

DREXEL INVESTMENT GROUP AP

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Weekly Recap

9a.m., it's a Sunday and you're woken by the piercing sun shining through your apartment window. What happened? Where did everyone go? Ugh. You're dehydrated and your head is POUNDING uncontrollably as you reach for the Ibuprofen. This is going to be a nasty hangover. And what is that awful smell? Is that? No. It can't be. . .But it's too late, you know all too well what it is—the stench is that hot heaping pile of toxic assets still sitting on your balance sheet. You could take the trash out but who's going to pick it up? Everyone in the neighborhood is facing the same hangover and your Uncle is only able to stop by the really decrepit houses—but look on the bright side, if a nephew can help his Uncle by taking on a little more trash from the neighboring houses, then he'll get some money pitched his way to manage the deteriorating pile and the pain that comes with it.



Such is the situation on Wall Street for the past several months, and the second week in the New Year was no different as financials fell 16%, dragging the broad market down with it, -3.7%, as investors mulled over a wave of capital raises and weakening credit quality. Trouble mounted early in the week as Citigroup announced plans to sell a significant stake in its brokerage house, Smith Barney, to Morgan Stanley. They then went on to announce another bold initiative during the Q408 conference call by unveiling plans to split the company into two units. Investors took this as a sign of forced selling to stay alive and by the time the carnage came to an end, their stock had fallen 59% amid an \$8.3 billion Q4 loss.

Performance over at Bank of America followed similar trends as their stock was cut in half, falling 46% at one point. However, it was Bank of America's attempt to expand that got it into trouble as it tries to handle a double integration of mortgage lender Countrywide Financial, as well as the investment bank, Merrill Lynch. Bank of America's poor earnings results this week in conjunction with a \$15 billion loss over at Merrill, led to a negative credit risk rating—forcing the firm to request an additional \$20 billion in TARP money to complete the acquisition. Markets were roiled by the financial news, and as a result it continued to spread as JPMorgan Chase—who many long thought was ahead of the curve—was beaten down by poor earnings, citing economics and additional loan losses as the catalysts.

Looking to economics and major-market news, the data wasn't much better as retail sales for December fell 2.7%, Q4 Industrial Production declined 11.5% y-o-y, and the trade-imbalance fell sharply mostly due to a contraction in imports. Initial claims jumped 54,000 to 524,000 for the week, and in inflationary reports, PPI finished unchanged and CPI grew 0.1% for 2008.

The data went onward to show the slashing of the ECBs lending rate 50bps to 2%, poor auto sales forecasts from GM for 09, and the releasing of the next \$350 billion of TARP funds as the Treasury has already over-extended the commitment of the initial \$350 billion, making approval imminent.

With all of this turmoil, one can only look forward to the

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Weekly Recap Continued...

Inauguration Tuesday, as a new President, Our 44th—Barack Obama, will be given the chance to improve the economy and right (write or rewrite for that matter—*pun intended*) the path to prosperity. During the run-up to his Inauguration, he has meticulously surrounded himself with a stellar cabinet, and is ready to hit the ground running as he has already announced action seeking swift congressional approval, such as the suggested \$825 billion stimulus plan where \$550 billion would go toward spending and \$275 billion in tax cuts.

Whether the proposed plan will work is uncertain, but what is certain is although pain killers and short-term panaceas will clear up even the worst hangovers, it will never repair the cirrhotic damage done after years of binging from the over-leveraged (spiked) punch bowl. Only a complete transplant coupled with a long period of rehab monitored by qualified physicians will cure the terminal economy.

Mr. Obama, I hope you're ready, scalpel in hand.

The Outlook

“THE STREET HAS
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Martin Luther King Jr. Day gave traders the day off and made a very busy week pack all of the fun into only four days. The torch will be passed into fresh hands on Tuesday as President -Elect Obama takes the greatest oath a man can utter. Over 50 stocks in the S&P 500 will report earnings this week, making the inauguration a back-burner issue to investors who are expecting the worst.

In recent weeks the street has spent countless hours dissecting the proposed plans Obama and his team have hinted about. The most recent announcement from the new administration is about the focus of the Troubled Asset Relief Program (TARP). As the second portion of the \$700 Billion program is made available, politicians are fighting over the use of the funds. Earmarks for banks, the majority use of the first \$350 Billion, might turn into a bailout for homeowners in the form of renegotiated terms on mortgages and the creation of a “bad bank” to hold defaulting mortgages.

The street will be looking for indications of how this change in focus will affect the financial sector and consumer spending. I assume that home builders will fare well if investors assume that direct support for homeowners will have a positive effect on housing demand. The first increase in housing prices that I have heard in a long time was in Southern California this week-end, showing a little hope in a state of extreme losses in home values. If this starts a new trend,

we might be seeing a housing bottom (cross your fingers).

Of the companies reporting this week, the most anticipated will be tech firms Apple (APPL), Google(GOOG), and Microsoft(MSFT), along with giants Johnson & Johnson and General Electric(GE). These heavy hitters have the ability to shake any investor from their seat, but combined they are like a nuclear bomb if they produce negative surprises. GE has already had problems with its finance unit, and Microsoft has been losing attraction every day as it struggles to show investors a spark of new light. Apple's drop after the news of Steven Jobs' leave of absence took me by surprise given that Jobs is really just the face of a company full of geniuses. Consumers are buying fewer iPhones, everyone gets that, but I think Apple still has a few tricks up their sleeve. They always seem to surprise.

Economic data is light this week, a much needed break from previous weeks of data overload. Housing Starts for December will be the biggest report this week and should not move the market very much unless they blow estimates out of the water. Economists are expecting 615 thousand new homes vs 625 a year ago. The flow-through from housing permits usually makes predicting starts a little easier than other data points, but the delays of planned projects has made it tough to count on quick turnaround after permits are filed. Builders will need to have confidence in housing demand before they act

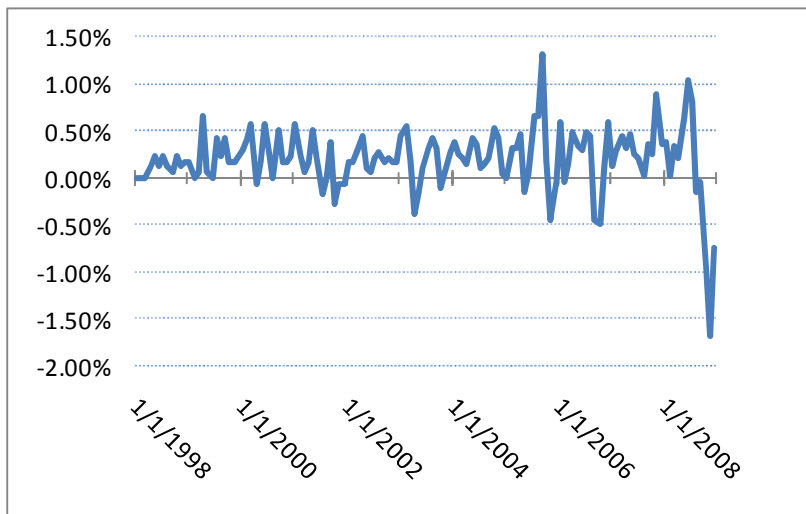
Outlook Continued...

on approved projects. That demand will come, but it will take an increase in existing home sales before new home sales can be expected to recover. That looks to be the logic behind Obama’s plan at least.

The overall theme for the week will be the fundamental disabilities of current business models and which ones have been

able to weather the storm. Analysts have taken shots at assessing the damage done to “strong” business models. That term has been redefined this year and will be put to the test again this quarter. I expect financials to have minimal skeletons to air this quarter. Let’s hope there are no other graveyard sectors. Have a great week.

Chart of the Week



Consumer Price Index (CPI)—December 1998 to December 2008. *This chart represents the month-over-month percent-change in the average price of consumer goods. The CPI is used as a way to gauge overall inflation taking into account finished goods, including food & energy. (Side note: core CPI excludes food & energy). In robust times, the price of goods increases as continuing demand outweighs supply, thus, causing a devaluation of real money relative to the price of goods as they become more expensive—this is understood, and the Federal Reserve aims to keep inflation in a 3% annual range. In contrast, in poor economic times, falling demand causes the price of goods to decline as supply outweighs demand—the falling prices increase the value of real money as more can be purchased with a smaller amount.*

To put this into practice, a contracting economy, causes consumers to decrease spending—thus, decreasing demand and causing prices to fall—this is known as disinflation (negative inflationary growth > 0%). Eventually supply balances with demand and the price discrepancy is off-set. However, in extreme economic cases (i.e. the Depression), consumers hoard cash, and as they increasingly become unwilling to spend, prices fall for a sustainable period of time. This causes businesses to reduce their investment spending and the problem feeds on itself—no one is willing to spend capital if times are tough and if they’re going to spend, they can hold off until tomorrow when the good will, again, be even cheaper—as we know, tomorrow never comes. This is known as Deflation a very real economic phenomenon. (negative inflationary growth < 0%)

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Upcoming Earnings

Tuesday

Before the Open

Company	Symbol	First Call	Yr Ago
Commerce Bancshs	CBSH	\$0.62	\$0.78
Fastenal	FAST	\$0.41	\$0.38
Forest Labs	FRX	\$0.75	\$0.96
H.B. Fuller	FUL	\$0.24	\$0.53
Jefferies Group	JEF	(\$2.29)	(\$0.17)
Johnson & Johnson	JNJ	\$0.92	\$0.88
Lee Enterprises	LEE	\$0.25	\$0.48
Logitech Intl SA	LOGI	\$0.43	\$0.71
New Oriental Edu	EDU	\$0.06	\$0.10
Parker-Hannifin	PH	\$0.83	\$1.23
PetMed Express	PETS	\$0.20	\$0.18
Precision Castparts	PCP	\$1.70	\$1.73
Regions Fincl	RF	(\$0.08)	\$0.24
State Street	STT	\$1.14	\$1.38
Suncor Energy	SU	\$0.32	\$2.08
TD Ameritrade	AMTD	\$0.31	\$0.40

After the Close

Cree	CREE	\$0.09	\$0.11
CSX Corp	CSX	\$0.91	\$0.85
Fulton Fincl	FULT	(\$0.54)	\$0.22
Hancock Holding	HBHC	\$0.57	\$0.60
IberiaBank	IBKC	\$0.71	\$0.83
IBM	IBM	\$3.03	\$2.80
Packaging Corp	PKG	\$0.25	\$0.46
Pinnacle Finl	PNFP	\$0.36	\$0.35
Spansion	SPSN	(\$0.81)	(\$0.37)
Supertex	SUPX	\$0.17	\$0.30
Wipro	WIT	\$0.14	\$0.14
Woodward Gvrn	WGOV	\$0.37	\$0.72

Wednesday

Before the Open

Company	Symbol	First Call	Yr Ago
Abbott Labs	ABT	\$1.06	\$0.93
ADTRAN	ADTN	\$0.28	\$0.27
Air Products	APD	\$0.97	\$1.16
Allegheny Tech	ATI	\$0.90	\$1.45
AMBAC Fincl	ABK	(\$0.68)	(\$6.21)
AMR Corp	AMR	(\$0.76)	(\$0.74)
BlackRock	BLK	\$1.15	\$2.52
Burl Nrth Santa Fe	BNI	\$1.76	\$1.46
Coach	COH	\$0.67	\$0.69
Delta Air Lines	DAL	(\$0.22)	(\$0.18)
Freeport-McMoRan	FCX	(\$0.97)	\$1.07
Hudson City Banc	HCBK	\$0.27	-
iGATE	IGTE	\$0.15	\$0.09
II-VI Inc	IIVI	\$0.28	\$0.36
Labranche	LAB	\$0.15	\$0.04
Northern Trust	NTRS	\$0.92	\$0.97
Philip Morris Intl	PM	\$0.62	-
Piper Jaffray	PJC	(\$0.72)	\$0.91
Popular Inc	BPOP	(\$0.37)	(\$1.06)
Progressive	PGR	\$0.35	\$0.34
Somanetics	SMTS	\$0.22	\$0.19
UAL Corp.	UAUA	(\$4.42)	(\$0.47)
United Tech	UTX	\$1.22	\$1.08
US Bancorp	USB	\$0.22	\$0.66

During Trading Hours

Energen	EGN	\$0.87	\$1.10
<i>After the Close</i>			
Action Semi	ACTS	\$0.03	\$0.16
Amdocs	DOX	\$0.55	\$0.56
Apple	AAPL	\$1.38	\$1.76
Avocent	AVCT	\$0.58	\$0.55
Celadon Group	CLDN	\$0.06	\$0.08

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Charlotte Russe	CHIC	\$0.11	\$0.56	Cypress Semi	CY	(\$0.08)	\$0.24
CNH Global	CNH	\$0.69	\$0.50	Deluxe	DLX	\$0.67	\$0.77
Cohen & Steers	CNS	\$0.06	\$0.44	Dover Downs Game	DDE	\$0.14	\$0.17
eBay	EBAY	\$0.39	\$0.45	Dover Motorsports	DVD	(\$0.10)	(\$0.10)
F5 Networks	FFIV	\$0.40	\$0.21	Exelon	EXC	\$1.04	\$1.02
Hexcel	HXL	\$0.14	\$0.20	Fifth Third	FITB	\$0.01	\$0.49
Kinder Morgan	KMP	\$0.53	\$0.50	First CmmnWlth	FCF	\$0.16	\$0.16
MTS Systems	MTSC	\$0.51	\$0.47	Ford Motor	F	(\$1.19)	(\$0.20)
Noble Corp	NE	\$1.48	\$1.35	Franklin Resources	BEN	\$0.85	\$2.12
NVE Corp	NVEC	\$0.40	\$0.36	GATX	GMT	\$0.59	\$0.62
Polycom	PLCM	\$0.40	\$0.42	Hubbell Inc	HUB.B	\$0.76	\$0.82
Raymond James	RJF	\$0.35	\$0.47	Huntington Banc	HBAN	\$0.20	(\$0.65)
Sanmina-SCI	SANM	\$0.01	\$0.04	Imation	IMN	\$0.08	\$0.64
Seagate Tech	STX	(\$0.04)	\$0.76	Intl Game Tech	IGT	\$0.27	\$0.36
SLM Corp	SLM	\$0.17	(\$0.36)	ITT Educational	ESI	\$1.44	\$1.20
Teradyne	TER	(\$0.13)	\$0.09	Janus Capital	JNS	\$0.04	\$0.33

Thursday

Before the Open

Company	Symbol	First Call	Yr Ago				
A.O. Smith	AOS	\$0.28	\$0.81	Keithley	KEI	(\$0.08)	\$0.05
AMCORE Fncl	AMFI	(\$0.30)	\$0.34	Kelly Services	KELYA	\$0.08	\$0.54
AmerisourceBergen	ABC	\$0.69	\$0.62	Kennametal	KMT	\$0.36	\$0.64
Applied Bio	ABI	\$0.52	\$0.50	KeyCorp	KEY	(\$0.02)	\$0.06
Arctic Cat	ACAT	(\$0.34)	(\$0.58)	Knight Capital Gr	NITE	\$0.37	\$0.50
AU Optronics	AUO	(\$0.53)	\$1.30	Kulicke & Soffa	KLIC	(\$0.25)	\$0.30
Avnet	AVT	\$0.67	\$0.89	Lockheed Martin	LMT	\$1.91	\$1.89
AVX Corp	AVX	\$0.09	\$0.22	LSI Industries	LYTS	\$0.02	\$0.22
Bank of NY	BK	\$0.70	\$0.67	M&T Bank	MTB	\$1.10	\$0.77
Baxter	BAX	\$0.89	\$0.76	McMoRan Expl	MMR	(\$0.02)	\$0.20
BB&T Corp	BBT	\$0.47	\$0.75	Meredith	MDP	\$0.43	\$0.73
Brinker	EAT	\$0.19	\$0.31	Meridian Bioscience	VIVO	\$0.20	\$0.18
Cabot Micro	CCMP	\$0.05	\$0.51	Metavante	MV	\$0.37	-
Celera Genomics	CRA	\$0.01	\$0.02	Monro Muffler	MNRO	\$0.28	\$0.27
CIT Group	CIT	(\$0.36)	\$1.15	Moog	MOG.A	\$0.68	\$0.64
Columbus McKnn	CMCO	\$0.41	\$0.53	National City	NCC	(\$0.25)	(\$0.27)
Comerica	CMA	\$0.24	\$0.77	Nokia	NOK	\$0.37	\$0.47
				Northrop Grumman	NOC	\$1.55	\$1.32
				Old Republic	ORI	(\$0.25)	\$0.09
				Potash	POT	\$2.27	\$1.11
				Sherwin-Williams	SHW	\$0.53	\$0.88
				Southwest Air	LUV	\$0.05	\$0.12

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SunTrust Banks	STI	\$0.09	\$0.01	PerkinElmer	PKI	\$0.42	\$0.45
Taiwan Semi	TSM	\$0.07	\$0.20	ScanSource	SCSC	\$0.33	\$0.60
TCF Financial	TCB	\$0.24	\$0.50	Seacoast Banking	SBCF	(\$0.20)	\$0.10
Teledyne Tech	TDY	\$0.78	\$0.73	Synaptics	SYNA	\$0.63	\$0.60
Union Pacific	UNP	\$1.23	\$1.86	Synovus	SNV	(\$0.49)	\$0.34
UnionBanCal	UB	\$1.03	\$0.78	Technitrol	TNL	\$0.09	\$0.52
UnitedHealth	UNH	\$0.78	\$0.92	Tempur-Pedic	TPX	\$0.15	\$0.52
US Airways	LCC	(\$2.09)	(\$0.45)	Varian	VARI	\$0.60	\$0.66
UST Inc	UST	\$0.94	\$0.95	Werner Enterprises	WERN	\$0.26	\$0.28
ZOLL Medical	ZOLL	\$0.14	\$0.15				
<i>During Trading Hours</i>				<i>Friday</i>			
Assoc Banc-Corp	ASBC	\$0.32	-	<i>Before the Open</i>			
Citizens Rep Bncrp	CRBC	(\$0.12)	-	Company	Symbol	First Call	Yr Ago
Heartland Express	HTLD	\$0.17	\$0.17	Amcol	ACO	\$0.28	\$0.35
<i>After the Close</i>				General Electric	GE	\$0.37	\$0.68
Advanced Micro	AMD	(\$0.54)	(\$0.17)	Harley-Davidson	HOG	\$0.58	\$0.78
BancorpSouth	BXS	\$0.31	-	MB Financial	MBFI	\$0.27	\$0.43
Bottomline Tech	EPAY	\$0.14	\$0.17	Schlumberger	SLB	\$1.08	\$1.11
Canadian Natl Rail	CNI	\$0.82	-	Webster Financial	WBS	(\$0.58)	-
Capital One	COF	\$0.45	\$0.60	Xerox	XRX	\$0.34	\$0.41
City National	CYN	\$0.62	\$0.96				
CoBiz	COBZ	\$0.17	-				
Con Edison	ED	\$0.69	\$0.76				
Conexant	CNXT	(\$0.07)	\$0.02				
Covenant Transport	CVTI	(\$0.05)	\$0.01				
Cubist Pharma	CBST	\$0.52	\$0.16				
Digi Intl	DGII	\$0.03	\$0.14				
Electro Scientific	ESIO	(\$0.16)	\$0.27				
EZCORP	EZPW	\$0.35	\$0.29				
Fed Investors	FII	\$0.51	\$0.62				
Google	GOOG	\$4.96	\$4.43				
Interactive Brokers	IBKR	\$0.53	\$0.46				
Intuitive Surgical	ISRG	\$1.27	\$1.24				
J&J Snack Foods	JJSF	\$0.16	\$0.10				
Knight Transprt	KNX	\$0.17	\$0.18				
MEMC Elec	WFR	\$0.62	\$0.97				
Microsemi	MSCC	\$0.35	\$0.31				
Microsoft	MSFT	\$0.50	\$0.50				
NetScout Systems	NTCT	\$0.24	(\$0.09)				

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Economic Reports

Thursday

Time	Release	For	Consensus	Prior
8:30	Building Permits	Dec	615K	616K
8:30	Housing Starts	Dec	610K	625K
8:30	Initial Claims	17-Jan	548K	524K
11:00	Crude Inventories	16-Jan	-	1.14M

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