

Chapin Hill Advisors, Inc. Market Comment
April 24, 2007

The Momentum Continues...But for how long?

Last week the Dow closed at record highs as it ran up for the 7th day in a row, gaining 2.8% for the week and up 4% year to date. Honeywell and Caterpillar were responsible for a good portion of Friday's move as they reported great global sales. Both stocks rose more than 4% after reporting earnings.

For the week ending on April 20th, the S&P 500, gain 2.2% and is only 2.8% from its March 2000 peak. The Nasdaq Composite rose 1.4%, a six year high however at 2526, it is still far away from the 5000+ peak of March 2000. The small caps lagged with the Russell 2000 increasing by 1.2%.

The bulls crowed about strong earnings from Google, J.P. Morgan, McDonalds and others which beat generally beat the consensus and rosy future prospects were reported.

Private deals continued to be done both in the U.S. and overseas. Sallie Mae agreed to a buyout of \$60 a share, a \$25 billion dollar deal. This was bad news for First Marblehead, a student-loan securitizer. Two of the backers of Sallie Mae's buyout are JP Morgan Chase and Bank of America, both of whom are major customers of First Marblehead. They may now take their securitization business to Sallie Mae instead and First Marblehead dropped 17% on the week on the possibility of losing their business.

Technical traders were less than thrilled with the breadth of the market as the broad market did not rally. Volume on up-days was lighter than most would have liked if this is truly a well founded rally. Volume is the tool of the bulls and we need to see broad participation from institutions in order for the markets to sustain any rally.

China's stock market and economy both continue to vault higher. First quarter GDP (gross domestic product) rose 11.1%, faster than the 4th quarter's rate of 10.4%. The Shanghai Composite fell 4.3% on concerns that rates may rise but later recovered. China has not succeeded in containing growth and that is cause for concern.

The Financial Times reported that Chinese retail investors opened more than one million stock-trading accounts last week or more than 10-million in the past four months – greater than the past four years combined. Another sign of a bubble?

China pumped \$105 billion into the U.S. last year. Any adverse economic event which would cut down this flow would not be good for the world's largest debtor nation. If global demand is weak, China may be heading for a glut of goods which would bode poorly for corporate China and the rest of the world.

The pound rose to over \$2.00 versus the dollar – the first time in 15 years. The euro came within a penny of its record high – due to better U.S. inflation news – again that “core” inflation reading of 0.1%. The dollar continues to decline and rates overseas may follow the U.S. and continue to rise which will keep the pressure on.

The Bank of Japan has been buying dollars in order to keep the yen cheap. This helps keep rates low and fuels the yen carry trade. The Japanese who are perceived as risk-averse have been buying every market except for their own – another possible concern.

Oil continues to rise, this time on concerns about conflicts in Nigeria. Oil sailed past \$65.89 for the June contract. May gasoline gained \$0.533 to \$2.19 a gallon. Summer driving season is coming and the pinched consumer may think twice about taking that family roadtrip.

This week we are looking for reports on existing and new home sales, consumer confidence, durable goods and GDP. The markets will react if the numbers all point in the same direction – a continued housing slump and a slowing economy.

Tuesday morning brought disappointing news as the National Association of Realtors reported an 8.4% drop in existing home sales for March. This is the biggest one month drop since January 1989. Consumer confidence also fell as higher gasoline prices and worries about the economy took their toll.

Foreclosures continue to increase and California leads with 6 cities in the top 10. Las Vegas, Detroit and parts of Colorado are also experiencing high foreclosures. The vast majority of ARM's coming due over the next year are in Orange County, CA probably spelling out more bad news for Southern California.

One of Wall Street's old adages is the market “climbs a wall of worry”. While this may be true and an overbought market can continue for an extended period of time, I think this wall of worry should be heeded. Excess liquidity fueled by private equity deals is camouflaging the amount of risk in the markets. I find investors very focused on the upside performance of the last 8 months and all concerns about the market's possible downside are being put to the side.

Do be sure you are prepared for possible downside in your portfolio. Compare your portfolio with a benchmark model and see how that model performed in 2002. That year was the worst of the 3 year decline which began in March 2000. Any mix of stocks brought your overall return down and even a fairly moderate growth portfolio experienced double digit declines. Be sure you are aware of the risk in your current asset allocation.

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.

Securities offered through Linsco/Private Ledger
Member NASD/SIPC

The Opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly. OSJ 9 East 47th Street; NYC, NY 10017

