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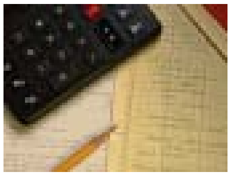

Economics & Financial Markets

United States Equity Markets

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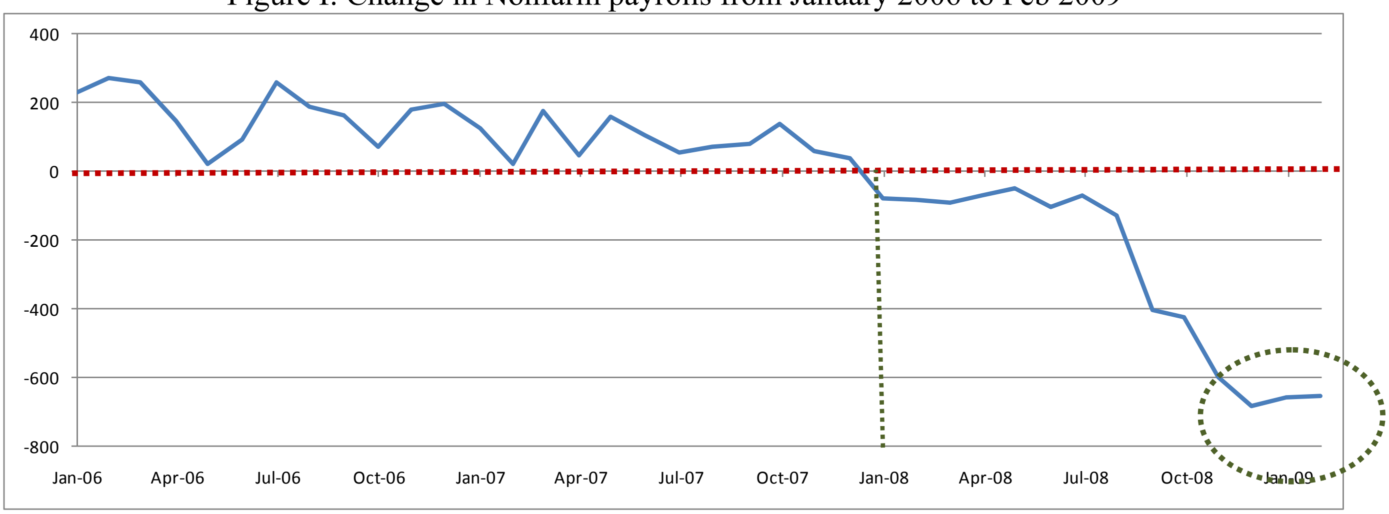
In All Post War Recessions the Economy went from Job Loss Highs-to Job Creation Occurred within 4 or 5 Months

Figure I: Change in Nonfarm payrolls from January 2006 to Feb 2009



Source: DOL, SISR

I. Introduction:

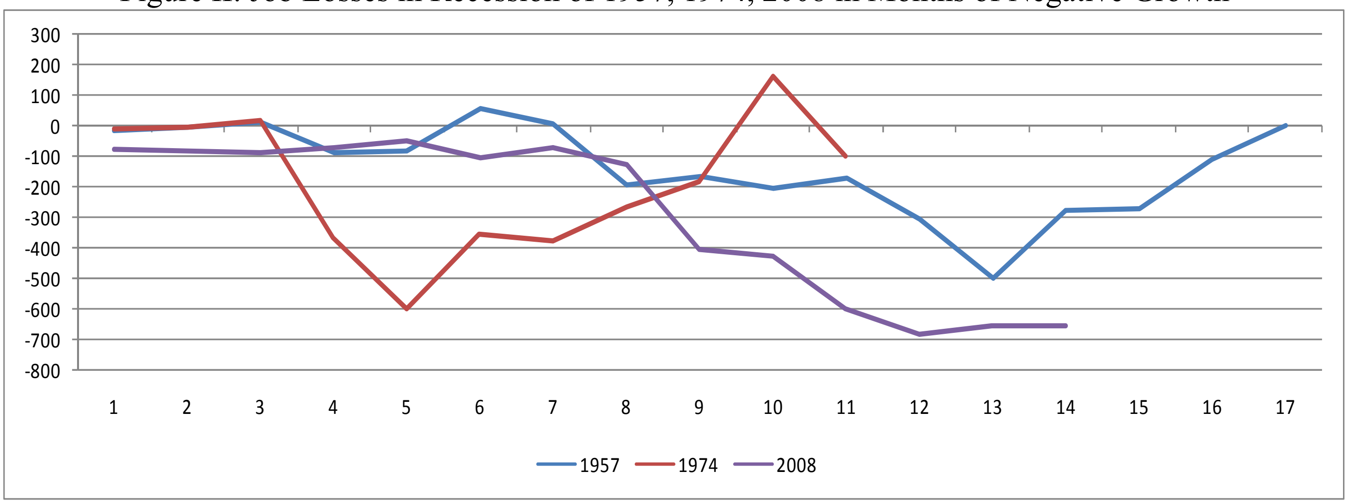
On Friday March 6, 2009 the DOL reported that the number of jobs lost for the month of February was 651K. The irony of the report was not so much the number of jobs lost, which had been expected, but the number of jobs lost in the prior months, after revisions, was a real surprise. The December revision added 155K additional job loses making the total 681K and January added 57K to the total making the January total 655. The absurdity was that job losses were down from the prior two months (until the March revision at least). This raises the interesting question: what does history can tell us about how long has it taken in prior recessions to go from the low point, back to positive job growth. To our surprise it took only 4 or 5 month in each of the prior recessions to get back to positive job growth from the lows.

II. Job Losses in the Post War Period

There were 6 periods since World War II when there were extended periods of nonfarm payroll job losses. These occurred in 1957, 1960, 1974, 1981, 1990, and 2008. The 2000 period had all kinds of unusual complications with a recession prior to September 11, 2001, then the terrorist attacks during the recession, so we have decided to exclude that period.

Figure II plots the number of negative months of job losses in each of the major recessions in comparison to the 2008 pattern of job losses.

Figure II: Job Losses in Recession of 1957, 1974, 2008 in Months of Negative Growth



Source: DOL, SISR

A. Job Loses following a Major Shock to the System

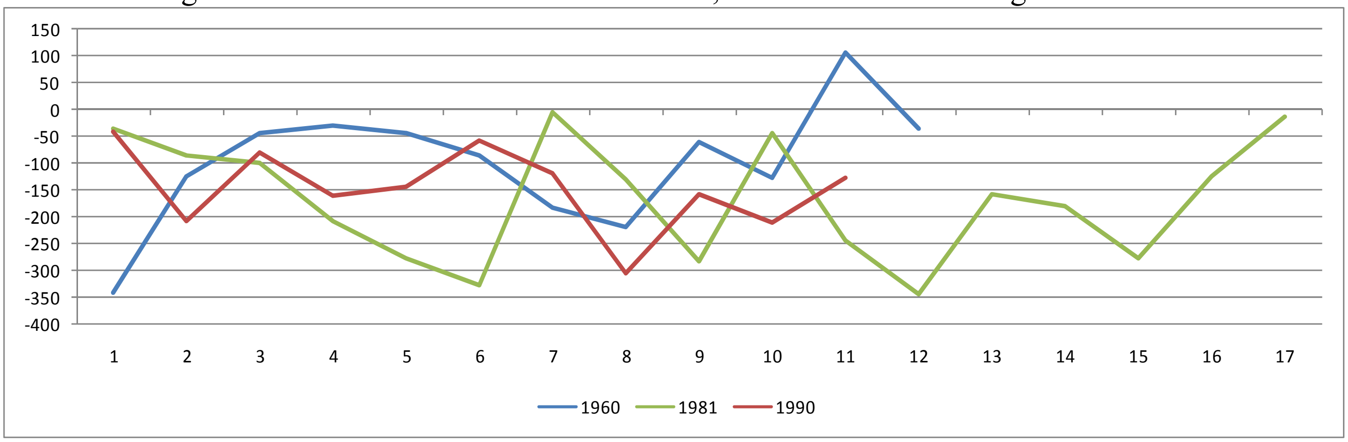
From Figure II we find something rather interesting. The current downturn is most similar to the downturns in 1957 and 1974, and not really 1980, the recession that the 2008 downturn is most often associated with. In 1974 we find a strong and steep drop in job loses following the energy crisis. But most surprisingly and most unexpected was the similarity to the 1957 were we have a protracted period of gradual drop and then a severe drop. Most analysts do not consider the 1957 recession as significant, nor have we in the past, but there is a distinct similarity from 1957 to the current period and to 1974.

The recession of 1957 also had a shock, it was "Sputnik and the American technological leadership was called into question" (Michael Bradley, "*As bad as the 1958 Recession? That works…,"* Bradley & Company, February 1, 2009). Bradley found that auto sales declined 31% and unemployment in Detroit reached 20% in 1957. He claims and we believe correctly that the shock to the system was that: "The device was more than a steel ball – it was a message to the world – the United States is no longer the sole superpower." The recession was worldwide and fairly devastating to the developing world. The similarities are the steep drop in job losses m/m caused by a shock to the system, Sputnik, the energy crisis, Lehman and massive bank failures in 2008, all had a similar mass consumer shock effect.

B. More Gradual Declines

The current crisis is often associated with the 1980's, however; in terms of job losses we find in Figure III that the 1980 were more similar to the 1960 and 1990 than with the onetime extreme shock to the system. The 1980's pattern was more erratic and while extended did not have the one time drop of 74 and 57 as did the 2008 period.

Figure III: Job Losses in Recession of 1960, 1990 in Months of Negative Growth



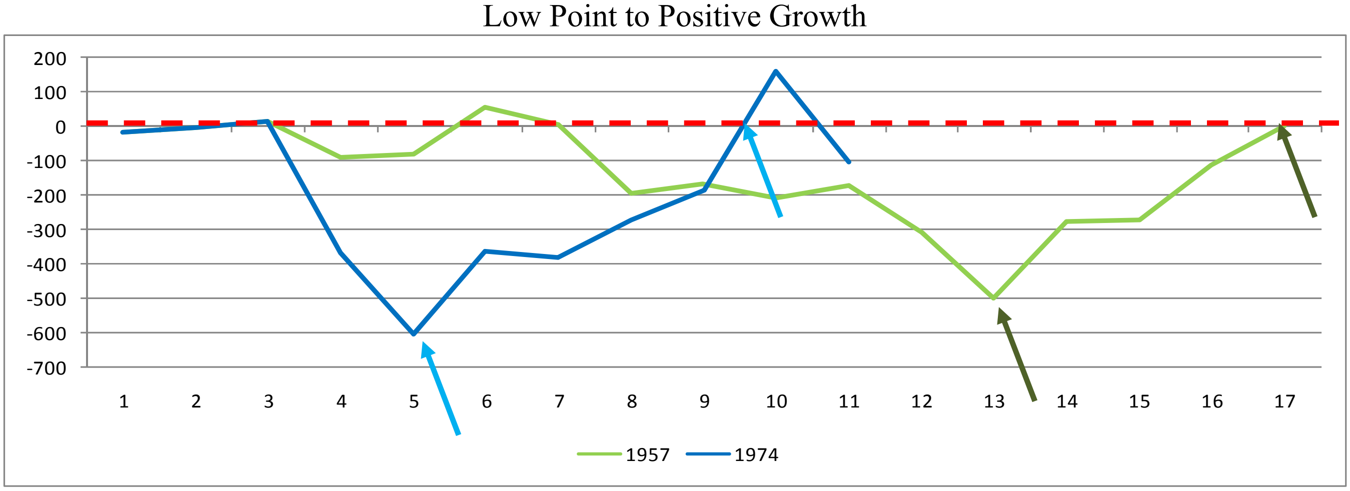
Source: DOL, SISR

From Figures II and III we have two distinct patterns one a steep shock to the system, and the second a more gradual loss of jobs, without the extreme spike that we find in 2008.

III. Length of the Decline from the High Point of Job Losses to Positive Growth

There is another surprise that we found in that from the high point in job losses in each of the 5 cases it took only 4 or 5 months to get back to positive job growth. This is not a positive second derivative; this is an actual positive number in job creation. It took only 4 or 5 months to go from the lows to a positive number in each instance.

Figure IV: Job Losses in Recession of 1957, 1974, in Months of Negative Growth – Month it took from Low Point to Positive Growth

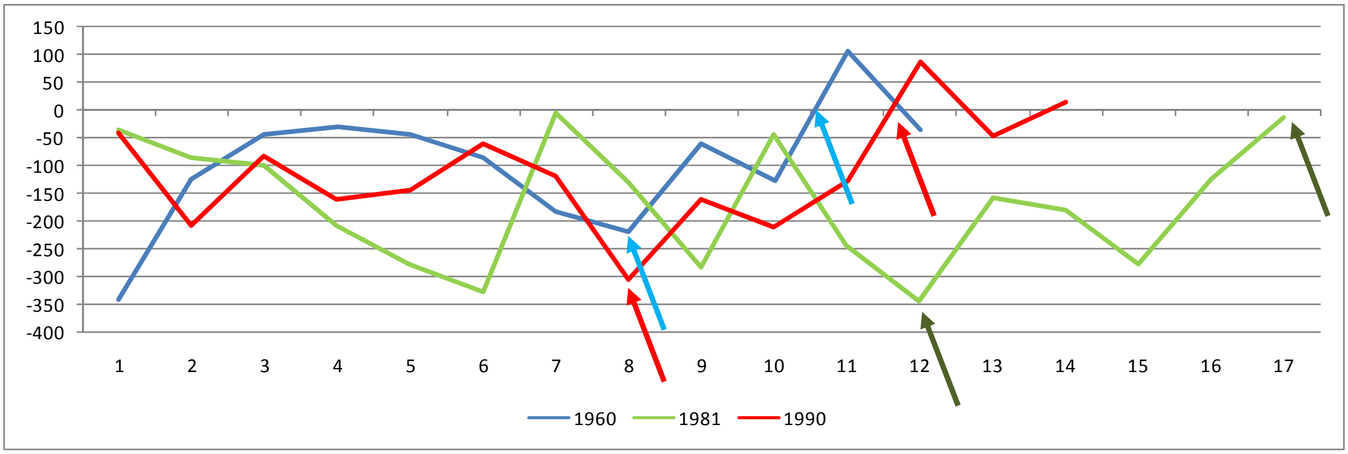


Source: DOL, SISR

In Figure IV we plot the trend for the two shock recessions 1957 and 1974 and find that in 1957 it took 4 months from the low to achieve positive job creation, and in 1974 it took 5 months.

In Figure V we find a similar pattern for the non shock recessions in that it either took 4 or 5 months to go from the low point to positive job growth. In both 1960 and 1990 it took 4 months and 1981 it took 5 months.

Figure V: Job Losses in Recession of 1960, 1981, & 1990 in Months of Negative Growth– Month it took from Low Point to Positive Growth



Source: DOL, SISR

The most striking factor in these patterns is the short period of time that it took to go from the low to positive in each of the post war recessions. In each instance it took either 4 or 5 months, no more no less.

IV. Implications for 2008

Many implications appear to abound from this data. First, if we can trust the February data we find that job losses may have stabilized over the past three months. Second, the dire predictions that this recession will last well into 2010 may make little sense, if have already seen the worst of job losses and given the 4 or 5 month time frame from high to positive job growth. Even if we allow for 6 months or even 7 months well beyond the historical time frame we are still in late summer of 2009 for a recovery.

Third, and the most important implication is the point that we have been pounding and pounding for the past two to three months that this recession is a shock recession like the recessions of 1957 and 1974 and once the shock is over we could see some improvement. This is why we keep harping on consumer confidence as being so important, because as a shock recession confidence must come back prior to a recovery. Again we will conclude with the comments we made last week in our retail report which had indicated better data and a positive second derivative in each of the segments for the first time in the recession.

From: March 6, 2009 – "Discounters Up 0.15% while Specialty, Family, & Department Stores all have Positive Second Derivatives," "Today we found the markets down 3.89% for the S&P and 4.09% for the Dow. We have seen the markets down to 12 year lows and down nearly 25% since January. But today again we are seeing better retail number, this morning we found better initial claims numbers, and at 10 AM we found better shipments and new orders. For the past two months the LEI was positive for the first time for two consecutive months in more than a year. The bond market and particularly the Treasury yields are much stronger than they were at the beginning of the year. The crack spread on gasoline is stronger than last quarter also indicating that the dire expectations that everyone would simply start walking is proving to be a myth (gasoline supplies are at extreme lows and demand has stabilized), but the markets keeps going down

We have argued strongly and hopefully convincingly that the noise out of Washington is not helping confidence despite the better economic readings. Of course the better data will trump the noise but improving data is hard to convince people that it is real especially when you are looking at second derivatives. Second derivatives are the only way to find inflection points, and we stand by our belief that good data will trump the noise. Hopefully we will not need to be looking only at the second derivative and will find y/y sales positive, but until then the second derivative is the best way to understand trends.

Yes, of course we have not been in a cave and been oblivious to the housing crisis, the impact of that crisis on the banking system, the fact that Citi is trading under a dollar, GM auditors believe that the company is unlikely to be sustainable, that GE may have a credit downgrade and create a black whole like AIG. So how can one be positive in this environment?

Let us take the worst case scenario, GE, CITI, and GM are toast. Between the TARP and the TALF programs the government has enough legal ammunition to handle the crisis, unlike when Lehman went down. Yes there will be fall out but systems are in place to handle them. If GM files for Bankruptcy they will not close their doors and lay off 95% of their workers, it will be a carefully structured bankruptcy worked out with the assistance of by the Government, and the labor force will remain basically intact, except their wages will be lower, and the bond holders stake in the company will be marginalized.

CITI traded under a dollar today but they are still a functioning bank supported by the TARP money. Even if the government replaces the management it will not be some government bureaucrat that we associate with nationalization. The point is that systems are in place for a category 6 hurricane, even though the worst hurricane ever recorded is a category 5, and scientists believe that a 6 is impossible from a scientific perspective.

Once home prices stabilize if they ever do all these problems will begin to go away because the banks will stop bleeding, the consumer will return, as we are seeing signs of in the retail space, and this nightmare will be over"(Discounters Up 0.15% while Specialty, Family, & Department Stores all have Positive Second Derivatives, March 6, 2009).

Today we learned that once job losses reach their highest levels it may take only 4 or 5 months to see positive job growth, and this is not a second derivative positive, it is an actual positive. We still may be on schedule for a summer recovery.

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Price Chart:

A price chart, with changes of ratings and price targets in prior periods, is included above, for all securities covered in this report.

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