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QUALITY IS NEVER AN ACCIDENT; IT IS
ALWAYS THE RESULT OF INTELLIGENT
EFFORT." John Ruskin

January 11, 2009

WHERE'S THE OUTRAGE?

The year 2008 produced stock markets that were among the three worst in the last 130 years.

On December 2, 2008, Harvard University President Drew G. Faust and Executive Vice President Edward C. Forst '82 informed the deans that Harvard Endowment's lost \$8 billion or 22% for the four months from its fiscal year-end on June 30, 2008 when the almost \$37 billion endowment --- the largest in higher education, if not the world --- suffered the largest decline in modern history.

This is momentous due to the fact that Harvard's \$8 billion (22%) decline is larger than the endowments of all but four other universities -- Yale, Princeton, Stanford and MIT.

Further, it should be noted that the announcement did not tell the whole story as: *"The estimate of 22 percent may not fully capture the actual losses from this period. Forst said in an interview yesterday, as some of Harvard's money is invested with external managers that have yet to report their latest figures. Faust and Forst wrote in yesterday's letter the University should plan for a 30 percent drop-off in endowment value for the year ending June 30, 2009."* The Harvard Crimson -- 12/2/2008.

Yale, not to be outdone, announced its endowment had declined by 25% over the same four month period.

"From June 30 through Oct. 31, Dr. Levin (Yale's president) said the endowment's marketable securities had fallen 13.4%. But the Yale endowment is heavily invested in illiquid securities, such as private equity and real estate. The 25% decline takes into account an estimate of those securities' declines as well."

These words from the heads of Harvard and Yale support our belief that the financials and performance figures for accounts owning these types of assets have not been accurately reported to the public or in their annual reports for many years. But that is another story for another time. The Bernie Madoff fraud also provides an excellent example of investors and authorities being given inaccurate financial statements for many years.

In other words, the reality is that the amounts of losses in these funds are not determinable because of numerous extremely important problems. Yale and Harvard like other institutions, hedge funds, and retirement systems holding toxic waste, derivatives, real-estate (residential and commercial) and private equity, to name only a few "sophisticated asset classes," 1) do not know what they have, 2) do not know what it is worth and 3) do not know where it is --- but

other than that, everything is OK. We have been looking at incorrect financial figures for years!

We invite you to visit our Web site www.HamiltonAdvisors.com. Under Commentaries you will find one titled “Chickens Coming Home to Roost – Credit Crisis” written on August 16, 2007. We believe you will find it to be relevant and interesting. Copies will be sent upon request.

On January 9th of the New Year 2009, there was, as usual, some bad news and some good news. The bad news was that job losses in December alone were 524,000 resulting in an unemployment rate of 7.2% versus 5.5% not too many months ago.

The good news was that the job losses were not in the estimated 700,000 to 800,000 range with some estimates going as high as 1,000,000. These estimates by so-called “experts,” as you can see are about as useful as security analysts’ estimates for corporate earnings, and economic outlooks.

In good old 2008 a total of 2.6 million jobs were lost with 1.9 million of that coming in just the last four months. This country now has 11 million unemployed, the highest since June 1983.

We do not believe these figures and look for December’s figures to be revised sharply upward next month just as October’s and November’s were on January 9th. October’s job losses were revised from 320,000 to 423,000 while November’s losses were revised up to 584,000 versus the previous 533,000.

Mr. Obama is now saying that his economic recovery plan will create or save three to four million jobs. We hope he is right.

The credit/economic outlook is not good. And despite the “talking heads” on TV and the all-knowing experts who put their words into print, nobody in the world knows how far we are into these problems or how they can be fixed. This country and the world have never dealt with a crisis of this type before. The governments and central banks (the Federal Reserve in this country) do not have a clue, but at least they are doing something in hopes that with luck they may stumble onto actions that could be helpful.

In the bond markets we have seen Treasuries trade to a zero percentage return – all time lows - while municipal bonds are trading, often at huge premiums, over Treasuries and some corporate debt. The outlook for much previously highly-rated municipal debt is so grim that some are offering twice the return of the 30-year U. S. Government bond. As business contracts, the taxes received by states and municipalities are severely reduced while the demand for services continues and even escalates as the states are looked upon as the saviour.

It’s ironic that the one piece of really good news, lower gasoline prices, results in much lower taxes collected on that product by the states.

It’s also ironic to us that one of the major causes for this country’s and the rest of the world’s finding its collective self in this mess is as a result of unrealistically cheap money, i.e. the low costs of borrowing, and the excessive spending by almost all inhabiting the planet – people and governments.

Now the solution to these problems seems to be exactly the same --- the cheapest money in history and the most spending in history resulting in the biggest public and private deficits in history. Will that be the solution?

Knowledgeable people around the world are trying to figure out where to put their money --- the U. S. dollar, the Euro, the Japanese yen, the English pound, the Swiss franc, the Chinese yuan and renminbi. Forget about Iceland's krona; it and Iceland's banks are gone.

Paper money is highly suspect because of the feared inflation that will follow all major countries' – and many minor countries' – turning up their printing presses to pump trillions of units of paper currency, fiat money, into the world economy to solve the present problems. We do not believe these oceans of paper money will solve all the problems.

Our thoughts over the last several years have once again turned to gold.

Gold, the one currency man finds most difficult to debase or destroy, is becoming more and more important as an investment in this scenario. Gold, of course, pays no dividend and it is generally inedible.

Nevertheless, the demand for physical gold has been increasing exponentially. We understand the gold refineries in Switzerland are running five to six months behind schedule.

When President Bush took office in 2001, gold was \$285 per ounce. On March 17, 2008 gold traded at \$1,014. Since then it has come back to today's high of \$867.

Again, we invite you to visit our Web site and under Commentaries look for "David McCullough, Gold and the Dollar" written on February 16, 2007 when gold was \$670 per ounce. Copies will be sent upon request.

Oil prices are the bright side, at least temporarily. Oil's price illustrates the human

frailty of trying to forecast the future. Who could have predicted when oil was \$140 last summer that it would be around \$40 today?

With a smile we remember the German word "Schadenfreude" meaning enjoyment obtained from the troubles of others.

That word and three characters in particular come to mind when we think of how happy the three must be with \$40 oil as the markets teach them once again that "what goes around comes around."?

- Vladimir Putin (Russia)
- Mahmoud Ahmadinejad (Iran) and
- Hugo Chavez (Venezuela and 100% owner of Citgo)

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John W. Hamilton

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**PRIVATE WEALTH MANAGEMENT
SINCE 1980**

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