



HANLON
INVESTMENT MANAGEMENT, INC.

Market Commentary



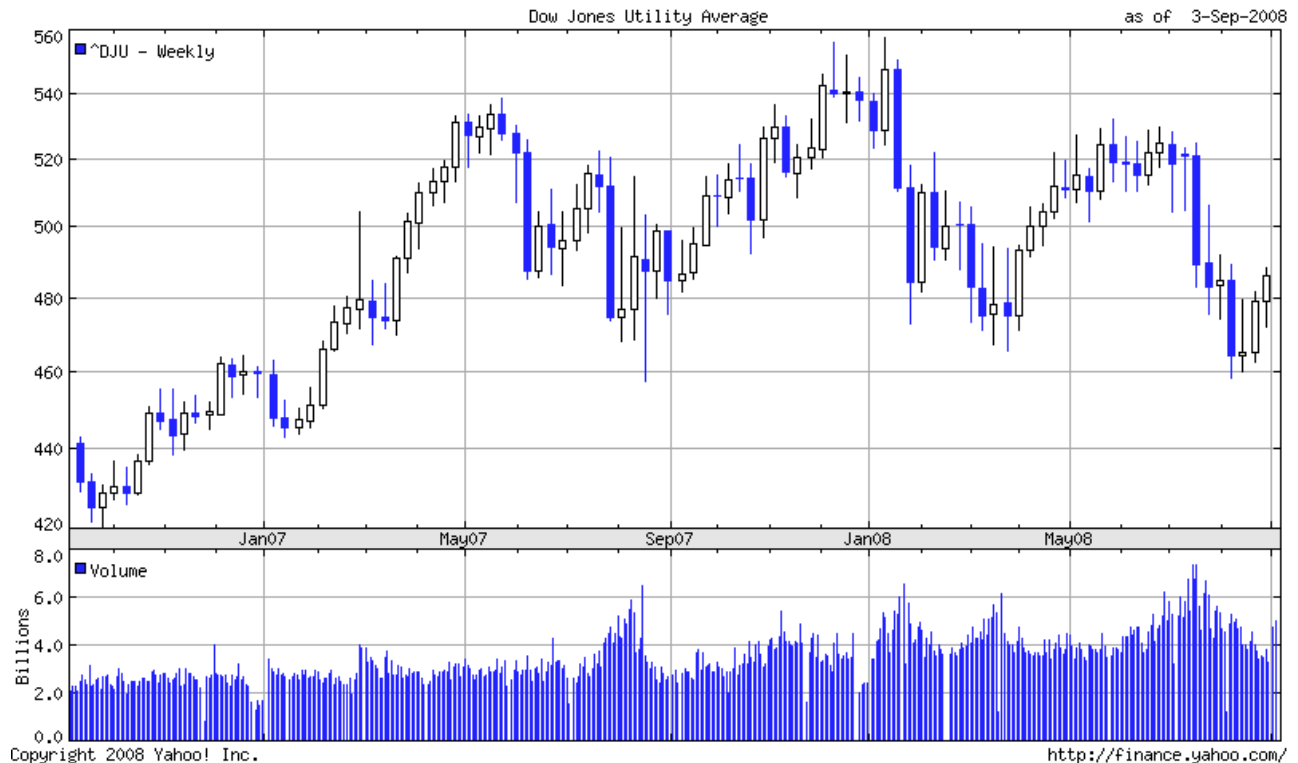
Sean Hanlon, CFP®
Chief Executive Officer and
Chief Investment Officer

Dow Jones Utility Average – Careful!

09/04/2008

The Dow Jones Utility Average (DJUA) is displaying one of the most classic “bearish” technical analysis patterns – the head and shoulders pattern. Reviewing the chart below of the DJUA one can see this classic chart formation. Typical interpretation would be that the index is headed for a precipitous fall, to somewhere around 400 – a 15%+ drop!

DOW JONES UTILITY AVERAGE

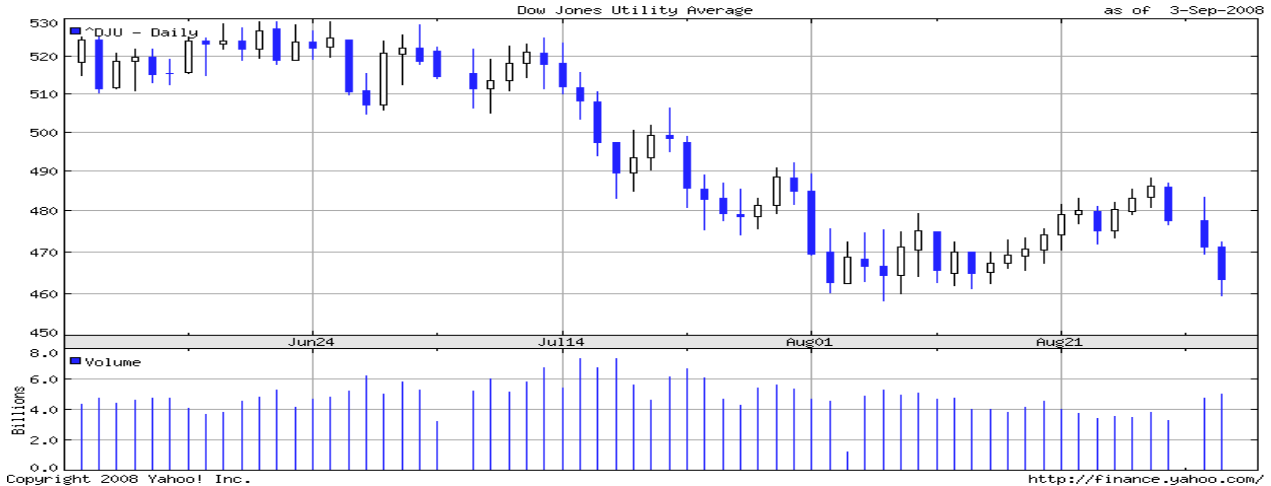


A short term view is in the next chart.



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Why may utilities be headed for a fall? Hard to say, especially since normally the recent drop in high quality interest rates, as indicated by the drop in the US 10 yr. Treasury from 4.10% in late July to 3.70% currently, would be good for utility stocks, making their yields that much more attractive. The answer could be that the drop in utility stock prices is indicating that the economy is headed for such tough times that even utility companies, known for their stability, will have a hard time. Another reason for the possible fall in utility stock prices could be a coming *increase* in interest rates. Not today or tomorrow, but sometime in early 2009.

What is an investor to do with this information? For starters, be careful allocating any new funds to utilities and any other long-term fixed income type investment. True, in the reach for yield in this otherwise low interest rate environment, utilities may be an attractive solution. But the risk to your principal here is too great. We remain 100% invested in money markets in all allocations.

Thank you,

Sean Hanlon, CFP®
CEO and CIO

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