Chapin Hill Advisors, Inc.
Market Comment 6-9-08

Sell in May and Go Away?

Will this old adage prove true this year?

Certainly the first week of trading in June made many people wish they had liquidated their portfolio the last week in May as the first week of June was not a great start to the month. Was last week's decline the beginning of a new bear cycle that may last through the summer or just a correction in a trend that started in mid-March? Only time will tell.

If you have been reading my market comments, you know that I believe we are in a secular bear market that began in 2000 and may last for several more years. Within the confines of the secular trend you can have both bull and bear cyclical periods. Most recently, we had a bear cycle from the October 2007 through mid-March 2008. From mid-March through the end of May 2008, we had a mini bull cycle. The S&P rallied 12% during the latter period. I believe we are now entering another bear cycle which may take us past the lows we hit this past March.

Friday's 395 point sell-off on the Dow renewed worries that we are facing a recession and possible stagflation as growth slows but inflation continues. The Dow dropped 3.4% for the week while the S&P slipped 2.8%, the Nasdaq Composite gave back 1.9% while the Russell 2000 dropped 1.1%.

The employment report released Friday morning reported a rise in unemployment to 5.5% from 5% in April. This was the largest monthly rise in 22 years. The official count was that 49,000 people lost their jobs.

However, the Bureau of Labor Statistics includes a "birth/death calculation" designed to capture jobs in businesses that are too new to be included in the regular survey. Last month, this calculation included 217,000 new jobs – including 42,000 in construction – highly unlikely in the present environment. This means that there may be as many as four times as many people who lost their jobs than the official count reported. Certainly not good news for the economy rebounding!

Financial stocks led the decline as rumors flew last week that Lehman was going to follow Bear Stearns and was seeking a buyout. Lehman reported a staggeting $2.8 billion quarterly loss. They have written down two large real estate deals but they may have as much as $29 billion remaining. I've been asked by clients and friends how very smart people can differ so drastically in opinions on various investments (or the overall market). Lehman's real estate debacle along with Archstone Capital and SunCal Co.'s is a perfect example of some supposedly very savvy institutional investors making a really bad investment in a sector – at peak prices. They are currently paying for it dearly as Lehman is seeking $8 billion of

fresh capital. Hank Greenberg (former CEO of AIG) was interviewed on CNBC on Monday and he stated he had invested in Lehman over the weekend.

The financial sector is being compared to the tech sector which burst in the last bubble from 2000-2002. Ratings were cut on a number of banks and news continues to be rather grim with layoffs, reduced or no bonuses, continued write-offs and earnings about to be reported for many financial companies.

Funds which rushed in to purchase Citi, Washington Mutual, Wachovia and other preferred issues providing fresh capital to the financial institutions in the last few months look a bit foolish as the stocks have continued to drop – significantly. In Citibank's case, their Saudi investor has lost almost 30% of their investment so far as they injected capital when Citi was trading about $30 a share – currently hovering around $20. Wachovia's CEO was forced out and blamed much of his woes on the poorly timed purchase of Golden West Financial for $25 billion in 2006. The former CEO of Golden West was quoted extensively in Monday's Wall Street Journal disputing this sentiment and blaming a host of other mismanagement steps for Wachovia's current problems.

Oil flew out of the box in on Friday – rising $11 a barrel (the price of a full barrel in 1998!) and hit $138.54 a barrel. Short covering by various hedge funds helped to fuel this as well as a call for $150 a barrel by July 4th by Morgan Stanley and Goldman's prediction of $200 a barrel this summer.

Recently I read a report about how quickly a country's exports of oil can decline once the country reaches "peak production". In the North Sea, they went from net exporters to net-importers in less than 6 years. The U.S. is facing peak production in Mexico which comprises a large portion of our oil imports. If we do not reduce our reliance on oil, we are facing potential shortages in the next several years and increased reliance on other countries. We will also be competing with China and India as their demand for oil continues to increase. China is using natural resources twice as fast as they can be replenished.

New home sales were reported on Monday – rising 6.3% for the month but still down 13.1% from last year. Foreclosures continue to increase as 8,000,000 homes are currently worth less than what the homeowner paid. Credit card delinquencies are rising causing more distress for a variety of financial institutions. Auto sales are down and GM finally made some big announcements about trying to produce more fuel efficient vehicles. Retailers are reporting weak sales with a number of them being forced into bankruptcy. I was shocked last week to see how big the list of bankrupt retailers was - Wickes, Domain, Bombay, Sharper Image, Lillian Vernon and Linen's N Things have all declared bankruptcy. Ann Taylor, Claires Stores, Sears and others are closing massive number of stores. This does not bode well for the malls where these may be the anchor (or important) tenants.

We have had food riots in 30 countries as food prices escalate and supplies get tight. The tragic disasters in China and Myanmar caused the death of almost 200,000 people combined. China is struggling with how to offset the negative publicity on their poor building standards while the rest of the world tries to cope with what this means to all of us.

Inflation is a concern in Europe as well as emerging markets and the central banks are raising rates in an attempt to moderate inflation. There is much speculation about whether Bernanke will wait until after the election to raise rates. President Bush apparently blamed many of his economic missteps on Greenspan's raising rates just as Bush took office.

There is a shift going on in many countries to have the government assist the local population gear up their agricultural production. In the past, this was seen as tying the poor to a sustenance level of living. However, with food inflation and shortages of staples such as rice and wheat - increasing the ability to produce food locally is seen a positive. This is a trend in the U.S. as well as people convert their flower gardens to vegetable plots.

As baby boomers and the generation 60-70 years old and very active get closer to actually living on their savings, the markets gyrations can cause more stress. How much is enough? How do I ensure I will not run out of money? These and concerns over inflation, increasing costs of everything from food, oil to heat their home, gasoline, health care and home equity rates are causing the entire generation to scrutinize their portfolio.

If we are in the midst of a secular bear market, we are likely to see single digit returns on portfolios. The market is not going to be able to bail people out of poor savings habits. You cannot expect miracles from your portfolio if the markets trade sideways or fall. The analogy I like to use is that of boats sitting in the ocean when the tide rises and fall. If the tide goes out, every boat – regardless of whether it is a rowboat or the Queen Mary – will drop. Similarly, if the various indices fall, it is very hard, even for a fabulous manager to make your portfolio rise.

To protect your portfolio, you should regularly review your asset allocation. Consider adding some alternative investments or use an advisor who has methods of hedging your portfolio. You can learn how to do this yourself but it is time consuming and much to learn and track. There are a wide variety of investments which trade "inverse" an index or a sector. This is one way to consider taking advantage of declines in the market or a sector. These are riskier investments and should be used with caution and diversification.

As always, feel free to call us with comment or seeking advice.

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 LPL Financial
Member FINRA/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