

HAMILTON ADVISORS

373 Stanwich Road
Greenwich, CT 06830

Tel: 203-629-1112 Fax: 203-629-1469

Greenwich - Round Hill Office

Tel: 203-622-3133 Fax: 203-622-7111

THESE MARKETS REQUIRE A LEAP OF FAITH. QUESTION: HOW BIG A LEAP ARE YOU WILLING TO TAKE?

Yesterday, Friday, November 6th, the US unemployment rate came in at 10.2% which put the US jobless rate at the highest since 1983, a 26 year record - more than a quarter of a century. Total jobs lost since the there recession began amount to 7.3 million.

We understand that the jobless figure is a lagging indicator; but, for those who do not have a job, it is not so "lagging."

As we have commented for a number of months now the rate of the economic decline has been slowing and has actually been improving in some areas. The economic numbers for the third quarter showed relative improvement, but a large portion of the improvement was as a result of government stimulus such as "Cash for Clunkers" which pulled a significant number of future car sales into the third quarter.

The outlook for the economy continues to be most difficult if not impossible to assess. That is why the Federal Reserve Bank is keeping interest rates at virtually zero. This last week it implied that the rates will be kept at these levels for as far as the eye can see.

People are hoping that the economy has bottomed out and are looking for improvement. There again, however, the question is whether a recovery would look like a V, a U or an L. It could look like an L... or a W. Presently the market at current levels

is pricing in a major V type of recovery. If the recovery is mild and extended, we do not believe the present levels of stocks will be sustained although the stock markets' recent gains have been most impressive and are most welcome.

Later on the morning of the record 10.2% jobless rate (officially unemployed Americans amounted to 15.7 million) gold reached a record high of \$1,101.90 largely, as we have said on many occasions, due to the continuing weakness in the US dollar.

The following is a quote on November 6th from the Bloomberg financial service:

*Gold Jumps to Record Above \$1,100 on U.S. Interest-Rate Outlook
2009-11-06 15:23:15.990 GMT*

By Pham-Duy you Nguyen

Nov. 6 (Bloomberg) -- Gold futures jumped to a record, topping \$1,100 an ounce, on mounting speculation that low U.S. borrowing costs will drive the dollar lower, boosting the appeal of the precious metal as an alternative investment.

The metal reached \$1,101.90, heading for a ninth straight annual gain. The dollar is down 7.1 percent this year against a basket of six major currencies as the Federal Reserve keeps its benchmark interest rate at zero to 0.25 percent to revive economic growth.

"Until Washington stops exploding the deficit, the dollar will continue to weaken, and

gold is going higher," said Tom Pawlicki, an analyst at MF Global Ltd. in Chicago.

Gold futures for December delivery rose \$8, or 0.7 percent, to \$1,097.30 at 10:20 a.m. on the Comex division of the New York Mercantile Exchange, climbing for the fifth straight day. Before today, the price gained 23 percent this year.

Richard Russell in his Dow Theory newsletter wrote in part:

Our creditors are not stupid; they see that US liabilities are rising into the trillions of dollars. We can't address our liabilities with higher taxes, we can't renege on our debts, and we can't put them off to another decade. The only solution is to devalue the dollar. It's the tried and trusted "US way." Our creditors "get it," and they are moving to rid themselves of dollars. Spend them on something of value such as assets in the ground, buy real estate in a favored area, or swap dollars for gold. But there's another long-term solution out of the current mess, come up with another currency, or a basket of currencies. Sad, but it turns out that the US dollar as the world's reserve currency was a bad idea.

Gold no longer moves opposite to the dollar. Today the dollar was higher and gold was also higher. Gold is now acting as an anti-fiat currency. Gold is now serving as an alternative currency, and it's moving up against almost all central bank-created fiat currencies (which is why the central banks hate and fear gold). In rising, gold is giving the "middle finger" to all central banks, and of course, their business is fiat currency, money which is backed by nothing except the word of politicians.

On November 3rd it was announced that the International Monetary Fund had sold 200 tons of gold to the Reserve Bank of India for \$6.7 billion. *"Central banks in India and China will be happy to accumulate gold at these levels. I will not be surprised to see even some Southeast Asian banks buying gold," Aaron Smith, head of the \$1.65 billion technical trading fund Superfund, told Reuters.*

Connect the dots. As long as the economy is weak, unemployment will remain high. As long as employment is high the government will attempt to stimulate the economy by spending more money. As long as more money is spent the Federal Reserve will supply it (paper money) at extraordinarily low rates. As long as rates are extraordinarily low, the dollar will weaken versus other currencies, tangible assets, commodities and gold. A weak dollar looks good to some in the short term as America's exports become more competitive at lower dollar prices. But it cannot be sustained. There comes a point when others won't accept a devalued currency which is only paper (fiat money) that represents the promise to pay the bearer the face amount of the note. As Russell said: "Our creditors are not stupid." They have been and are right now swapping their dollars for tangible assets such as oil, copper and gold and stocks of companies owning those assets. The same is happening in the case of the euro, the pound and the yen.

We hope these comments shed a bit of light on the dynamics affecting the stock, bond and currency markets. The value of our currency affects our lives in innumerable ways. Always has, always will.

John W. Hamilton

November 6, 2009

**PRIVATE WEALTH MANAGEMENT
SINCE 1980**

We again bring to your attention our Commentary "DAVID McCULLOUGH, GOLD AND THE DOLLAR" --- www.hamiltonadvisors.com/feb2007.htm Should you wish, we will gladly send you a copy.

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