HAMILTON ADVISORS

373 Stanwich Road
Greenwich, CT 06830 **Tel: 203-629-1112 Fax: 203-629-1469**

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ROUND AND ROUND SHE GOES --- WHERE SHE'LL STOP, NOBODY KNOWS!

We are now into September, the "Cruellest" month, at least as far as stocks go, and after some impressive gains the stock market has been most indecisive recently. In our experience rising prices in stock markets cannot and will not be sustained for long without a sound foundation, i.e. without sound business, fiscal and monetary behavior.

On August 7th we wrote: Obama says 'worst may be behind us' on recession – AP. On August 7th the Labor Department announced that the US jobless rate "declined" to 9.4%, a mark it hit in May when that same number was at an almost 26-year high. On September 4th the Labor Department announced that "Employers cut jobs in August at the slowest pace in a year, but a jump in the unemployment rate to a 26-year high of 9.7% reinforced worries that a weak labor market could weigh on consumer spending and the vigor of the economic recovery. Teenage unemployment hit 25.5% the highest since the government began keeping records in 1948. " WSJ Sept. 5-6, 2009

While the overall economy seems to be improving to some degree, many sectors continue to show little or no signs of improvement.

We repeat from last month: "The biggest game in Washington and Wall Street today is to predict whether the "recovery" will take the shape of an L, a U, a V, a W or something that will look like your cellar/attic stairs. This country and the rest of the world desperately need a strong recovery. But is a recovery really guaranteed? If so, by whom?"

The economy in this country and abroad is improving to the degree that its decline is slowing. The Federal Reserve's August 11th and 12th meetings were more positive, according to the minutes. They "showed Fed Chairman Ben Bernanke, and his colleague's striking a much more hopeful note about the economy's prospects compared with an assessment made in late June. Many Fed officials saw "smaller downside risks." A number expected the pace of the recovery to pick up in 2010, but there was a variety of expectations about the strength of the recovery due to questions about how the consumer will behave.

The American consumer has been the engine of economic growth for a number of decades, and the consumers' ability or willingness to spend this country's way out of recession is, in our opinion, the key to the timing and strength of the recovery. Consumer spending is impossible for the man or woman who is out of a job; it is problematic for the person who thinks that he may not have a job in the near future. Those who cannot pay their mortgages, car payments or credit cards are not likely to be much of a help as far as spending America's way back to recovery, let alone to a vigorous recovery.

The 27 EU finance ministers who plan to meet in Pittsburgh on September 24th and 25th for the G20 Summit have agreed that recent signs of Europe's recession bottoming out, while welcome, were not enough to justify rapid removal of emergency measures still in effect. Wouter Bos, the Dutch finance

minister, warned: "We will need to think about exit strategies, because in the end the huge deficits will threaten the euro." We recall hearing that here in America because of huge deficits threatening the dollar. At any rate, they put a cap on European bankers' compensation as one small step for mankind.

Announced on Friday, August 21, after the markets closed on summer weekend, was "<u>$2 Trillion Higher Deficit Projected</u>. The new projection is for a cumulative 2010-2019 deficit of $9 trillion instead of the $7 trillion previously estimated. The new figure reflects slumping revenues from a worse economic picture than was expected earlier this year…. Ten-year forecasts are volatile figures subject to change over time. But the higher number will likely create political difficulties for President Barack Obama in Congress and could create anxiety with foreign buyers of US debt." New York Times, August 21, 2009. Read: could create anxiety with foreign buyers of US dollars, still the World's Reserve Currency.

<u>For a very long time we have been extremely concerned about the value of the US dollar</u>. The reasons are clear, and there are many. We believe short-term fluctuations in the stock markets are trumped by the value of the currency. The value of the US dollar should be of concern to everyone as it directly and immediately affects each of us. Just as the "recession" will not disappear until the "credit crisis" is properly worked through, your financial future will not be stable until your currency is stable. The fact that you may accumulate more dollars becomes less and less relevant as those dollars have less and less value. And that is what is happening at an alarming rate and which has the potential of accelerating exponentially! Where she'll stop, nobody knows!

The simple truth about immense government debt (the US' current and projected debt, for example) is that it cannot be paid off except with hyperinflation. The government is fully aware of this.

There are still people alive in Germany, who lived through the hyperinflation of the Weimar Republic; how it brought Hitler to power and ultimately was the cause of World War II.

Cheap money is the debtor's best friend and the creditor's worst nightmare. Skyrocketing interest rates that accompany hyperinflation will make us look back quizzically at the days when the Federal Reserve gave the banks money for free.

It appears that others have been contemplating the present and future value of the dollar lately as gold last week traded up to almost $1,000 an ounce and closed at 994.58 on Friday, September 4th.*

John W. Hamilton

****A short and informative article is "What Effect Will Hyperinflation Have? - Seeking Alpha … http://seekingalpha.com/article/96723-what-effect-will-hyperinflation-have***

We also point out our Commentary "DAVID McCULLOUGH, GOLD AND THE DOLLAR" www.hamiltonadvisors.com/feb2007.htm

jwh@hamiltonadvisors.com

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