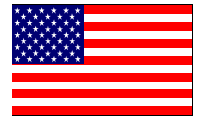


Hamilton-Bates

Update

April 8, 2008



P.O. BOX 270 Newtown Square, PA 19073 877.768.4247 www.hbir.com

2Q Off to a Good Start

Against the backdrop of Federal Reserve Chairman Ben Bernanke's testimony before Congress, stock market investors pushed stocks to their best start to a quarter in nearly 70 years, gaining 4%. In testimony before Congress yesterday, Fed Chair Ben Bernanke told lawmakers that the U.S. economy could face recession during the first half of 2008. While this isn't necessarily news to investors who have been watching the markets and keeping tabs on economic vital signs such as recent unemployment and consumer spending trends, it represented a notable departure for the normally positive Fed Chairman. The central bank has undertaken a series of extraordinary measures over the past weeks and months to jump-start the stalled credit markets, including cutting interest rates and opening its direct lending facility, known as the 'discount window', to Wall Street firms. Most analysts expect the Fed to cut the key federal funds rate—it currently stands at 2.25 percent—at its next policy meeting on April 30. Bernanke also defended the Fed's decision to provide funding for the Bear Stearns buy-out as necessary to prevent a 'chaotic unwinding' of investments held by Bear Stearns' counter parties.

Economy, Interest Rates, and Earnings

The Institute for Supply Management's non-manufacturing index rose slightly last month—to 49.6 from February's reading of 49.3—although that sector of the economy is still slowing. (Any number below 50 indicates contraction.) Surprisingly, real estate and rental and leasing were the two service industries that showed the most growth in March. The transportation sector was the most rapidly contracting industry. Respondents to the ISM survey continued to cite high energy costs and commodities prices, as well as the distressed financial markets, as challenging to business conditions. U.S. businesses trimmed their payrolls in January, February, and March, with Friday's employment report showing a loss of 80,000 jobs in the month. Such readings confirm a clear trend in other economic data, and

reinforce our view that the economy has been in recession since the end of 2007.

Outlook

Stocks are again higher on a weekly basis. There were more declines to end last week and choppy trading on Monday. However Tuesday saw another surge that approached 4% gains. The market then consolidated over the next three sessions but that was favorable action in the face of some poor economic news, including Friday's employment report. This looks like a market that 'wants' to go higher. Buyers seem to be coming back on weakness, which is a change from a month ago when any rally was used as an excuse to sell. Market action is a reflection of future expectations and not past events. If there is hope for an economic rebound toward the end of this year the market will move ahead of that. We remain optimistic for the second quarter, and believe the current rally has further to run. Advisory Sentiment remains positive and insider buying continued. Those two indicators are at their best levels since 2002 and we see lots of positives in the current market.

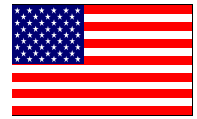
We'll reiterate this recap from last week, as not much has changed. Once again, whether the economy is in a recession or not won't matter for the near-term direction of the market. The stock market historically bottoms months ahead of the market, so the outlook and data will still be negative even as the market turns up from THE low. Even if we are in a long slowdown, there will be intervening pauses where the market makes sizable gains. At worst we are in one of those now. Given the weight of the evidence; low rates, extreme negative sentiment, favorable valuations, bullish divergences across technical indicators, and seasonal factors, we believe the market has made a low, likely to last into May or even June. We should see an advance that takes the market up at least 7-10% from current levels. It was a lousy end of Winter for the market, but its Spring and hope springs eternal. Look for a move nicely above 1400 on the S&P.



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Market Charts and Technical Indica-

Another Week to Build On (S&P 500)

A good week for a market as it held onto a big gain and in the face of weak economic news. The belief here is that the market is in the early stages of a rally that should work back above 1400 in the weeks ahead. We have seen a 6 month decline, so we should see at minimum of a one-two month rally even if it is just a counter trend advance. The previously noted 'bullish hammer' pattern at the low held, and we have seen a successful retest of the low brought about by the Fed's intervention. This intervention possibly prevented a cathartic washout, so we may not see a robust rally right away, especially with rumors and concerns over the financials rampant. Still we expect to see gains of 7-10% over the course of the upswing, taking the S&P above the 1380-1400 resistance area towards 1450. Although maybe not on the first try, we could see a correction after the first attempt to move above 1380.

Indicators Looking Up

As we noted last week there are numerous indications that are pointing to the beginning of the first sustained rally since the October highs. One of these is the significant number of bullish divergence across our technical indicators. Bullish divergences occur when price (in this case the S&P) makes a new low but a corresponding indicator does not. In other words the indicator is not confirming the new price low. As an example see the chart at right of the S&P 500 and the MACD Indicator (bottom panel of chart). We saw a new S&P closing low in March (noted by falling line in S&P chart) but the MACD Indicator made a HIGHER low (rising line in MACD chart). This is bullish and suggestive of a trend change. Looking at the moving averages (colored lines in S&P chart) we can see the S&P has moved above the 10 and 50 day averages (blue and red lines respectively). Also, the 10-day has crossed above the 50 day. This is known as a 'golden cross', and indicates that the short-term trend is up. That the S&P 500 is above its 50-day average is positive as well. We'd like to see the 50-day average contain any corrections from here.

