Are we near a bottom?
Comparing Today to 1973-1974 Bear Market

CONFIDENTIAL October 13, 2008

1973-1974 Bear Market

Economic and Political Similarities

- Since we do not know anyone who was an investment professional during the Great Depression, the oldest and most sophisticated investors feel the current bear market most resembles the 1973-1974 Bear Market.

THEN

Good Times: 1972

- Era of the "nifty fifty"
- DJIA increased 15%
- 7.2% GDP growth
- Bullish consensus of institutional investors

Bad Times: January 1973 – December 1974

- OPEC Oil crisis
- Global recession
- US Dollar devaluation
- Financial instability (UK banking crisis)
- Vietnam War
- High inflation
- Political instability (Watergate)

NOW

Good Times: 2006

- Goldilocks global economy
- DJIA increased 16%
- Low inflation and solid GDP growth
- Easy credit

Bad Times: October 2007 - ?

- Peak oil
- US & European recession (although not official)
- Weak dollar but recently strong dollar
- Global financial crisis
- Iraq, Iran and War on Terrorism
- Moderate inflation
- US Presidential election

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Source: Edge Capital Partners

1973-1974 Bear Market

Economic Differences

THEN	NOW

THEN

Good Times: 1972

- 7.2% GDP growth
- High interest rates
- Low consumer leverage
- Vanilla securities
- Low trading volume / fixed commissions

Bad Times: January 1973 – December 1974

- High interest rates
- Double digit inflation
- Double digit unemployment
- Rising commodity prices
- Low leverage (personal and corporate)

NOW

Good Times: 2006

- Low inflation and solid GDP growth
- Low interest rates
- High consumer leverage
- Exotic leveraged securities
- High trading volume / discounted commissions

Bad Times: October 2007 - ?

- Low interest rates
- Moderate inflation
- Rising unemployment
- Commodity prices decreasing?
- Deleveraging (high personal and investment leverage)
- Credit markets dysfunctional
- US and European banks in distress

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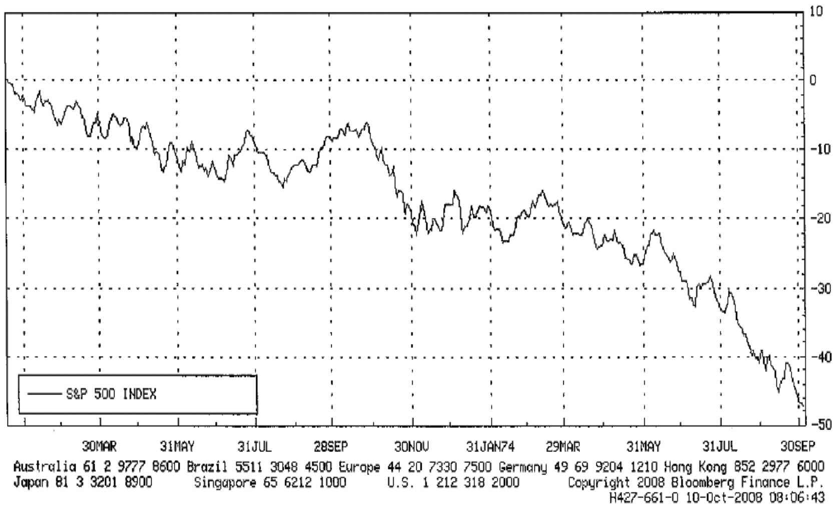
Source: Edge Capital Partners

1973-1974 Bear Market

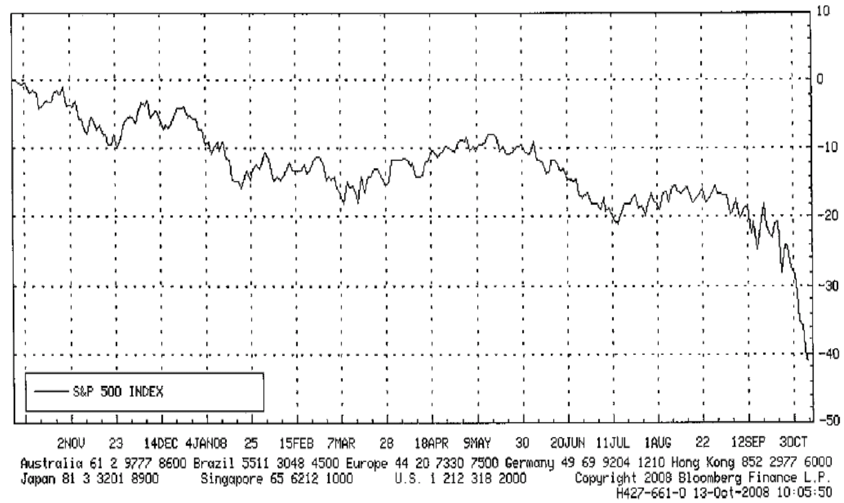
Peak to Trough

10/1/73 – 10/3/74



- Duration: 623 Days
- S&P 500 Return: -48%

10/9/07 – Current (10/10/08)



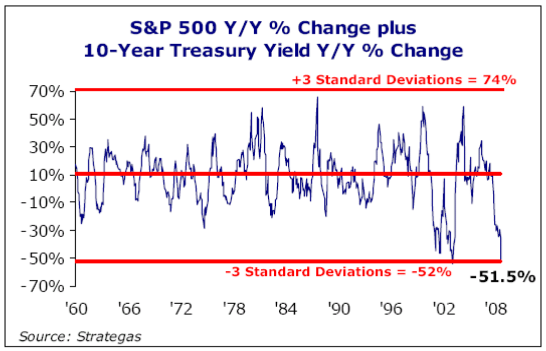
- Current Duration: 367 Days
- Current S&P 500 Return: -43%

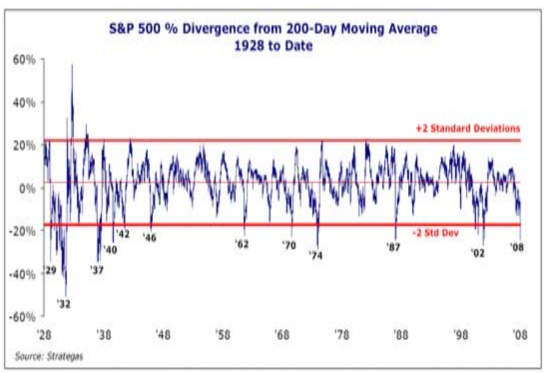
Source: Bloomberg

1973-1974 Bear Market

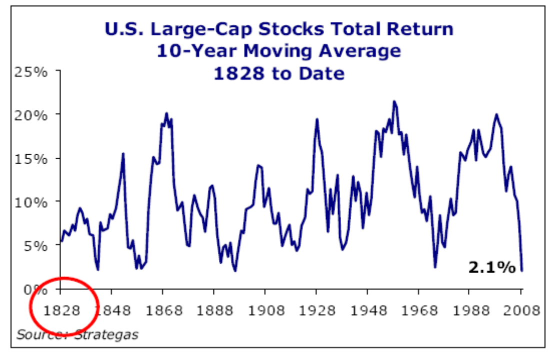
Technical Indicators

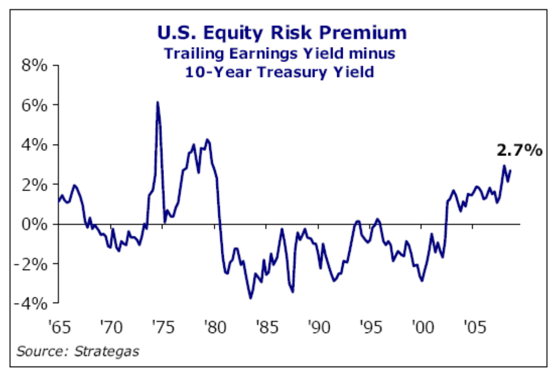
- Adding the daily # of NYSE Decliners and Advancers over ten consecutive trading days where the aggregate # of Decliners is greater than the aggregate # of Advancers by a 2:1 margin has also been a reliable indicator of market bottoms in the past
  - We experienced this as of 10/9/08. The aggregate number of Decliners is 13,971 and the aggregate number of Advancers is 4,505 which equates to a 3:1 margin





Statistically speaking the market is in very oversold conditions and triggers most other market bottom indicators





10 year moving average returns for large cap stocks have not been this low since the 1970's…

…Equity risk premium has not been this high (cheap) since the 1970's

Source: Bloomberg and Strategas

1973-1974 Bear Market

S&P 500 Performance Around Recessions

- Officially speaking we have not entered a recession but clearly we are and will be
- The market is a discounting mechanism and historically performs poorly prior to an official recession and during the first half of a recession
- The results in the latter half of a recession has always been positive except for the last recession in 2001

S&P 500 Performance Around Recessions

					Subsequent Performance		
	12-Months Prior	Full Recession	First Half	Second Half	3-Months	6-Months	12-Months
Aug 53-May 54	-2.56%	17.94%	0.24%	17.65%	2.19%	17.30%	29.87%
Sept 57-Apr 58	-4.82%	-3.94%	-11.57%	8.63%	8.63%	18.16%	32.57%
May 60-Feb 61	-5.59%	16.68%	-1.56%	18.54%	4.92%	7.30%	10.28%
Jan 70-Nov 70	-11.36%	-5.28%	-21.01%	19.91%	10.95%	14.25%	7.79%
Dec 73-Mar 75	-17.75%	-13.13%	-17.35%	5.11%	14.19%	0.61%	23.28%
Feb 80-Jul 80	14.24%	6.58%	-6.89%	14.47%	4.77%	6.48%	7.60%
Aug 81-Nov 82	7.60%	5.82%	-14.48%	23.74%	6.87%	17.22%	20.11%
Aug 90-Mar 91	2.91%	5.35%	-9.53%	16.45%	-1.08%	3.37%	7.59%
Apr 01-Nov 01	-22.57%	-1.80%	4.39%	-5.93%	-2.87%	-6.35%	-17.83%
Average	-4.43%	3.14%	-8.64%	13.17%	5.40%	8.70%	13.47%
% UP	33.3%	55.6%	22.2%	88.9%	77.8%	88.9%	88.9%

Source: Haver Analytics and CIR – US Equity Strategy

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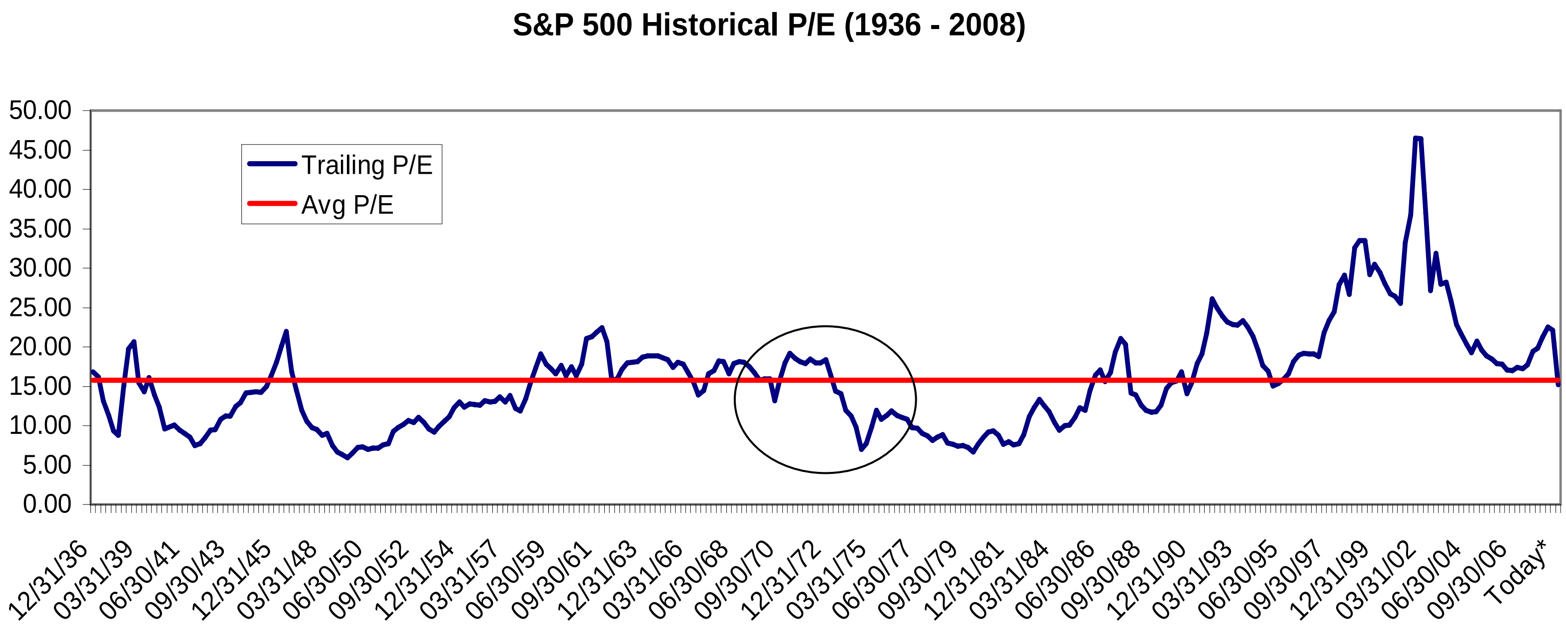
Source: Citigroup

1973-1974 Bear Market
P/E Comparison

- Currently the S&P 500 is trading at its historical P/E average over the last 72 years but the E is likely inflated
- Of concern in the future is the long era of low P/E's the markets exhibited in the ten years after the 1973-1974 bear market



Source: Standard and Poors

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