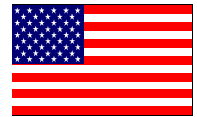


Hamilton-Bates

Update

May 7, 2008



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The Fed's Moves and Employment Outlook

Last week was all about the what the Fed would do and what the April Employment Report would look like. At first the market was up sharply as the Fed cut rates Wednesday afternoon at 2:15 PM. After a quick upside reaction indexes turned down and ended the day with a loss. It seems that the market anticipated the 0.25% rate cut but had hoped for some more encouraging comments regarding inflation. Thursday saw some positive Friday's unemployment data was also positive, showing a smaller drop decline than had been predicted. After a big early gain the market once again faded late in the session, but overall the week was a modestly positive one.

Economy, Earnings and Interest Rates

Last week generally was a positive one for economic data, as consumer spending in March rose more than expected while the ISM said April manufacturing contracted a bit less than forecast. That trend continued into this week, as on Monday the ISM Service report showed a jump up to 52 from last months reading of 49. Anything below 50 signals contraction. This is just another sign that possibly the economy is not as bad as feared.

The Fed cuts rates for the seventh time since September of last year, and the rate now stands at 2 percent. Fed watchers had been expecting the quarter-point decreases, and the focus for most investors was the central bank's press release, which provides insight into the future direction of monetary policy. The consensus among analysts who follow the Fed is that the central bank would likely hold steady at 2 percent through the next several FOMC meetings unless the economy begins to deteriorate rapidly. For the first time under Ben Bernanke's leadership, the Fed acknowledged that energy and commodities prices have 'increased' despite 'improved' readings on core inflation. The brisk rally in commodities since the beginning of the year poses a real challenge for the Fed's policymakers. At the center of the central bank's economic forecast through the end of the year is a 'projected leveling-out of energy and other commodity prices'. Essentially, the Fed thinks that a slowing economy and rising unemployment will cause food and energy prices

to decline in the second half. In the past, a slowdown in the U.S. economy, and the drop-off in energy consumption, was enough to send the price of oil lower. But there are indications that the dynamics of global energy consumption have changed thanks to the rapidly developing economies of China, India and the Middle East, which is consuming more and more of the oil it produces. In addition to rising global demand driving prices higher, the Fed's rate cuts have an inflationary effect on these markets since rate cuts tend to weaken the dollar. A weaker dollar tends to cause commodity prices to rise.

Outlook

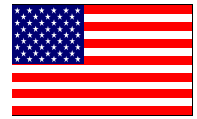
After six straight months of losses, April was no fool and was a good month for stocks. The Dow Industrials have rebounded off their March lows and closed out the month with an overall gain of 4.5 percent. The S&P 500 bounced a like amount. Even the lagging NASDAQ pared much of its year-to-date loss in recent sessions as investors bought up large-cap technology shares after strong first quarter results from IBM, Apple and Google. Markets are said to climb a wall of worry and that has certainly been evident this year. It is easy to understand the minds of the current sellers. They read, see, and hear all of the bad financial and economic news and they move to the sidelines. However, there has been buying interest (unlike the slides of 2000-2001), and they obviously see things differently. Buyers here, especially in the financial sector, view the situation as a 'stocks on sale'. We would also note (as Warren Buffet did this past week) that a weak economy does not NECESSARILY mean a weak stock market. Unlike 2000, we are in a credit bubble, not a stock market bubble. Stock valuations remain reasonable, its that earnings remain vulnerable, especially for the U.S., depending on how economic conditions unfold from here. If the 'worst' is behind, the low is in. We continue to be cautious, as trend confirmation has not come yet. We favor high quality stocks and funds that invest in companies with international exposure, solid balance sheets, and sustainable dividends. **The short-term trend of the remains intact. If the market can sustain the move above the 1400 level (S&P), it would turn the long-trend upward as well. That as of yet has not happened.**



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Market Charts and Technical Indicators

S&P 500 Pushing Through Resistance

Not only did we have a Fed meeting and the subsequent reaction, but there were also lots of earnings reports and economic data last week, including the Mother of all Data, the Employment Report. There also continue to be fierce sector rotations keeping traders scrambling. Nevertheless, the bulls retained control and posted gains for the third week in a row as the DJIA gained +1.3%, the S&P 500 +1.2%, the NASDAQ +2.2%, and the Russell 2000 +0.53%. This week's moves also have the market pushing above the 1390-1400 resistance band we've been watching for several weeks. **We would not want to see the market fall back below this area now that it has moved back above it. If it did so, it could signal a false breakout.** A move below the lower rising channel trend line around 1380 and the 50-day average (red line), now about 1350, would confirm the entire upward move from March as over. From here, the market needs to build a trend of higher highs and higher lows, showing a sustainable up trend is unfolding. Upside resistance comes in around 1430 (the 200-day average in yellow). We believe that is the next target.



S&P Weekly Chart

A longer-term view of the S&P shows the tops in 2007, followed by the drop into March of this year. The drop broke the up trend dating back to the 2002-2003 lows (solid lines moving up and to the right in the chart), but the market managed to find support around the 200 week average (yellow line) twice (Jan and March). The low was confirmed by the turn upward of many technical indicators like MACD shown in the chart. The next significant resistance will be the underside of the now broken rising trend line back to the 2002 lows (now about 1360). The red line in the chart corresponds to the 200 day average shown in the daily chart above, now just slightly higher than where the market is now.

