

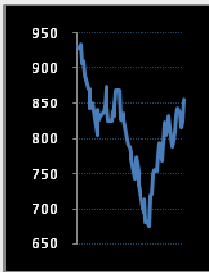
# DREXEL INVESTMENT GROUP AP

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## Weekly Recap

The S&P 500 ended the holiday shortened week up 1.7%, led by financials. Trade was volatile despite only four sessions that had a relatively small amount of news and economic reports. The upside move came despite Alcoa (AA) kicking off first quarter earnings reporting season on a weaker-than-expected note.



S&P 500 YTD Performance

On Tuesday evening, Alcoa reported a loss of \$0.59 per share, \$0.02 worse than the First Call consensus that called for a loss of \$0.57. Alcoa said the sharp drop in revenue resulted from the impact of the economic downturn on the company's end markets -- automotive, transportation, building and construction and aerospace. Despite the miss, the results were better than many had feared, and as a result Alcoa finished the week with an 4.0% gain.

There were some upside earnings results, however. Wells Fargo (WFC) preannounced record first quarter earnings of approximately \$3 billion and earnings of \$0.55 per share, topping the consensus estimate of \$0.23. Wells Fargo expects revenues of \$20.0 billion, versus the consensus of \$18.98 billion.

The news gave a healthy boost to financials, which ended up 15.9% on the week and provided a measure of confidence going into the coming week when JPMorgan Chase (JPM), Goldman Sachs (GS) and Citigroup (C) report their quarterly results. On a related note, life insurers also helped lift financials, gaining 15.9%, after it was reported that the Treasury will soon announce it will extend the TALF program to aid some life insurers.

Meanwhile, Bed Bath & Beyond (BBY) reported much better-than-expected fiscal fourth quarter earnings of \$0.55, easily topping the \$0.44 consensus estimate. This news, along with smaller-than-expected decreases in March same-store sales from Target, Kohl's, JCPenney and Macy's helped the S&P 500 Retailing Index to gain 4.7% on the week, making it up 17.7% this year. Wal-Mart, however, dropped 5.8% as it reported a disappointing same-store reading.

Sun Microsystems (JAVA), however, failed to participate in the week's advance after media reports indicated that talks with IBM (IBM) broke down as JAVA executives felt the \$9.40 per share offer -- a 90% premium -- did not fully value its stock. Of note, it has not yet been officially

*Continued on Page 2...*

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### FOR THE WEEK OF APRIL 12, 2009

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## *Weekly Recap Continued...*

confirmed that the companies were in talks, although there have been a hefty number of reports that they were. JAVA fell 21.3% on the week.

In other notable corporate news, Pulte Homes (PHM) and Centex (CTX) reached a merger agreement valued at \$3.1 bln, as the struggling homebuilders looks to cut costs in the face of an extend downturn in housing. The combined company would create the country's largest homebuilder by revenue and market cap.

Economic data came in light this week—the number of new jobless claims for the week ended April 4 fell to 654,000 (consensus 660,000) from 674,000 in the prior week. While the downtick is welcome news, claims still remain at very high levels. Meanwhile, the level of continuing claims worsened to 5.84 million from 5.75 million in the prior week.

The February trade deficit dropped a sharp \$10.2 billion to \$26.0 billion from \$36.2 billion in January. This resulted from a very surprising \$2.0 billion increase in exports along with a not

so surprising \$8.2 billion drop in imports. The inflation-adjusted deficit compacted to \$35.6 billion from \$44.0 billion, which will have a positive impact on real Q1 GDP.

The minutes from the March 17-18 FOMC meeting didn't contain any real surprises. Most members believed the credit markets still are not working well. In addition, the FOMC did not interpret the uptick in housing starts in February as a beginning of a new trend, though some members felt that there was only a limited scope for a further fall in housing activity. The latter is not all that reassuring, as housing activity is already at very depressed levels.

In other news, the SEC is looking at short-sale rules as many market participants have criticized the repeal of the uptick rule in late 2007. Despite the gloom-and-doom issued from masterminds' George Soros and Marc Faber, the S&P 500's advance marks the fifth consecutive weekly gain for the index, and a 28.5% rebound from its March 6 multi-year low. The market is still down 46% from its all-time high reached in October 2007.

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## *The Outlook*

Wells Fargo reposted preliminary results that show hope for the rest of the financial sector. Specifically, Wells Fargo sited \$100 billion in mortgage originations and another \$100 billion in the pipeline which is extremely encouraging to me. We have seen such hesitancy in mortgage applications and bank lending over the past year and it has been clear that it would take significant increases in pipeline flow to get the housing market turned around. This week's housing starts

and building permit reports will also shed light on the housing demand in the past month. Look for a small pickup in housing starts due to the continued run-off in previous inventory. It is also worth looking at the ratio of new housing starts to existing home inventory to show where buyers are shopping. There is still a large inventory of existing homes to run off, but the confidence of builders in the intermediate term should be reflected in this week's numbers.

## *Outlook Continued...*

There are a few interesting earnings announcements to keep an eye on this week. Goldman Sachs has made it pretty clear that they will be taking steps to pay back the money they were allocated through TARP. I will be looking for language that explains how they plan on doing this and what their timeline looks like. JPMorgan Chase will probably not see too much increase in investment banking activity, but could make that up in new credit card issuance. Non-performing loans in the mortgage and credit card segments will reflect the quality of not only JPMorgan's legacy assets, but the quality of Washington Mutual's assets acquired in the deal.

In the tech sector, Intel should start to recognize some new revenue streams from netbook sales, offset by lower PC tower sales. I read a great analysis this weekend of the effects of electronics store closings (Circuit City, CompUSA) on Best Buy and other players that have survived the withering consumer spending trend. In summary, these leftover stores will be fairing well due to increased traffic, but that does not mean increased volume for the manufacturers. Chip sales for the quarter will indicate the strength of distribution channels. It could be a tough quarter for Google as advertising revenue could easily be hit harder during the first quarter. The good news though is that Google continues to introduce new content to their network of online productivity tools. This rough time in advertising growth could be a great time for Google to increase market share over the last few standing search engines that are still com-

petitive.

The performance of CSX is an important indicator of the state of capital goods and material spending domestically. After the sharp rise in oil prices at the end of 2008, many companies switched shipping modes to rail. CSX also stands to benefit from the stimulus plan when infrastructure spending gets underway. Materials to build roads, bridges, and buildings will need to be transported across the country and will mostly be transported by railway. Look for a combination of rail network consolidation and increased volume in the inter-modal business segment.

Finally, the Fed will be in the spotlight again this week with the release of the last FOMC meeting minutes and Bernanke's speech on Friday. As these events happen, watch the dollar and its reaction to any statements. We are getting to a point of high rates of inflow of dollars and the dollar has not fully reflected the situation. Usually when traders see more money coming into the economy, they run from the dollar in fear of inflation risk. I don't know if this time they are just not comfortable with any other currency or if they feel as though the additional tender is already reflected in the price. Either way, the Fed's language can always be interpreted to predict future actions and the market will react accordingly.

I have been a little confused recently in the level of oil prices relative to the available information you might use to predict oil movements. A little while ago I talked

about my expectation of \$50-\$60 oil due to the cuts in supply by OPEC and lower capacity utilization in offshore rigs. Now that we have seen some of that supply come off of the table, it makes sense why we got to the \$50 level. But I am not sure why we are still here. We are absolutely seeing lower demand and oil reserves are building. Companies are literally filling barges with oil and setting them out in the sea to wait for more demand. At some point, field storage tanks and these barges are going to fill up and oil companies are going to have to start letting go of barrels at lower prices. It is surprising to me that oil has not fallen to at least \$45. We will see over the next few weeks how the inventory levels look. I would expect them to even out a little this week and then possibly increase again next week.

No matter what your specialty or profession is, this market is full of interesting corners to focus your attention. If you are smart, you will read all sides of these arguments in the news. Every day it seems that I am confronted with a new way to look at the decisions that executives and policy makers are making. The best advice I have been given has been to resist the urge to dive into a theory or an assumption without first looking at the opposite side. This keeps me honest in my goal of understanding this environment and the possible consequences of wrong action.

Have a great week and I hope you are not too burned out from all of the family parties and festive spirit that holidays tend to bring.

## Upcoming Earnings

### Tuesday

*Before the Open*

Company	Symbol	First Call	Yr Ago
Commerce Bancshs	CBSH	\$0.49	\$0.89
Fastenal	FAST	\$0.34	\$0.46
Goldman Sachs	GS	\$1.60	\$3.23
Johnson & Johnson	JNJ	\$1.22	\$1.26
WW Grainger	GWW	\$1.07	\$1.43

*After the Close*

CSX Corp	CSX	\$0.51	\$0.80
Intel	INTC	\$0.02	\$0.29

### Wednesday

*Before the Open*

Company	Symbol	First Call	Yr Ago
Abbott Labs	ABT	\$0.71	\$0.63
Acergy	ACGY	\$0.19	\$0.20
Charles Schwab	SCHW	\$0.15	\$0.26
Infosys	INFY	\$0.54	\$0.54
Peabody Energy	BTU	\$0.97	\$0.26
Piper Jaffray	PJC	(\$0.23)	(\$0.22)
Progressive	PGR	\$0.41	\$0.35

*After the Close*

Kinder Morgan	KMP	\$0.34	\$0.63
Linear Tech	LLTC	\$0.21	\$0.44
Seagate Tech	STX	(\$0.38)	\$0.70

### Thursday

*Before the Open*

Company	Symbol	First Call	Yr Ago
BlackRock	BLK	\$0.86	\$1.90
Harley-Davidson	HOG	\$0.51	\$0.79
IMS Health	RX	\$0.38	\$0.37
JP Morgan Chase	JPM	\$0.32	\$0.68
Knoll	KNL	\$0.20	\$0.36

Meridian Bioscience	VIVO	\$0.21	\$0.18
MGIC Investment	MTG	(\$1.37)	(\$0.41)
Nokia	NOK	\$0.15	\$0.38
Polaris Inds	PII	\$0.21	\$0.55
Sherwin-Williams	SHW	\$0.21	\$0.64
Southwest Air	LUV	\$0.03	\$0.06

*After the Close*

Charlotte Russe	CHIC	(\$0.02)	\$0.17
Google	GOOG	\$4.91	\$4.84
Intuitive Surgical	ISRG	\$1.05	\$1.12
SanDisk	SNDK	(\$0.73)	\$0.21

### Friday

*Before the Open*

Company	Symbol	First Call	Yr Ago
A.O. Smith	AOS	\$0.41	\$0.72
BB&T Corp	BBT	\$0.32	\$0.73
Citigroup	C	(\$0.37)	(\$1.02)
First Horizon	FHN	(\$0.25)	\$0.06
General Electric	GE	\$0.21	\$0.44
Mattel	MAT	(\$0.13)	(\$0.13)
Overstock.com	OSTK	(\$0.30)	(\$0.75)
Prosperity Bancshs	PRSP	\$0.54	\$0.52

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## *Economic Reports*

### *Tuesday*

Time	Release	For	Consensus	Prior
8:30	Core PPI	Mar	0.10%	0.20%
8:30	PPI	Mar	0.00%	0.10%
8:30	Retail Sales	Mar	0.30%	-0.10%
8:30	Retail Sales ex-auto	Mar	0.10%	0.70%
10:00	Business Inventories	Feb	-1.10%	-1.10%

### *Wednesday*

Time	Release	For	Consensus	Prior
8:30	Core CPI	Mar	0.10%	0.20%
8:30	CPI	Mar	0.20%	0.40%
8:30	Empire Manufacturing	Apr	-35	-38.2
9:00	Net Long-Term TIC Flows	Feb	-	-\$43.0B
9:15	Capacity Utilization	Mar	69.70%	70.90%
9:15	Industrial Production	Mar	-0.90%	-1.40%
10:30	Crude Inventories	10-Apr	-	+1645K
14:00	Fed's Beige Book			

### *Thursday*

Time	Release	For	Consensus	Prior
8:30	Building Permits	Mar	550K	547K
8:30	Housing Starts	Mar	550K	583K
8:30	Initial Claims	11-Apr	NA	654K
10:00	Philadelphia Fed	Apr	-32	-35

### *Friday*

Time	Release	For	Consensus	Prior
9:55	Mich Sentiment-Prel	Apr	58.5	57.3

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