

Chapin Hill Advisors, Inc. Market Comment
July 30, 2008

Deficit Ceiling Raised by Billions of Dollars

President Bush signed off on the \$300 Billion dollar rescue plan related to GSE's (government sponsored entities) Fannie Mae and Freddie Mac. The Senate approved it this week with a vote of 72-13. The bill provides up to \$300 Billion dollars for Fannie Mae and Freddie Mac to issue new 30 year mortgages to owner-occupied homes on the verge of foreclosure. The mortgages will be approved for 90% of the current appraised value.

In addition, they raised the cap on "conforming mortgages" to \$625,500 from \$417,000. Higher loan limits will make it easier for borrowers to get mortgages as those mortgages are more likely to be traded if they are considered conforming. First time buyers can qualify for a "tax refund" of 10% of the price of the home with a cap of \$7500. However, this acts more like a no-interest loan as it gets paid back in equal installments over 15 years.

Congress and the House approved an increase in the deficit ceiling from \$9.78 trillion to \$10.48 trillion. The ultimate cost of this bill will be passed on to taxpayers.

More Gloomy News

The Case-Schiller index reported a 15.8% decline in housing prices annually on Tuesday, July 29th. This was the worst decline in the 7 years since the index was created. Some areas of the country, such as Las Vegas, were hit harder with prices dropping more than 30%.

Warnings of reduced estimates and outlooks as well as more write-off's in the financials continue. It is a broad list of companies warning of reduced forecasts including Apple, Toyota, UPS, American Express, Caterpillar, Costco and JP Morgan which shows the strain in consumer spending. Chrysler stopped leasing vehicles while GM and Ford followed this morning with news of reducing the number of cars available for leasing. Poor resale prices of the leased cars along with decreasing consumer credit scores have forced them to re-evaluate this business.

John Thain is cleaning house at Merrill Lynch. The stock rallied after announcing a sale of a large amount of their mortgage products at \$0.22 on the dollar and an intended capital raise by issuing more stock. Merrill was up 7% on this news Tuesday.

The financial stocks rallied dramatically since July 15th as once again, everyone is hopeful that the worst is behind us and we're back to business as usual. The numbers are still staggering as Wachovia wrote off another \$9 Billion and exited the mortgage business. They are reeling from their poorly timed purchased of

Golden West Financial at the peak of the market and write-off's continue to amass in their mortgage portfolio.

Oil Gyration

Oil took a pause and dropped from nearly \$150 to \$122 before rebounding to \$125. The drop in oil also helped fuel the rally in stocks. The most badly beat up sectors are the ones which responded the most with big bounces in financials, housing stocks and real estate related stocks. However, the previous year's winners began to give up as the energy stocks, oil service companies and many commodity related stocks turned down as money flowed out of energy related stocks and into financial and real estate stocks.

Local Tax Crunch

A story in the Wall Street Journal last week reported the vast number of States which are having tax crunches. As home foreclosures continue to increase, vacant homes pile up, gasoline prices eat up the consumer's budget and they cut down the miles they are driving, tax revenues are getting squeezed. This is not a trend that will reverse quickly and we are likely to see this hit at the local level as well and services are going to have to be cut.

FDIC bailouts continue

Two more banks were taken over by the FDIC and they supposedly have 150 banks on the watch list. To any of the depression babies, the pictures of people lining up to get their money out of banks conjure up memories of the depression. You cannot be too careful so be sure you are with an institution that is credible and be sure you do not have more than \$100,000 in any one bank.

Consumer confidence came in slightly higher than expected and an increase of 9,000 private sector jobs helped extend Tuesday's rally into early Wednesday. The market continues to be very volatile and it is difficult for the average investor to play this market.

Short term rally likely

The markets are likely to trade in a small range over the next few weeks with a bias to the upside. Use any rallies to exit positions that you are clearly uncomfortable with when they sold off in June and July. Be sure your portfolio is suited to your risk tolerance. If you are in a portfolio which is too risky for you, use rallies to take the portfolio to a more conservative model.

Tighten your belts

If your household budget is being squeezed, take a look at where you can cut back to give yourself greater peace of mind. Small changes such as walking rather than driving or taking taxi's, making coffee at home rather than buying at Starbucks and other coffee shops, bringing your lunch to work as well as meal planning in advance can add up while not altering your lifestyle dramatically. Heating your home this winter is likely to cost 80-90% more than it did last winter. Gasoline prices are not likely to fall and may even cross \$5.00 a gallon. So be prepared and

look forward. If you do not need to tap into your savings, you are more likely to be able ride out the bear market.

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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