

*Chapin Hill Advisors, Inc. Market Comment
6-26-08*

The Markets Break January Lows.

The markets sold off very quickly over the last few weeks and most indices arrived at or near their March 10th lows by Friday. Last week the Dow was down 464 points or 3.8%, dipping below 12,000. The Dow is now off over 11% for the year and 16% from its October 9, 2007 high of 14,164.

The Nasdaq fell 2% and is also off 16% from October. The S&P 500 shed 3.1% which brings it to a 16% fall from October highs.

The markets attempted to rally on Tuesday and Wednesday this week however both times sell-offs took over before the end of the trading day. The technical indicators on most days have not been great as generally more stocks are declining than advancing and volume has been very light on the rallies. For the markets to have a sustained rally, we need to see the volume increase on the rallies and more stocks go up than down or we are probably just witnessing a bounce from “oversold” levels.

The financials led this decline as more write-offs, more lay-offs and more dividend cuts were announced. Citigroup warned of “substantial” writedowns in its second quarter – possibly as much as another \$9 billion and announced layoffs of another 10% of their investment banking division. This will mean about 6500 more pink slips.

Merrill also announced more write-offs – close to \$4 billion. As they report another loss this quarter – it will be their 4th consecutive quarterly loss.

Many people are trying to find bargains in this sector as the prices drop to levels not seen in over 10 years or more for many of these stocks. There is lots of babble about cheap valuations and why you want to start putting money in to the markets from the “experts” on CNBC. However, the sector which leads the decline does not generally lead the rally. Just look back to the tech stocks which led the dot-com run-up but also let the bursting bubble. Most of their prices today are nowhere close to where they were in 1999-2000. Other sectors led the rally from 2003 lows.

The Nasdaq – which hit almost 5200 at its peak in March 2000 - fell to almost 1100 and today is right about 2345. You could have doubled your money if you were brave enough or lucky enough to buy at the bottom. However, if you simply held on from 2000, you are still down over 50% - 8 years later. Individual stocks in that index such as Cisco, EMC, Intel, Dell and many more techie stocks are nowhere close to where they traded in the dot-com days.

So be very careful about thinking you are scooping up a bargain in the financial service sector. It is certainly possible that we will see rallies short term these levels as stocks do get oversold and then have rallies. However, until the real fundamentals turn around, the hemorrhaging stops, layoffs decline and business picks up – it is unlikely that the all-clear will have sounded.

Consumer confidence was reported this week and it fell to 50.4 down from 58.11 last month. The high in July 07 was 111.9. This is the lowest level in 16 years. Consumers are feeling very gloomy as they see the effects of higher oil prices, higher food prices, declining home sales, lay-offs, reduced or no bonuses, etc.

New home sales are still in a free fall as the S&P/Case Shiller index reported a 16% drop in May sales this week. Today we had existing home sales rise 2% last month but the median price declined by 6.3%. Sales of existing homes are down 31% from 2005 peaks and 15.9% from a year ago. About 1/3 of current sales are distressed sales.

More bad news arrived today about the auto sector as plunging sales – especially trucks – are creating a liquidity crisis for GM, Ford and Chrysler. Goldman announced that GM was in worse shape than Ford and would have to seek capital infusions to survive. Toyota is very close to taking over the first spot in total sales. GM's stock price is the lowest in 54 years.

Inflation is still a major concern as oil continues to bounce around in the \$130-140 levels and gasoline is over \$4.00 a gallon. Flooding in the Midwest is affecting prices for grains which were already rising and predictions abound for food prices to soar at close to double digit rates.

The Fed met this week and for the first time in over almost a year, they did not cut rates and indicated that they may lean towards raising rates as they worry about the effects of rising inflation. This was not as hawkish as many were expecting and it is still possible that rates will remain the same through year-end.

Inflation remains a major concern world-wide as India and China both reported double digit increases. Both countries are trying to control inflation by raising rates. These markets have run-up much more than the domestic markets so their declines have been more brutal. The Shanghai index is down over 50% year-to-date.

Our clients who own retail stores are telling us that business has certainly slowed as pocketbooks close and everyone seems to be watching expenses. For the first time in years, there are “regular” people standing on street corners in New York City with signs asking for food to feed their families. As baby boomers see their retirement portfolios decline combined with seeing their home values plummet, their neighbors foreclose or lose their jobs, they worry about how they are going to afford retirement.

It is a difficult environment to find “safe” investments, especially if you are sensitive to month to month fluctuations in your portfolio. If rates do rise, bond prices will suffer as well. As credit issues continue to build-up, the balance sheets from formerly solid companies get weaker and their bond prices and preferred stock prices decline. With the major indexes down close to double digits year-to-date, even a great manager cannot create miracles. If you are nervous or feel your portfolio is too aggressive, seek out advice. This is a tough market and may remain so for a while. We may indeed, get a rally over the next few weeks but the concerns hounding the markets are not over and we may face more downside over the next several months.

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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