

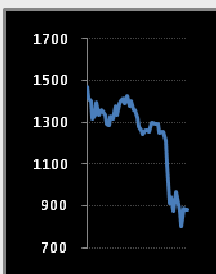
DREXEL INVESTMENT GROUP AP

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Weekly Recap

All eyes were on the Federal Reserve this week as they met on Monday and Tuesday to discuss further policy action in order to stem the economic crisis.



S&P 500 Performance for 2008

From the meeting, the FOMC cut the target rate from 1.00% to a first-ever 'range' of 0.00-0.25%—effectively eliminating a major policy tool. However, the Fed made it clear that aggressive action will stay the course, and they will do everything possible to stimulate the credit market and the economy— perhaps by buying long-term treasury securities.

Bond traders reacted to this news by piling into long-term Treasuries—notably, the yield on the 10-yr note fell 49bps to 2.08%, while the 30-yr bill returned 2.52%, down 52basis points from the week prior. The seemingly relentless resolve of Bernanke & Co. to stimulate the economy on an infinite basis sent shorts heading for the exits and caused markets to rally 5.1% on Tuesday. However, the market gave back roughly 3.5% of Tuesday's gains on Wednesday and Thursday, as economic reports were poor and investors returned to the notion that there's no short-term panacea to fix the economy overnight.

Regarding economics—Industrial production declined 0.6% in November, housing starts declined 18.9% (the largest since March 1984), building permits hit a low and initial jobless claims – while better than consensus – are at a 26-year high.

Negativity continued, following the economic reports, as corporations announced their own vulnerabilities to the current environment. Goldman Sachs recorded its first loss as a publicly-traded company; sharing the poor-earnings spotlight with Morgan Stanley as both firms came in significantly worse than expected. In other news, Standard & Poor's placed GE's triple-A credit rating on negative outlook and Best Buy, while beating estimates, acknowledged a noticeable shift in consumer behavior.

Meanwhile, in an effort to stem a further decline in the price of oil, OPEC met this week and vowed to cut production 2.2 million barrels per day. Under normal circumstances, prices would rise following a cut as supply was reduced—but these times are anything but normal. Following the announcement, oil prices traded up briefly then plunged under \$40 per barrel (settling ~\$33bbl for the week) as oil markets compared OPEC's situation to that of one trying to catch a falling knife. In their situation, slumping demand will far outstrip their ability and pace to which they can cut supply. This is evident in countries that rely heavily on the sale of commodities to manage their economies—notably Russia. It seems oil production is now a double-edged sword as oil-producing nations who found themselves with

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FOR THE WEEK OF DECEMBER 21, 2008

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Weekly Recap Continued...

immense bargaining power when crude sat at \$147/bbl, now find themselves (and their profitability) at the mercy of the dependent countries' demand, or in this case, lack thereof. Although this is poor for some, falling oil is positive for consumers and most businesses as it frees cash, and potentially encourages spending—however, with unemployment swiftly rising and tight credit, this extra cash will not be spent, instead, it will be put toward cash reserves.

In currency markets the US Dollar had a tough week (which is a surprise as falling oil usually leads to a rising dollar) as increasing US debt and roughly zero incentive to hold the dollar weighed heavily on the currency—largely a result of the Fed's 'quantitative easing' which is driving down yields and flooding the market with supply.

The highly-debated decision over the bailout of Detroit came to an end this Friday as the Bush Administration threw the industry a lifeline, after a failure in Congress, citing

that the unintended consequences from an automakers' failure will pose a systemic risk to the already crippled economy. Under the terms of the deal, GM and Chrysler are going to receive \$13.4 billion, of the remaining TARP money, up front and the other \$4 billion in February pending the release of the 2nd half of the TARP funds. The loans were given on the precondition that Detroit will make a viable effort to restructure the companies as well as their plans and operations by March 31 in order to become a long-term profitable industry. Also, in an effort to further boost the industry, Canada pledged \$3.3 billion this weekend to the automakers with the possibility of more funds in the future. In both instances, the clock is ticking and it will be interesting to see how the events play out; as problems that took decades to build must be unwound and replaced with feasibility in four months—in short, easier said than done.

Happy Holidays!

The Outlook

The holiday week should produce very light trading as investors look to take their minds off of a bad year and focus on family and friends. Early-week economic data could shake things up, producing a swing that could really just be the result of the low volume.

The earning calendar is very thin as odd fiscal year names report F1Q09 earnings. The most significant names to report are Walgreens (WAG), expected to report a gain of \$0.46, and Micron Technology (MU), expected to report a loss of \$0.43. The Walgreens estimate could prove to be a little optimistic. With an empty CEO chair and no guidance, and deteriorating front-end and pharmacy sales, I would not rule out a miss. Micron's loss estimate is due to

depressed DRAM and NAND pricing over the last year, reducing earnings sequentially. Investors will be looking for clue in the call about balance sheet strength and MU's involvement in Taiwan consolidation efforts, according to Morgan Stanley.

The BEA will release the final revision of GDP on Tuesday, along with Personal Income and Outlays on Wednesday. Economists are looking for a Q/Q decrease of 0.5% in Real GDP (adjusted for Inflation). This report will show investors how the slowdown in spending truly effected production in the US for the third quarter. Economists expect a flat Q/Q Personal Income report and a decrease in consumer spending of 0.7%, according to Bloomberg. With unemployment at 6.7%, and rising by

“THE FOMC CUT
THE TARGET RATE
FROM 1% TO 0.00-
0.25%-
EFFECTIVELY
ELIMINATING A
MAJOR POLICY
TOOL”

Outlook Continued...

the day, it is not surprising that Personal Income is looking close to falling into a downward trend. Consumer spending, obviously being highly correlated to income, is also being affected by uncertainty about job security. Consumers would rather put their money into a government insured CD or risk-free treasury security than buy anything else at this point.

Also on the economic calendar are Durable Goods Orders and housing data. Estimates for Durable Goods show a decrease of 3% M/M. A decrease of this magnitude illustrates the reason for weak economic sentiment in the near term. New home sales are expected to decrease to 420k for the

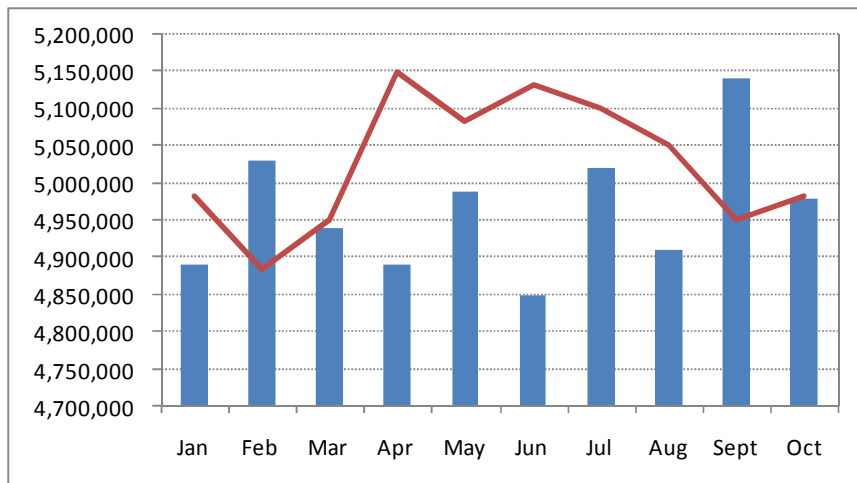
month of November, 35% lower than a year ago. I am not sure if this decrease is the full amount we need to get the supply low enough, but it should be close. Existing home sales should come in around 4.9M vs 4.89M last month. Supply of existing homes is still around 10-months, still too high in my opinion. I think we need to get down to the 8-9 range before we start seeing home prices recover.

Further coverage of the Madoff scandal will give people something to talk about this week, again. The FBI has reported that they are shifting agents from Terror cases to Wall Street cases to look for more frauds. Personally, I think that the only reason the FBI is

getting involved is because some big-wig at the FBI or a Senator lost their hat to Madoff and are using all resources to figure out what happened. Obviously this is a serious matter that includes major fraud, but let's allow the SEC and the US Attorney's Office handle investment fraud investigations and keep the FBI looking for the next nut-job that is going to blow up a building somewhere. That is just my view though.

I hope you all have a great Holiday. Take some time to focus on family and forget the market. Enjoy your week.

Chart of the Week



Existing Home-Sales (Blue) vs. Months Supply (Red). *This chart represents the NRA's Existing homesales against monthly supply. The Months Supply is the amount of month's it would take for all existing-homes for sale to be sold at the current sale rate—in other words, how long it would take to work off the inventory. At peak in April the Month's Supply was 11.2. In past years, was 4.5 for 2005, 6.5 for 2006, 8.9 for 2007 and 10.2 for 2008 respectively. This data should provide some insight into the amount of supply that has built up and needs to be worked off before other homes*

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Upcoming Earnings

Monday

Before the Open

Company	Symbol	First Call	Yr Ago
Asta Funding	ASFI	\$0.05	\$0.88
Circuit City	CC	(\$0.85)	(\$0.64)
Steelcase	SCS	\$0.09	\$0.30
Walgreen	WAG	\$0.46	\$0.46
<i>After the Close</i>			
Red Hat	RHT	\$0.18	\$0.19
TIBCO Software	TIBX	\$0.19	\$0.18

Tuesday

Before the Open

Company	Symbol	First Call	Yr Ago
American Greetings	AM	\$0.52	\$0.53
<i>After the Close</i>			
FSI Intl	FSII	(\$0.15)	(\$0.07)
Micron	MU	(\$0.43)	(\$0.34)

Wednesday

Before the Open

Company	Symbol	First Call	Yr Ago
Volt Info Sciences	VOL	\$0.41	\$1.03
<i>After the Close</i>			
Shuffle Master	SHFL	\$0.08	\$0.10

Economic Reports

Tuesday

Time	Release	For	Consensus	Prior
8:30	Chain Deflator-Final	Q3	-4.20%	4.20%
8:30	GDP-Final	Q3	-0.50%	-0.50%
10:00	Existing Home Sales	Nov	4.93M	4.98M
10:00	Mich Sentiment-Rev.	Dec	58.6	-
10:00	New Home Sales	Nov	420K	433k

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Wednesday

Time	Release	For	Consensus	Prior
8:30	Durable Orders	Nov	-3.10%	-6.20%
8:30	Initial Claims	20-Dec	-	554K
8:30	Personal Income	Nov	0.00%	0.30%
8:30	Personal Spending	Nov	-0.80%	-1.00%
10:35	Crude Inventories	20-Dec	-	-

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