

The Weekly View

The Recap *by Kevin Maloney*

Story: Mixed Messages, Large Caps Outperforming

After 4 weeks of posting weekly gains, equity markets posted their first week of losses as traders and investors took their first short term profits of 2010 with the NASDAQ losing 1.26%, S&P500 dropping 0.78%, and large caps outperforming as the Dow drifted down 0.08%. The sell off may have been overdue, as the markets have continued to rally against reports of further fundamental instability. Initial losses last week began early Tuesday, with the S&P 500 dipping to \$1132.50 before recovering in full force Wednesday, however Friday would prove to be a difficult day to digest. JP Morgan led the way down for Financials, missing projected revenues by \$1.06 billion during earnings calls that led to the domino effect of losses early Friday morning. The Bureau of Labor issued its monthly report the Friday beforehand (Jan.8), tallying 85,000 jobs lost in the month of December, keeping overall unemployment steady at 10%. Retail Sales also fell for the month of December, falling off 0.3% during the holiday season as fundamentals continue their inverse relationship to equity market performance.

The US Dollar posted another week of spectacular gains against the Euro as one short term sign of recovery during the months of November and December continued last week. The EUR/USD fell from \$1.4450 to \$1.4380 during the week (downward move indicating USD strength, although the dollar's value still has a long way to retrace its losses of the past year. As expected with positive movement in the dollar, energy and precious metals fell, with oil prices dropping from \$82 a barrel to a low of \$77.50 on Friday, and gold falling from \$1152 to \$1130 during the week's sessions.

Uncertainty continues to pervade the individual investor's sentiment, personified by calls for new bull and bear markets penned on numerous blogs and other news media. The need for palpable evidence of recovery may still be keeping a large amount of investment capital on the sidelines. From a macro perspective, major banks continue to hoard cash or cash equivalents far above the Fed's Required Reserve Ratio for their own protection from market downturn, but simultaneously prevent a strong step forward by keeping potential loans away from customers and businesses to invest. The story of the past week continues to be "Mixed Messages."

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Upcoming DIG Events:

- **01/19/2010 Panel Discussion on Risk Management:** DIG will be hosting members of the Global Association of Risk Professionals (GARP) and the CFA Institute for a panel discussion on affects the world today and its real world applications in various fields of business.

Index	Close	% Change	YTD %
DJIA	10609.65	-0.1	1.7
Nasdaq	2287.99	-1.3	0.8
S&P 500	1136.03	-0.8	1.9
Russell 2000	637.96	-1	2

UPCOMING

Outlook *by Steve Romasko*

The Story this Earnings Season: Top Line Growth & the Consumer

This season, look for analysts to be concerned with revenue growth rather than overall results. During the height of the crisis investors were satisfied with bottom-line earnings performance, as their main concern was company survival and sustainability, and less so about market growth. Now that we're under a new year, have a fresh performance start, and it is evident that a crisis has been averted; investors are becoming more critical of company performance. This was manifested in last week's results, particularly JP Morgan (JPM), who quadrupled analysts' estimates, earning 10x higher than a year ago with respect to the bottom line, but missed on revenue projects of \$26.81 billion, reporting actual revenue of \$25.2 billion. JPM's results became the driving catalyst in Friday's market, sending the S&P 500 and its own stock down 1.08%, and 2.26% respectively, snapping a 7-day winning streak for the broad index. Digging deeper into the results, JP Morgan's earnings were rather dismal; almost all of their performance was attributable to market appreciation, while the lagging areas of their earnings primarily came from consumer-related segments. Jamie Dimon's comments added to the negative sentiment of the earnings by citing that high unemployment, home price pressures, and a still-high level of loan loss provisioning are weighing on the business.

An argument can be made that the pullback in equities on Friday was a necessary correction after 7 days of gains, and was not entirely a consequence of the JP Morgan results. While the argument holds some truth, one would be ignorant to dismiss the results as mere noise. In my opinion, the significance on revenues this earnings season can either be validated or discredited Tuesday morning with results coming from Citigroup (C). Citigroup is a diversified bank that is known to have significant exposure to the consumer. As was the case with JP Morgan, analysts are going to be concerned with revenue growth and if Citi misses on the revenue line I would expect a prolonged market selloff. If the results show increased delinquency rates with regard to consumer products it can be inferred that if consumers aren't paying down overdue debt balances they are most likely not making discretionary purchases. From that point, if consumers aren't making discretionary purchases, then, it can be assumed that businesses are not making sales, and it is likely that they are not hiring. A lack of sales, leads to reduced overall earnings and subsequently lower growth. While it appears that unemployment has peaked at 10.2%, it seems plausible that job creation will be anemic until consumer confidence returns. A confident consumer leads to spending which ultimately greases the self-feeding mechanism and eventually leads to job growth. Remember, 70% of the GDP equation is attributable to the consumer. If Citigroup's earnings show a distressed, frugal, consumer it is likely that the rest of the market will exhibit stress and reflect stagnant growth.

Also upcoming this week are several economic reports, particularly PPI data for December, the Conference Board's index of leading economic indicators for December, as well as the Philadelphia Fed's manufacturing index for January. In government, the House Financial Services Committee will conduct a hearing about compensation in the financial industry on Friday.

UPCOMING

Earnings

Tuesday, January 19			
Before The Open		First Call	Yr Ago
Citigroup	C	-0.33	-1.72
TD Ameritrade	AMTD	0.26	0.31
After The Close		First Call	Yr Ago
CSX Corp	CSX	0.76	0.9
IBM	IBM	3.47	3.28
Pinnacle Finl	PNFP	-0.06	0.35
Wednesday, January 20			
Before The Open		First Call	Yr Ago
Bank of America	BAC	-0.52	-0.48
Bank of NY	BK	0.51	0.92
Coach	COH	0.72	0.67
Covidien	COV	0.75	0.76
iGATE	IGTE	0.16	0.12
Jefferies Group	JEF	0.35	-2.41
M&T Bank	MTB	0.87	1
Marshall & Ilsley	MI	-0.48	-1.55
Morgan Stanley	MS	0.36	-
Northern Trust	NTRS	0.66	1.39
Progressive	PGR	0.37	0.24
State Street	STT	0.99	1.18
US Bancorp	USB	0.29	0.15
Wells Fargo	WFC	-0.02	-0.79
After The Close		First Call	Yr Ago
eBay	EBAY	0.4	0.41
Kinder Morgan	KMP	0.49	0.24
Raymond James	RJF	0.37	0.52
Seagate Tech	STX	0.65	-0.23
SLM Corp	SLM	0.44	0.08
Starbucks	SBUX	0.27	0.15
Thursday, January 21			
Before The Open		First Call	Yr Ago
AMR Corp	AMR	-1.2	-0.77
Charles Schwab	SCHW	0.15	0.27
Comerica	CMA	-0.5	0.2
Continental Air	CAL	-0.08	-0.84
Fairchild Semi	FCS	0.17	0.06
Fifth Third	FITB	-0.31	-3.82
Goldman Sachs	GS	5.19	-

UPCOMING

Earnings

InSteel Industries	IIIN	0.05	-0.08
ITT Educational	ESI	2.36	1.61
KeyCorp	KEY	-0.39	-1.13
Knight Capital Group	NITE	0.32	0.56
Legg Mason	LM	0.31	-10.55
LSI Industries	LYTS	0.09	-0.01
Meridian Bioscience	VIVO	0.22	0.2
PNC Bank	PNC	0.77	0.32
PPG Industries	PPG	0.73	0.41
Somanetics	SMTS	0.18	0.25
Southwest Air	LUV	0.06	0.08
Taiwan Semi	TSM	0.19	0.07
Union Pacific	UNP	1.04	1.31
UnitedHealth	UNH	0.73	0.78
Xerox	XRX	0.22	0.3
During Trading Hours		First Call	Yr Ago
Assoc Banc-Corp	ASBC	-0.13	0.11
Con Edison	ED	0.75	0.72
After The Close		First Call	Yr Ago
Advanced Micro	AMD	-0.18	-0.68
American Express	AXP	0.55	0.21
BancorpSouth	BXS	0.29	0.2
Bottomline Tech	EPAY	0.23	0.14
Capital One	COF	0.45	-1.59
Cubist Pharma	CBST	0.31	0.71
Google	GOOG	6.43	5.1
Interactive Brokers	IBKR	0.24	0.49
Intl Game Tech	IGT	0.2	0.29
Intuitive Surgical	ISRG	1.71	1.27
J&J Snack Foods	JJSF	0.27	0.23
People's United Financial	PBCT	0.08	0.11
SVB Financial Group	SIVB	0.35	
Western Digital	WDC	1.35	0.55
Friday, January 22			
Before The Open		First Call	Yr Ago
Amcol	ACO	0.3	0.29
BB&T Corp	BBT	0.21	0.44
Exelon	EXC	0.85	1.07

UPCOMING

Earnings

General Electric	GE	0.26	0.37
Harley-Davidson	HOG	-0.32	0.34
Huntington Banc	HBAN	-0.27	-1.2
Johnson Controls	JCI	0.29	-0.14
Kimberly-Clark	KMB	1.25	1.01
MB Financial	MBFI	0.07	-0.74
McDonald's	MCD	1.02	0.87
Schlumberger	SLB	0.63	1.03
SunTrust Banks	STI	-0.75	-1.08

Economics

Week of January 18 - January 22

Date	ET	Release	For	Consensus	Prior
19-Jan	9:00	Net Long-Term TIC Flows	Nov	\$27.5B	\$20.7B
20-Jan	8:30	Building Permits	Dec	580K	584K
20-Jan	8:30	Housing Starts	Dec	575K	574K
20-Jan	8:30	Core PPI	Dec	0.10%	0.50%
20-Jan	8:30	PPI	Dec	0.00%	1.80%
21-Jan	8:30	Initial Claims	16-Jan	440K	444K
21-Jan	8:30	Continuing Claims	9-Jan	4600K	4596K
21-Jan	10:00	Leading Indicators	Dec	0.70%	0.90%
21-Jan	10:00	Philadelphia Fed	Jan	18.8	20.4
21-Jan	11:00	Crude Inventories	15-Jan	NA	3.70M

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