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"When You Come to a Fork in the Road, Take It!" - Yogi Berra

We have seen a lot of roads, and we have seen a lot of forks, but we've never seen such a stupendous Fork as we are seeing in today's markets.

There has been a lot of buying of stocks by the ever present speculators, of course, and there are also huge bets being laid down in the form of stock purchases and equivalents by investors who feel they have "missed the boat." Many of those are hedge fund managers and others whose incomes are determined by the annual/short-term performance of the funds they manage.

All this is fine as these are the types of decisions that cause markets to go up and down. The buyers and sellers are caught up in a constant struggle just like the Bulls and the Bears. This reminds us of the largest and most impressive bronze we have ever seen of a giant Bull and a giant Bear locked in a ferocious struggle-to-the-death located at the entrance to the New York Stock Exchange Luncheon Club. We are sure you have all seen pictures of this battle which has gone on for centuries.

Yogi Berra's advice is worthy of attention as the Fork in the markets has one branch supported by the above-

mentioned bulls while the other branch is followed by investors who "cannot connect the dots." They cannot reconcile today's stock prices with the reality of the economy and its outlook. They look for the long-awaited economic recovery and come to the conclusion that while there are positives, there is still no clear-cut direction.

This morning, October 2, 2009, the Labor Department reported job losses were accelerated to 263,000 in September bringing the US unemployment rate to a 26-year high of 9.8%. This was the 21st consecutive month of losses on the job front. Some calculate that the "real" unemployment rate approaches 15%.

Steven Stanley, chief economist for RBS Securities (sort of a bull) said: "We are more inclined to view September as a temporary setback than as a signal that the decelerating trend in job losses has stalled out. It is far too early to be pulling the alarm on this nascent recovery."

On the other hand, Harm Bandholz of UniCredit Research (sort of a bear) said: The weak employment report lessens hope for a sustainable recovery. Once the impact of the inventory cycle and the fiscal stimulus has run its course,

gross domestic product growth will slow down eventually again."

Democrat Vice President, Joe Biden, said "Job losses would have been far worse without the stimulus."

Republican John Boehner who leads the House said "We are headed for what appears to be, at best, a jobless recovery. That is not what the American people were promised."

Once again it is obvious that every coin has two sides and that when we come to Yogi's Fork we should take it.

Housing sales have been improving. That is a most welcome sign. Two significant reasons are 1) that the \$8,000 tax credit given to new home-buyers has been an important stimulus and 2) the fact that the prices of homes have fallen significantly. A possible small problem: the stimulus tax credit will be expiring shortly and many are trying to get in under the wire. Will the market stay strong after the stimulus is gone?

Of course we all remember the car buying incentive of a month or so ago known as "Cash-for-Clunkers." That stimulus also seemed to work well albeit at a tremendous expense for the American taxpayer. Some of us even wondered how car sales would fare not too long after the program was terminated. Now we have an idea.

The *Financial Times* reported this morning, October 2nd: "US car sales close to year low. Expiry of clunkers scheme hits demand - GM and Chrysler are heaviest casualties.... US car and light truck sales came close to plumbing new 2009 lows in September, with weak

consumer demand exacerbated by the expiry of cash-for-clunkers scrappage incentives and unusually low inventories of some popular models. The heaviest casualties were General Motors and Chrysler, the Detroit car makers that restructured under bankruptcy-court supervision this year. GM's sales dived by 45% from September 2008, an unusually strong month and by more than a third from August. Chrysler was down 42%.... Total industry sales dipped to an annual rate of about 9.2 million units last month, from 14.1 million in August and 12.6 million in September 2008."

That's sort of bearish news especially when Ford Motor stock rose sharply in the last few days due to high annual auto sales expectations. How solid are those expectations?

We will not comment at this time on the weakness of the US dollar and many other issues that lead us to continuing caution with a stock market which we do not believe has the fundamentals to support its recent levels. We continue to have a conservative intermediate-to-longer-term view of investing and continue to believe that "Water still runs downhill." For a company to have its market valuation double, for example, from \$10 billion to \$20 billion, it seems that there has to be relative improvement in the underlying fundamental business and outlook for that company. Many companies in recent months have reported higher earnings on lower revenues... not stronger fundamental business. "Pie in the Sky" stock prices, as a result of corporate cost cutting, may work for a while but generally end in tears.

We remember a few years ago when there was a big push to buy stocks because the pundits told the little people that it would not be long before we would run out of stocks. Better get them now was the advice, and many stocks went up sharply --- for a while anyhow. But then, as nature would have it, water started running downhill and the whole "buy stocks because there's going to be a shortage of them and we're going to run out" theory collapsed and ended in tears for many.

On September 11, 2009 the *Wall Street Journal* had a front page article: "Harvard, Yale Are Big Losers in 'The Game' of Investing" authored by John Hechinger.

Hechinger wrote: "It's a tie in the Harvard-Yale investment game. Both schools were thrown for colossal losses.

"The universities on Thursday said their endowments, higher education's two largest, each lost 30% of their value in the year ended June 30 (2009). Combined, the pair of investment pools shrank by a staggering \$17.8 billion.

"Declines in the endowments have forced the two schools to cut budgets and delay plans to expand facilities and hire staff, as even the country's top colleges are being forced by the financial crisis to retrench. The pain is being felt widely across higher education."

(A copy of this most interesting and relevant article will be supplied upon request.)

Our advice is to take a step back next time you are tempted to think that the gurus/geniuses who run large pools of

money have all the answers and are exempt from the laws of Common Sense.

What happened with many of the world's largest money managers in the last year and a half is that they became exempt in their own minds from having to remember the basics and from having to play by the rules. Their egotism and greed trumped the simple reality of the Tortoise and the Hare.

Question: Water will always run downhill, but when it gets to the Fork which path will it take? Answer: It will follow both paths until one of them begins to run uphill. We believe the same should be true for investment decisions.... Particularly if one wants to avoid 30% losses.

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