CRITICAL MATH ADVISORS
JUNE 2009 NEWSLETTER

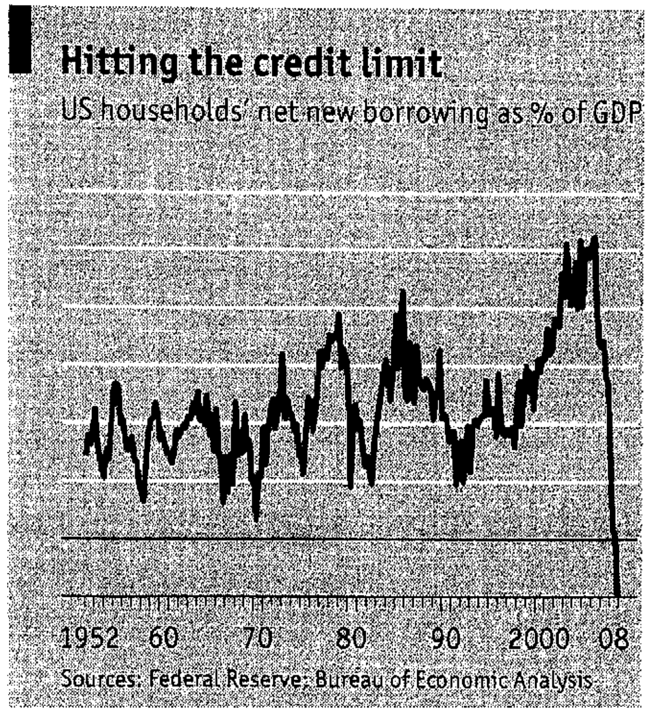
Criticalmath
ADVISORS, LLC
SEC Registered Investment Advisor

CREDIT WHERE CREDIT IS DUE

In the coming months, we believe that Washington will further focus on credit availability. Several things are in the works that suggest this to be the case. Multiple programs have been introduced to help homeowners refinance, which are just now filtering down to the financial institutions that have to implement them, and several are already doing so. These programs could go a long way towards significantly reducing costs to homeowners, even those whose home values have significantly decreased. As of December 31, 2008, home prices only needed to fall an additional 3% to reach fair value, based on median home prices and median family income. By now, this number has probably been exceeded, suggesting that a bottom in home prices may be near, (although it is possible that prices could fall below fair value for a time). In addition, the First-Time Homebuyer Program has been revised so that the $8,000 credit may be available up front. A first-time homebuyer is defined as someone who is buying a principal residence and hasn't purchased a home in the last three years. It seems as though many could qualify.

With the bankruptcies of Chrysler and General Motors clearing up many questions (while creating many new ones), dealers say their biggest problem is getting buyers credit qualified. As shown in the adjacent chart, an interesting aspect of credit availability is the fact that U.S. households' net new borrowing as a percent of GDP has plummeted from a positive 10% to a negative 2% in the last couple of years.

Is the problem then, supply or demand, or both?



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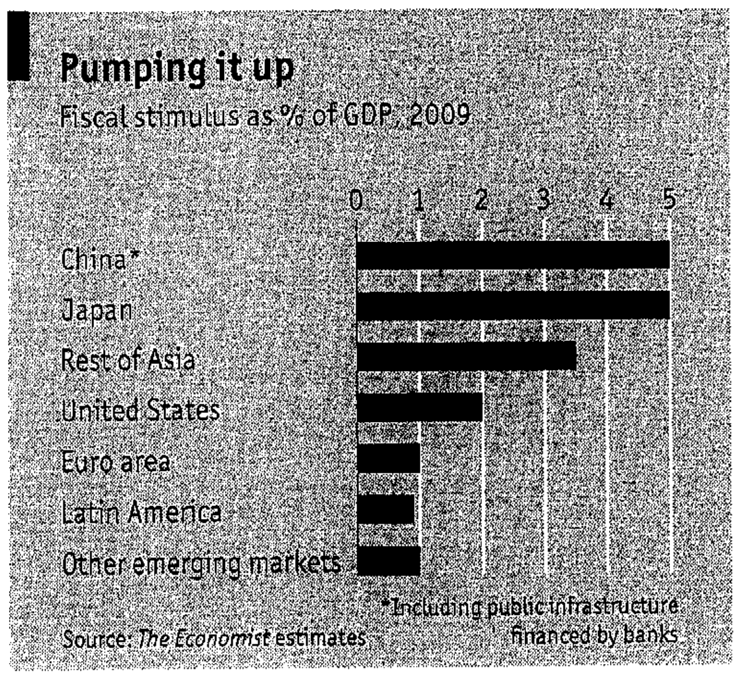
THE FUTURE OF BANKING

In addition to pouring tens of billions of dollars into bank rescues, primarily through the TARP program, the government is allowing banks to borrow from them at close to zero rates. In turn, as any business owner can tell you, people with top credit scores seeking loans are being charged 5% for new loans or renewals. This disparity is one way to help the banks improve their fiscal situation over the short term. It is entirely possible that after a year or so, bank lending practices might be more borrower friendly. Keep in mind that banks must raise new capital before they can repay TARP loans. Bankers are desperate to get the Congress out of the boardroom and, as a consequence, have been and will continue to raise additional capital. Once again it must be pointed out that this capital infusion will create massive dilution to existing shareholders and will make earnings per share growth that much more difficult. Great care should be taken when considering investing in banks and similar financial institutions.

WORLDWIDE STIMULUS

It would appear that the global recession is likely to be ended by Asia. As the chart on the right indicates, China, Japan and the rest of Asia have introduced substantially more stimulus as a percent of GDP than the U.S. and far more than the rest of the world. As these countries grow, they should create more consumption in their home economies and, therefore, be less reliant on exports. India, which is still a very poor country, has just experienced an overwhelming victory by the current ruling party in recent elections. This consolidation of power, with less reliance on "coalition" partners, could accelerate India's contribution to the global recovery.



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HOW SHOULD INVESTMENT DECISIONS BE MADE?

In a recent *MarketWatch.com* article, the writers postulated that investors put more effort into purchasing a $600 washing machine than a $6,000 stock investment. They say that most of us don't know how to research stocks, how to evaluate performance or read a company's annual report, and don't take the time to learn. "Hard work is involved. Maybe you shouldn't be making your own decisions if you're not willing to invest the time." They suggest that "most people don't like to get into the numbers and you have to get into the numbers to determine if a stock is overvalued or undervalued." They then state that if you're not going to develop investment expertise, find someone who already has.

Frequently, investment decisions are made based on analysts' PREDICTIONS. We have personally never met a clairvoyant or anyone who could consistently and correctly predict the future. We believe that observing past trends can give us a sense of when future trends may change, but we think there is a significant difference between observation and prediction. For example:

- At the beginning of 2008, the average forecast for the S&P 500 at year-end was 1632.
- In November 2008, the average Wall Street forecast called for the S&P 500 to close the year at 1118.
- In fact, the S&P 500 ended the year at 903.25.

Investment environments change. We believe it is critical to ADAPT to changing circumstances. Failure to do so can cause huge reversals, even for previously successful strategists.

- Bill Miller, whose Legg Mason Value Trust beat the S&P 500 for a record 15 years through 2005, lost 72% since then.
- David Dreman was fired this year by Deutsche Bank AG's Asset Management Unit after his $2.6 billion DWS Dreman High Return Equity Fund lost 65%.

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ENERGY UPDATE

Much focus has been placed in the past year on alternative energy. Oil prices have risen dramatically since their recent lows. Prices are approaching a level that OPEC representatives have said would be an acceptable level. While there has been a great emphasis on alternative energy sources, it will be many, many decades before conventional carbon-based fuels are in the minority. We believe it is likely that there will be a dramatic increase in the use of natural gas in the United States, which is produced in abundance in North America. Additionally, technology gains will produce far more efficient cars and a much improved electricity grid.

If you wish to discuss these issues (or any others), please do not hesitate to call.

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