the October 2007 lows in all equity indices, you must have a strategy as well as an unemotional method for implementation. Even defensive groups have been hit this year. The market will most likely have some up (bull) cycles even in the context of a secular bear. If you are unhappy with the return and structure of your portfolio, we would urge you to review the portfolio and have a plan and strategy in place to take advantage of the relief a rally can provide.

As always, feel free to call us with questions or comments.

Who is Chapin Hill?

Chapin Hill Advisors, Inc. is a boutique financial planning and investment advisory firm, providing our services to high net worth individuals or business owners. We use the full range of investment products and employ a core and satellite strategy to better facilitate the implementation of specific strategies.

We pride ourselves on the delivery of great service. Our delivery of service is customized to the clients needs and includes quarterly reviews as well as regular communication based on what you desire.

The Chapin Hill Advantage

A unique, process-driven approach to financial advice that combines expert financial knowledge with high-touch service, resulting in a personal investment strategy that leaves clients feeling confident and having “peace-of-mind”. We take the time to understand you prior to making any recommendations. Our planning process covers *The Seven Tenets of Planning*: retirement, education funding, risk management, cash flow/debt management, taxation, estate planning and investment management. Our process can determine your probabilities of success based on the most appealing scenario of your choice.

The Chapin Hill Advantage was created by our founder Kathy Boyle. She has over 15 years’ experience within national and regional investment banking and brokerage firms prior to founding Chapin Hill in 2000. Kathy is a regular commentator and guest on national television shows such as **CNBC’s Power Lunch**, **NBC’s Nightly Business News**, **ABC’s Businessweek TV**, **Fox’s Your World with Cavuto** and **Bloomberg** radio and personal-finance shows.

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