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## BEING A NEOPHYTE AND TRYING TO TRADE THIS MARKET MAKES ME THINK OF A PERSON TRYING TO REMOVE HIS OWN APPENDIX

The first seven months of 2008 have certainly presented challenges of many stripes. Fannie Mae and Freddie Mac have scared the Fed into issuing them a blank check from the American taxpayer in order to keep the American housing market from crashing. (Fannie Mae just slashed its dividend 85% as its quarterly loss rose to \$2.3 Billion.) Then we have the political front, the credit front, oil prices and Iran's continuing to build potential nuclear weapons. Even Warren Buffet is down around 20% so far this year.

Where will it end? It won't.

As of today every major market is down for the year-to-date. In percentages: Dow Jones -12.13; S&P 500 -12.20; Nasdaq -12.31; Germany's DAX -18.66; France's CAC -20.39; Italy's MIB -22.99; Netherland's AEX -21.04; Portugal's PSI -36.47; Spain's IBEX -22.21; Switzerland's SMI -15.04; and, UK's FTSE -15.15.

In Asia: Hong Kong's Hang Seng -20.60; India's BSE Sensex -25.08; and, Japan's Nikkei 225 -14.26.

Of note is the fact that every major world market is down more than the U.S. markets --- although the Dow was down 16.4% several days ago before a one-day 330 point recovery.

The dollar which had been very weak, especially against the euro when it was 1.60 to the euro, is now slightly above

1.54 to the euro. We see this more as the euro's becoming weaker rather than the dollar's becoming stronger although many are calling for a continuing dollar rally. It is, of course, possible although we do not see how the economic plans proposed by either presidential candidate lend themselves to strengthening the U. S. dollar. We believe the opposite will be the outcome of the proposed massive spending programs put forth by each.

Good news is that oil prices have come off a high of \$147 per barrel to \$120 today. As that has happened and as other commodity prices which skyrocketed in the last several months have dropped sharply -- we think in large part due to hedge fund selling --- there has been at least a temporary feeling of relief. We, however, are convinced that the "oil problem" will not go away and that neither political party has a solution that will materially help Americans, especially in the near term. Economics 101: As long as there is demand for a product that exceeds the amount of that product that can be produced or otherwise supplied, prices will trend higher.

The financial markets continue to be most challenging. The Credit Crisis has not begun to go away, and real estate has not begun to stabilize let alone recover on a large scale. Meanwhile, the Consumer reigns, as usual, and consumer behavior will be of paramount importance as it

affects every nook and cranny of the economy, meaning your pocketbook.

With that in mind, I would like to quote several comments from our friend Jim Grant's June 27, 2008 issue of GRANT'S INTEREST RATE OBSERVER titled "This time --- really --- it's different."

"The elder J.P. Morgan famously warned his son the banker not to sell America short. Advice for the ages, it would seem, especially as it bore on the American consumer. Never before have so many spent so much for so long with so little reference to current income.

"But nothing lasts forever, and Mr. and Mrs. America, we predict, will shortly disappoint their hundreds of millions of fans and economic dependents. They will spend less, borrow less and save more. There would be nothing so strange about that --- certainly, nothing to shock --- except for the track record. On form, the American consumer is no more prone to save than the American Marine is to retreat."

"However, with joblessness rising, house prices falling, gasoline prices orbiting and credit contracting, even America's iron wallets must adapt....

"Not much is certain in this life, but it's a pretty good bet that the American consumer won't go meekly into the night of prudence."

Today houses can no longer be used as ATMs, and as Jim Grant continues "Twenty years ago, the ratio of mortgage debt to GDP was in the neighborhood of 30%. By 2007, it had topped 76%, at which time homeowners collectively owned only 47.5% of the equity in their dwellings; for the first time, lenders held claim to more than half." The percent of the home-equity owned by the homeowner is continuing to

decline with the continuance of falling home prices.

How will the validity of Mr. Grant's observations about the American consumer affect the financial markets?

For the answer, like the weather, all we need to do is to wait.

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