

**Chapin Hill Advisors, Inc.**  
**Market Comment 4/17/07**

***Goldilocks and Stagflation Go Toe to Toe***

Last week delivered more volatility as the Dow reacted negatively to minutes of the Fed's March meeting on Wednesday falling 89 points but rallying on Thursday and Friday. When the minutes were released, it was clear that the Fed is still concerned about inflation and hopes for any cut in rates faded fast.

Most indices finished the week in positive territory. On Friday, the Nasdaq, S&P 600, Dow and NYSE Composite gained 0.5% and the S&P 500 followed with a 0.4% gain. Nasdaq was flat-lining until midday when Cisco announced strong growth globally with a very positive outlook. Cisco rallied 3% on that news.

The Dow was helped by Merck which rallied 8% on news of Vioxx class action suits being dismissed. The entire pharm group followed with Schering Plough gaining 4% and Pfizer 1%. McDonald's pre-announced better than expected earnings which also helped the Dow.

The PPI (Producer Price Index) for March was released last week and grew 1% in March versus 1.3% in February. Core, which takes away food and energy prices, was flat. This number got all the focus. The joke on Wall Street is that this number is great for everyone who doesn't eat, drive or use electricity. Why it remains such a focus is a puzzle. Wholesale prices rose 3.2% year over year.

The CPI (Consumer Price Index) for March was released on Tuesday, April 17th. CPI rose 0.6% with core rising 0.1%. Gasoline rose 10.6%, Electric and gas up 3.5%, Commodities rose 1.26% - certainly a concern for the average consumer.

Retail sales were reported on Monday, April 16th with a 0.7% gain. Sales were affected by warmer weather, an early Easter which drove those sales into March rather than April and higher amounts spent on gasoline. This news combined with positive news from Citibank, Bank of America, Wells Fargo and others added to more takeover announcements pushed the markets up on Monday.

While retail sales were stronger, sales of recreational boats have declined steeply. Marine Max, the largest recreational boat dealer guided estimates for their fiscal year ending 9/30 down again to \$0.45-0.65. In January, they gave guidance of \$1.40-1.50 and last November the guidance was \$2.05-.2.15. This is a 78% decline in guidance in 6 months. Boat sales may be an area hit by the slowdown in refinancing of homes and a consumer who may be feeling pinched. This is a luxury purchase which would be one of the first areas to get hit for the average buyer.

Housing starts were reported on Tuesday as well and surprised the Street with a 0.8% gain versus an anticipated decline of 1.6%. The bulls are using this to tell us

that the slowdown in housing is over. However, this number represents a 23% decline from March 2006. The Midwest reported a 44.5% increase for the month of March while the South was down 2.7%, the West was down 7.7% and the Northeast fell over 6%.

Investors have regained their appetite for risk and have plunged in headfirst. The Dow has recouped its loss from February and is flirting with new highs. The S&P is up 3.2% from February lows. Small caps which were generally predicted to be laggards have largely outperformed. China is up 16% year to date. Money continues to flow into international stocks in great amounts.

We are at the very beginning of earnings season and the S&P is expected to break its several year record of double digit earnings growth. Of course, analysts have lowered their estimates so beating them may be easier than expected. The consensus is for a 3.6% rise in earnings.

The focus will be whether Goldilocks is alive and well. This scenario tell us that the worst is behind us in a housing slowdown, the sub-prime blowup is contained, we have moderating inflation, rates will remain stable or decline and things are “not too hot, not too cold – just right”.

Or will Stagflation raise its ugly head? This case says we have slowing economic growth, reduced capital spending, a slowing global economy, possibly rise in rates to combat the rising prices on commodities ranging from grains to energy. Add to this a slowdown in consumer spending and it is not a pretty picture.

As banks get pinched with higher rates, slowing borrowing, more defaults, more risk-averse loan officers, increasing loan loss reserves and a flat yield curve squeezing margins, we may see their future earnings affected.

We had a spate of banks report with Suntrust giving us single digit growth, Keycorp surprised to the downside, Citibank laid off 17,000 workers, took a charge but reported strong growth and Wells Fargo has so far managed to absorb any defaults in Golden West which they acquired last year.

If the consumer does finally slow down, retailers will get hit. The focus on ethanol and our farmers finally getting \$4/ bushel for their corn ignores the fact that livestock prices will increase as they consumer the more expensive corn. This is inflationary and combined with rising gasoline prices, summer may not much fun.

More data will be needed. This rally has had stronger legs than we anticipated but we still feel it is getting near a peak. Pharma, health care, energy stocks and utilities are viewed as defensive positions and this is where any focus on new additions should be.

As more private equity firms announce plans to go public with a portion of their firms, this should be taken as a sign that there is too much money chasing too few

really great deals. Takeover fervor has been helping to support this market but this too will pass.

Be cautious on how much risk is in your current portfolio. Assess your needs and be sure any short term need for capital is kept in a liquid asset. Do not invest by looking in the rear view mirror. Keep an eye on corporate earnings and guidance for next year's growth rates.

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

### ***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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