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## Equity Index Update February 3, 2009

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Our house call forecasts substantially lower equity index prices in the near to intermediate term. To that end we have spent a considerable amount of time contemplating and analyzing how the equity markets achieve lower prices. A succinct explanation of our current thinking recognizes that the mechanism for achieving lower prices is a bit counterintuitive.

The market is focused on financial issue performance as the catalyst for downside price action and we believe rightly so, in terms of real economic impact; however, in terms of equity market indices financials lack necessary scale to affect prices to the extent forecast given the seismic destruction of prices and market caps that has taken place in the sector. In short financials have done the vast majority of the damage they can to the indices.

What can (and we believe will) take the market indices down for a fresh leg is perversely the issues that investors have sought in safety. A bit of a catch twenty-two presents itself in that should investors become more aggressive in their equity exposure and begin rotating into offensive position they are likely to sell the defensive names that have held up the best. This rotational activity likely results in their driving the market indices down on balance even as they express their belief that conditions for equity markets generally are improving. This is due to the simple fact that the defensive names occupy the heaviest weightings in the SPX as dictated by market cap and in the DJIA as dictated by price. It will be the likes of CL, CVX, JNJ, KO, MCD, PG, XOM that take the indices down not small names like BAC or C (sic). Conversely, the darker interpretation is that things are in such a state of parabolic deterioration economically/fundamentally currently that nothing is safe and the defensive names are simply the last area of the market to reflect this, rotation aside. Either way we think the hand writing is on the wall for big cap defensive names and broadly recommend building short positions in the defensive names.

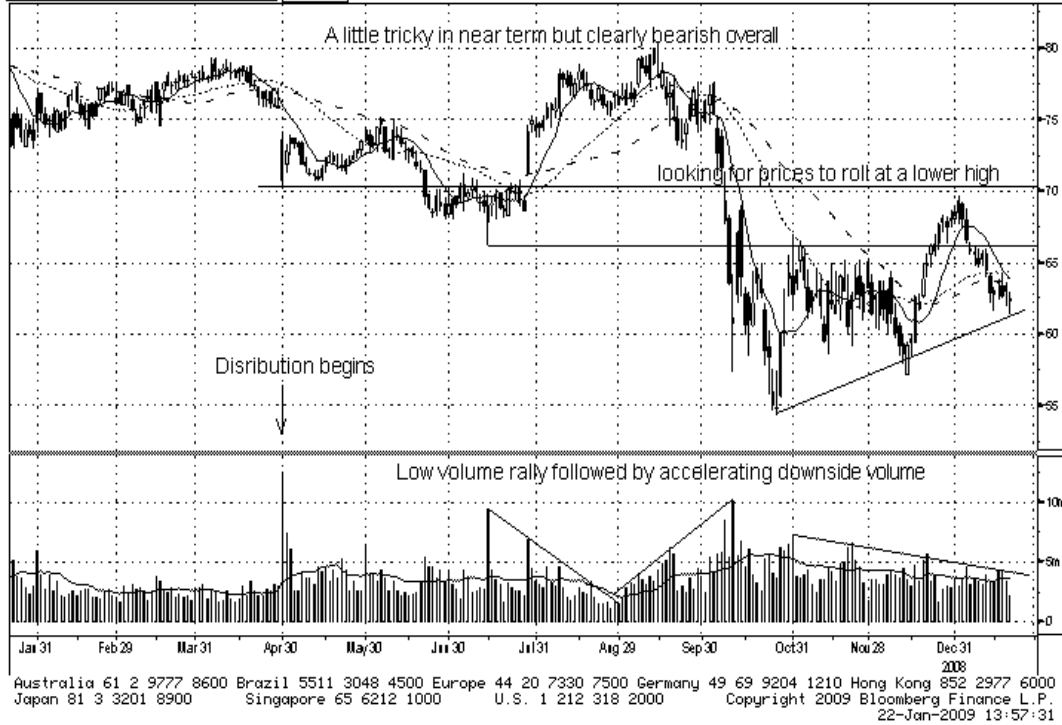
From a fundamental perspective we believe that the secular themes of an ever weakening dollar and an ever rising emerging market consumer were the twin pillars driving the long bull markets in many of the defensive names and these themes have been broken or at the very least cast in considerable doubt even as developed market demand slackens. Technically we see signs of marked deterioration in the broad list of defensive names and evidence of heavy distribution. We have included a number of charts below that illustrate this.

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The results presented should not and cannot be viewed as an indicator of future performance.  
Charts courtesy of Bloomberg Finance L.P.

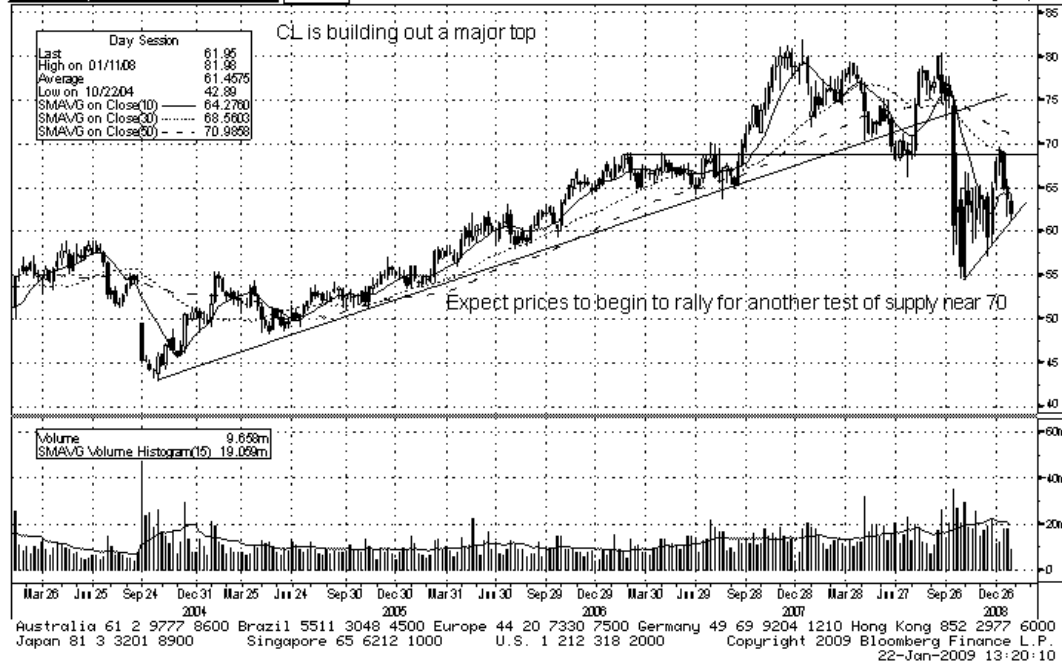
US \$ ↓ **62.27** -0.76 N 4s N 62.27/62.29 P 1x4  
 At 13:57 Vol 2,277,757 Op 62.55 T Hi 62.96 P Lo 61.34 T ValTrd 140.893m X

CL US EQUITY Show GPC - Candle Chart Page 1/19



US \$ ↑ **61.97** -1.06 D 1s N 61.95/61.97 Z 2x6  
 At 13:20 Vol 2,056,019 Op 62.55 T Hi 62.96 P Lo 61.34 T ValTrd 127.139m X

CL US EQUITY Show GPC - Candle Chart Page 1/22



**CVX** US \$ ↓ **69.15** +.84 P 1s L 69.1/69.11 P 1x4  
 At 13:29 Vol 7,123,654 Op 68.43 Z Hi 70.16 P Lo 68.41 T ValTrd 492.835m

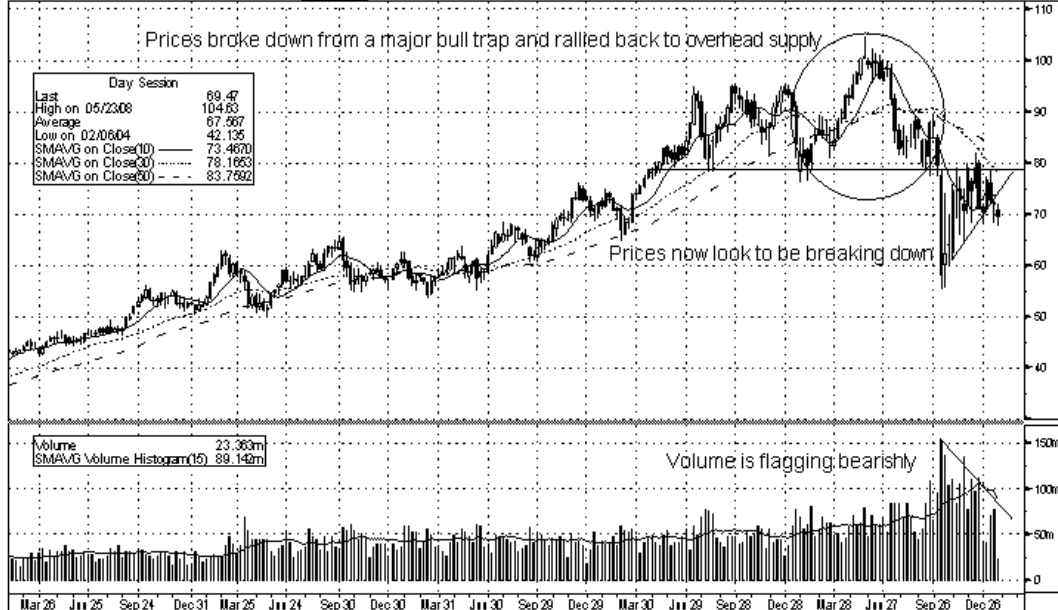
CVX US EQUITY Show GPC - Candle Chart Page 1/19



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2009 Bloomberg Finance L.P.

**CVX** US \$ ↓ **69.47** +1.16 N 2s T 69.46/69.47 D 3x3  
 At 13:34 Vol 7,275,336 Op 68.43 Z Hi 70.16 P Lo 68.41 T ValTrd 503.345m

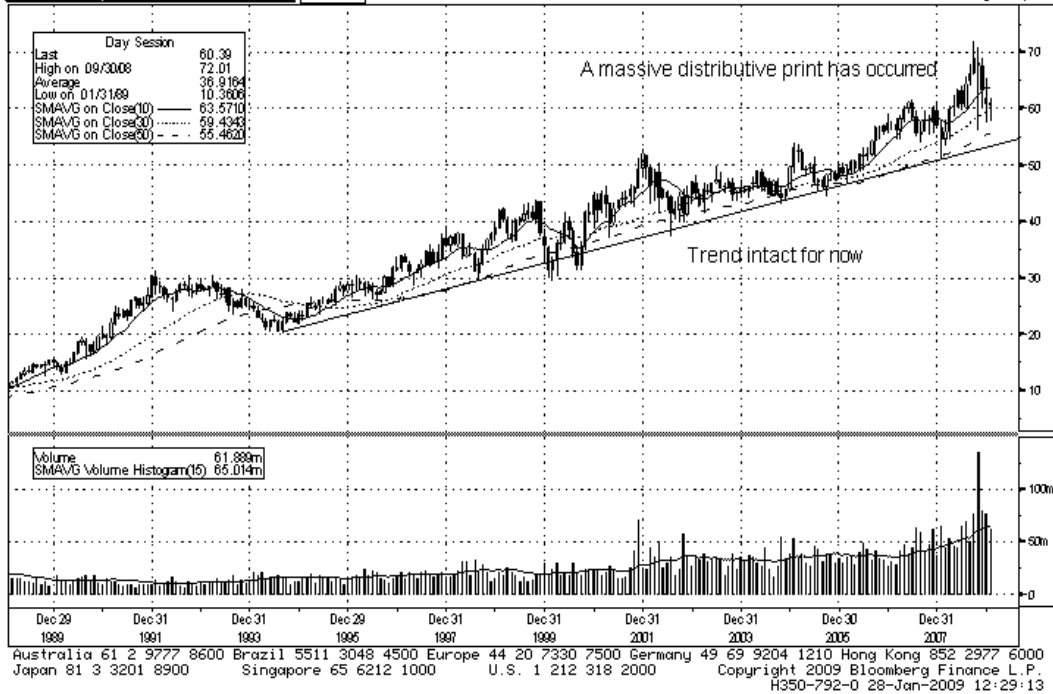
CVX US EQUITY Show GPC - Candle Chart Page 1/22



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
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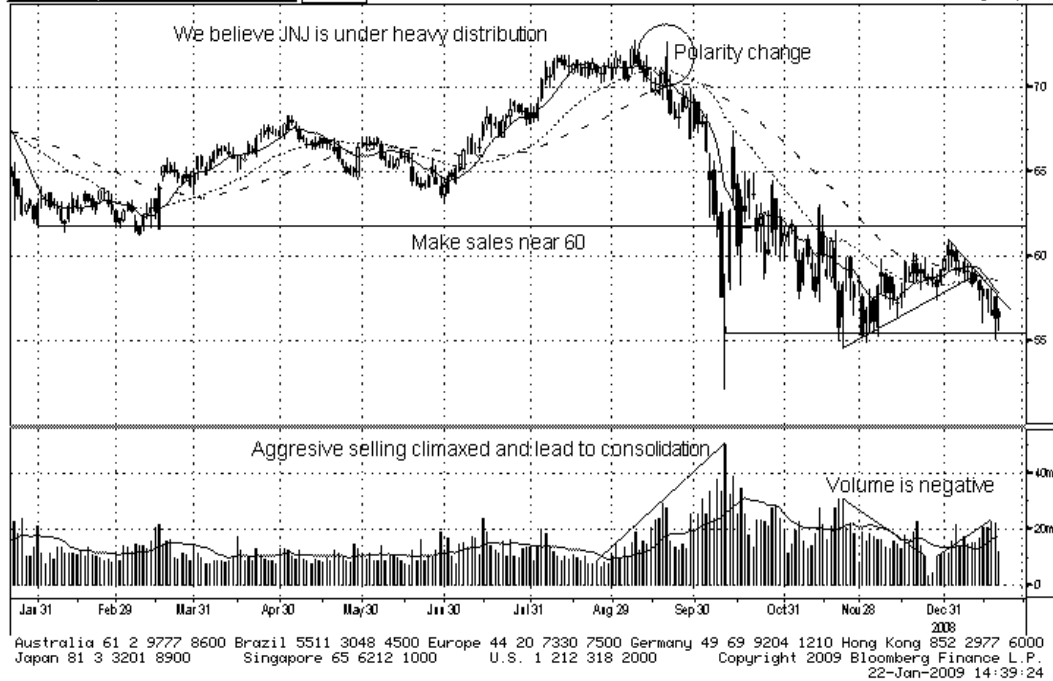
GIS US \$ ↓ **60.39** -.04 P 1s T 60.38/60.4 N 2x12  
 At 12:29 Vol 1,226,783 Op 60.67 T Hi 60.86 Z Lo 60.04 N ValTrd 74139648

GIS US EQUITY Show GPC - Candle Chart Page 1/22



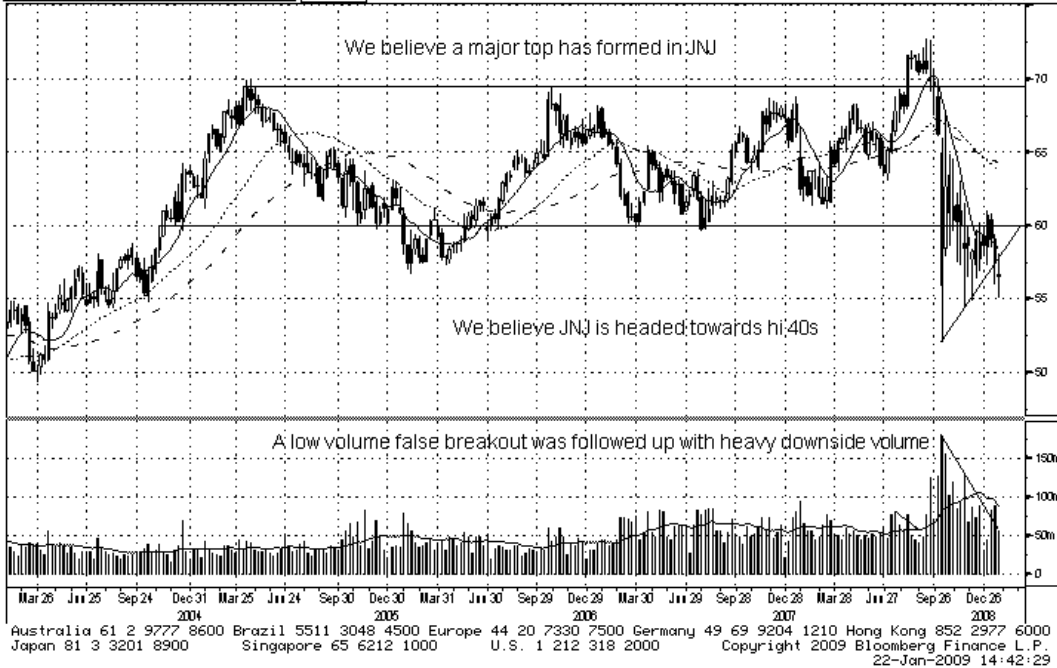
JNJ US \$ ↑ **56.73** +.37 N 5s P 56.72/56.73 T 1x5  
 At 14:39 Vol 11,990,646 Op 56.37 T Hi 56.9 N Lo 55.61 T ValTrd 673.166m

JNJ US EQUITY Show GPC - Candle Chart Page 1/19



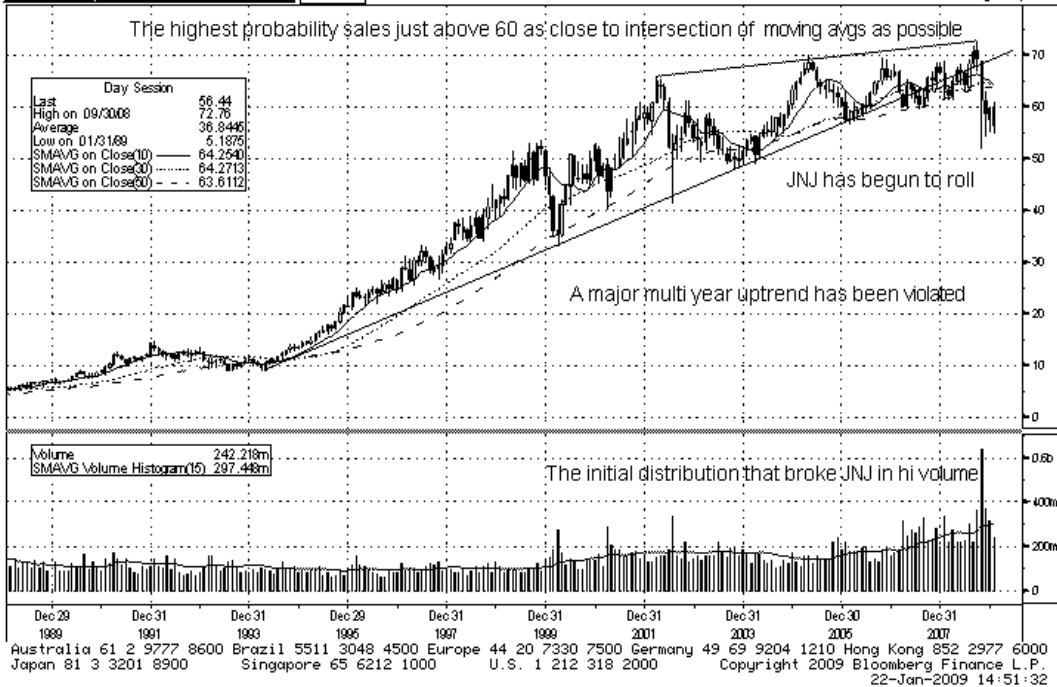
**JNJ** US \$ ↑ **56.68** +.32 P 1s N 56.67/56.69 Z 13x4  
 At 14:42 Vol 12,135,487 Op 56.37 T Hi 56.9 N Lo 55.61 T ValTrd 681.399m

**JNJ US EQUITY** Show GPC - Candle Chart Page 1/22



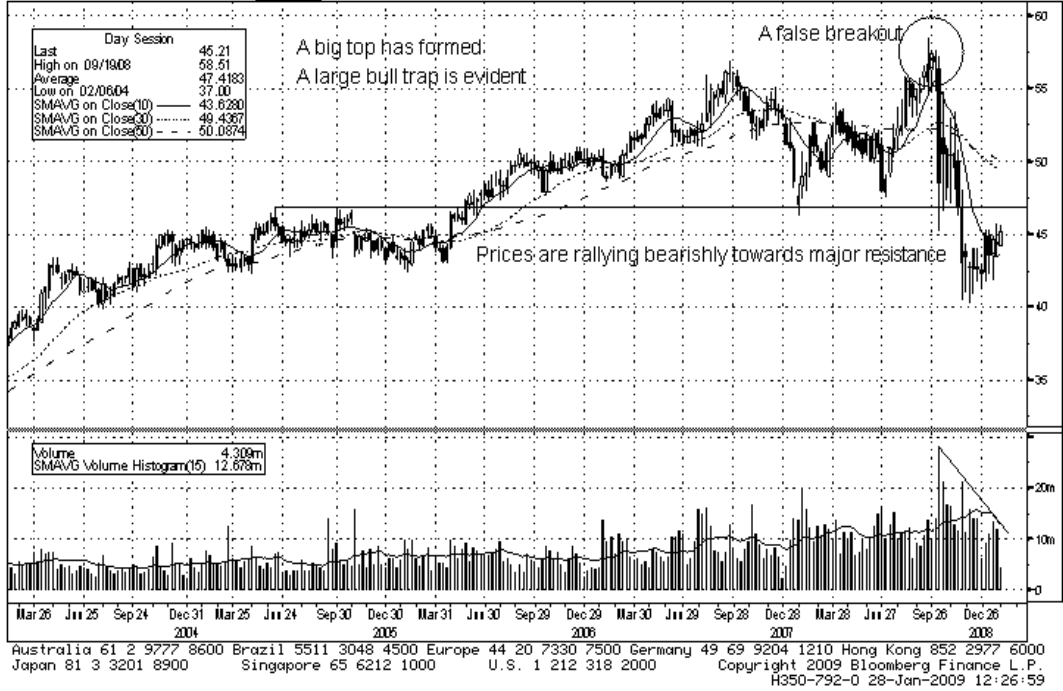
**JNJ** US \$ ↑ **56.44** +.08 N 1s T 56.44/56.45 P 2x6  
 At 14:51 Vol 12,503,483 Op 56.37 T Hi 56.9 N Lo 55.61 T ValTrd 702.220m

**JNJ US EQUITY** Show GPC - Candle Chart Page 1/22



**K US \$ I 45.21** -.03 P 1s Z 45.22/45.23 N 2x1 Msg:D.CURNUTT  
 At 12:26 Vol 604,999 Op 45.6 N Hi 45.63 N Lo 45.11 D ValTrd 27435786

**K US EQUITY** Show GPC - Candle Chart Page 1/21



**K US \$ I 45.21** -.03 Z 1s T 45.21/45.23 L 4x1 EquityGPC  
 At 12:27 Vol 605,399 Op 45.6 N Hi 45.63 N Lo 45.11 D ValTrd 27453850

**K US EQUITY** Show GPC - Candle Chart Page 1/22



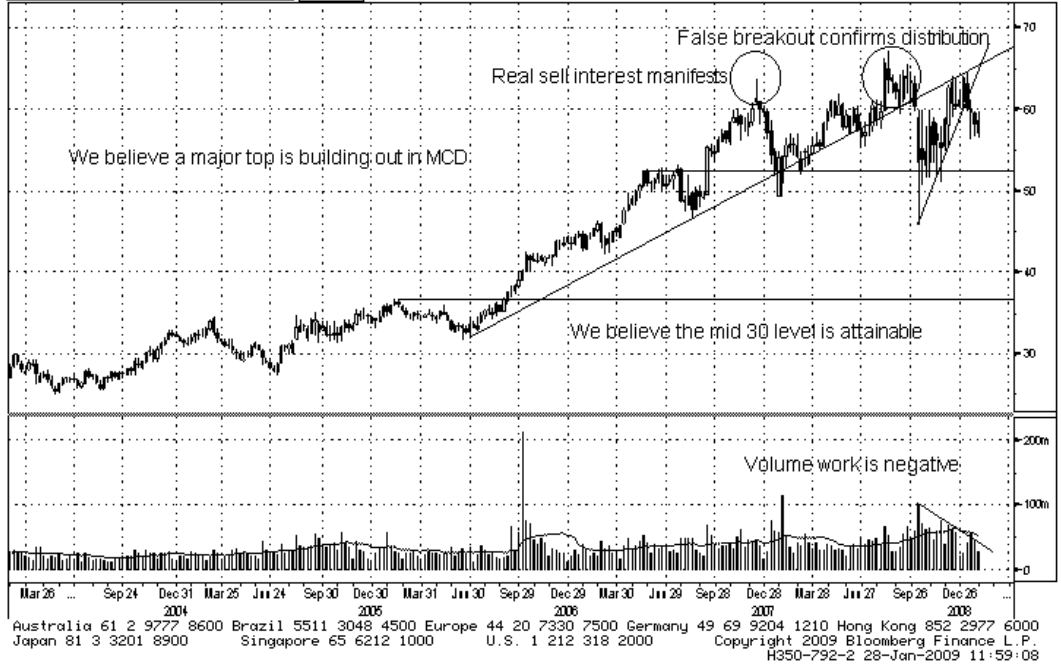
**MCD** US \$ ↑ **58.46** -.06 P 2s C 58.45/58.47 N 2x6  
 At 11:49 Vol 3,529,871 Op 59.7 T Hi 59.7 T Lo 58.31 N ValTrd 207.570m

**MCD US EQUITY** Show GPC - Candle Chart Page 1/19



**MCD** US \$ ↓ **58.49** -.03 N 5s N 58.49/58.5 C 5x2 EquityGPC  
 At 11:59 Vol 3,799,136 Op 59.7 T Hi 59.7 T Lo 58.31 N ValTrd 223.308m

**MCD US EQUITY** Show GPC - Candle Chart Page 1/21



PEP US \$ ↓ **51.681** +.041 D 1s Z 51.68/51.7 Z 9x10  
 At 12:07 Vol 2,223,183 Op 51.85 T Hi 52.19 P Lo 51.36 N ValTrd 115.190m

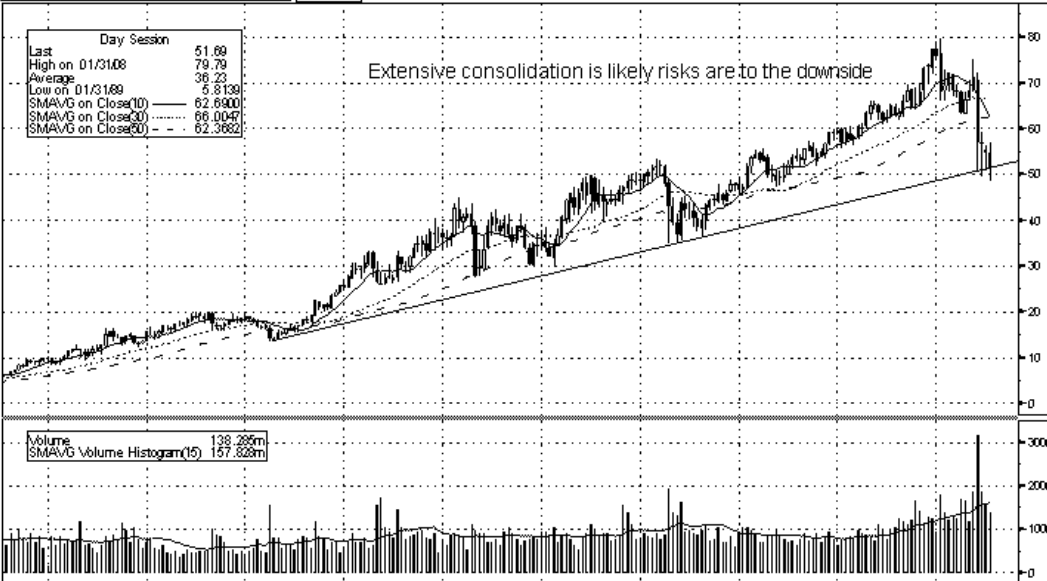
PEP US EQUITY  GPC - Candle Chart Page 1/21



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 H350-792-0 28-Jan-2009 12:07:25

PEP US \$ ↑ **51.69** +.05 N 1s Z 51.68/51.69 T 9x1  
 At 12:08 Vol 2,226,383 Op 51.85 T Hi 52.19 P Lo 51.36 N ValTrd 115.355m

PEP US EQUITY  GPC - Candle Chart Page 1/22



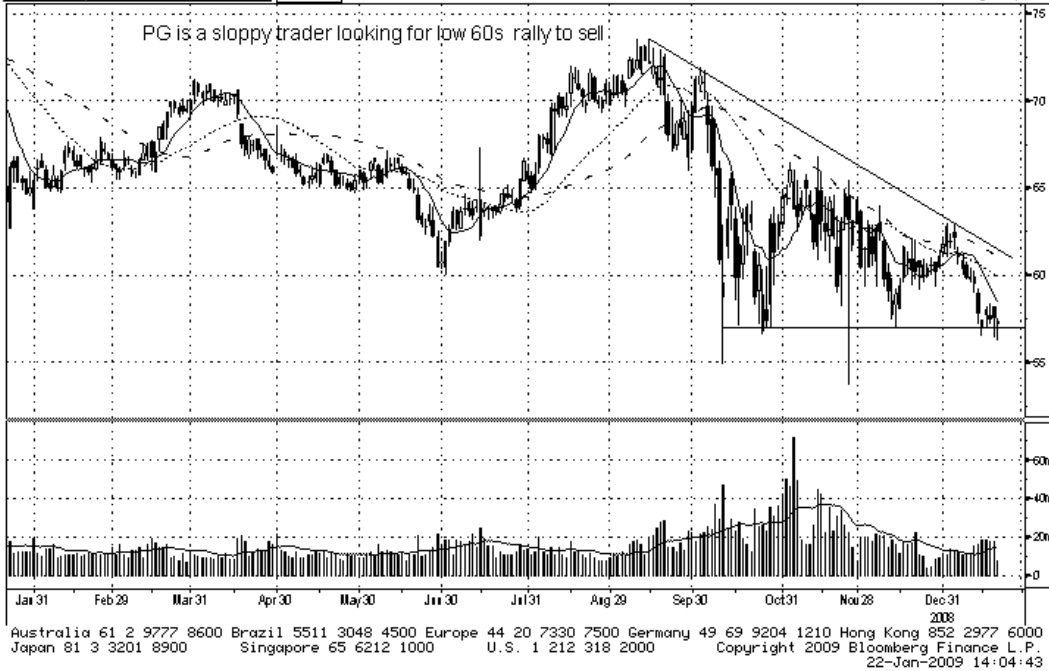
Day Session	
Last	51.69
High on 01/31/08	79.79
Average	36.23
Low on 01/31/89	5.8138
SMAVG on Close(10)	62.6800
SMAVG on Close(20)	66.0047
SMAVG on Close(50)	62.3682

Volume	
Volume	138.226m
SMAVG Volume Histogram(15)	167.628m

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2009 Bloomberg Finance L.P.  
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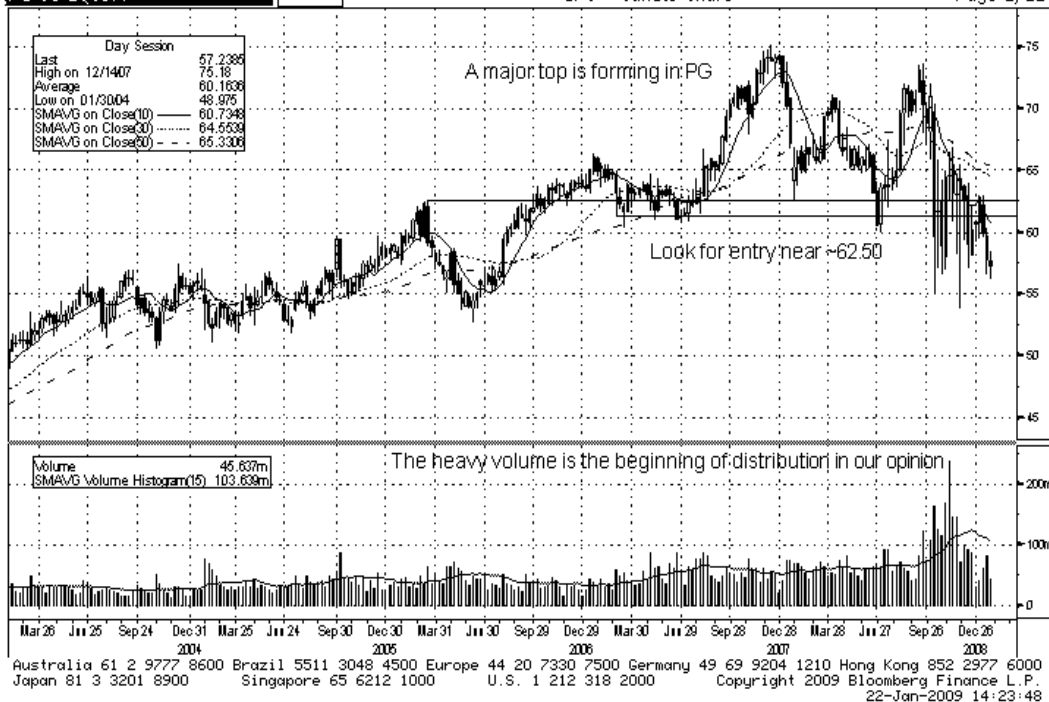
**PG US \$ ↓ 57.19** -.38 N 1s P 57.19/57.2 Z 2x11  
 At 14:04 Vol 8,441,249 Op 57.38 T Hi 57.56 T Lo 56.27 T ValTrd 480.037m

**PG US EQUITY** Show GPC - Candle Chart Page 1/19



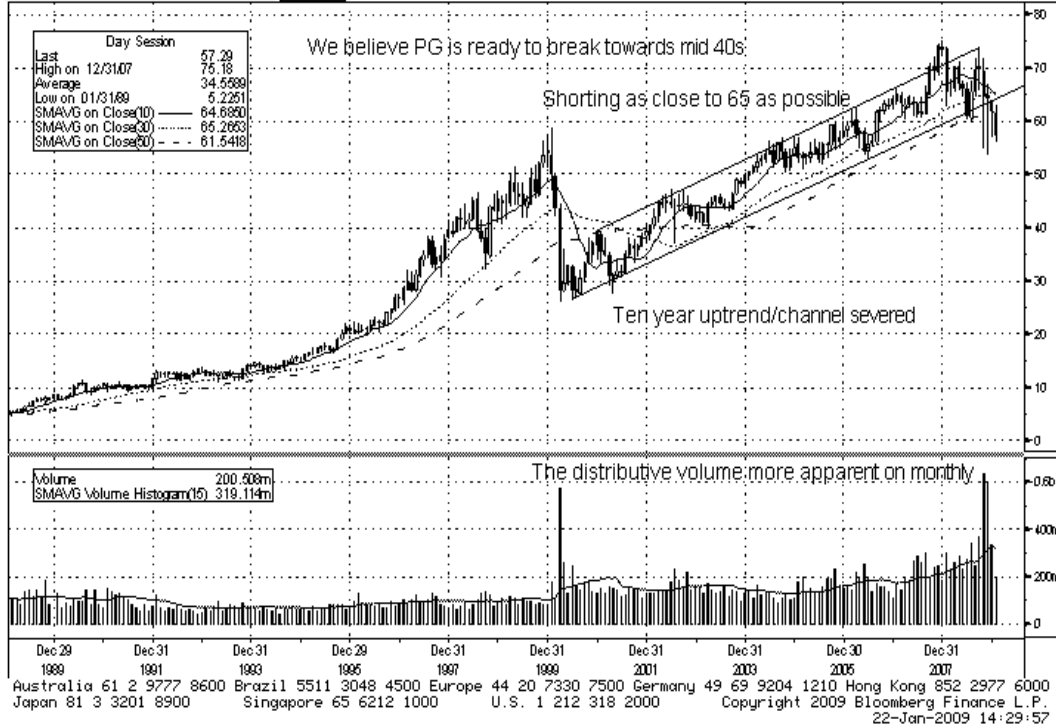
**PG US \$ ↓ 57.235** -.335 D 1s Z 57.23/57.24 Z 2x9  
 At 14:23 Vol 9,432,699 Op 57.38 T Hi 57.56 T Lo 56.27 T ValTrd 536.769m

**PG US EQUITY** Show GPC - Candle Chart Page 1/22



**PG** US \$ ↓ **57.29** -.28 N 1s P 57.28/57.29 Z 2x7  
 At 14:29 Vol 9,670,246 Op 57.38 T Hi 57.56 T Lo 56.27 T ValTrd 550.337m

**PG US EQUITY** Show GPC - Candle Chart Page 1/22



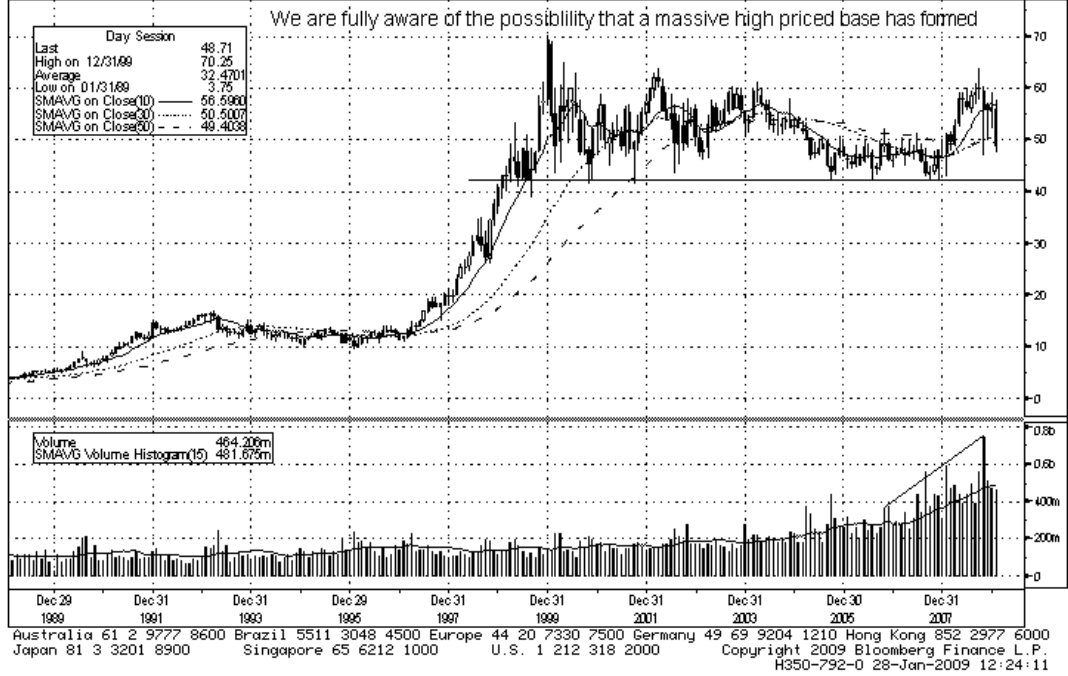
**WMT** US \$ ↓ **48.74** -.05 N 1s N 48.74/48.75 P 5x12  
 At 12:12 Vol 9,174,617 Op 49.51 T Hi 49.64 P Lo 48.67 Z ValTrd 449.542m

**WMT US EQUITY** Show GPC - Candle Chart Page 1/19



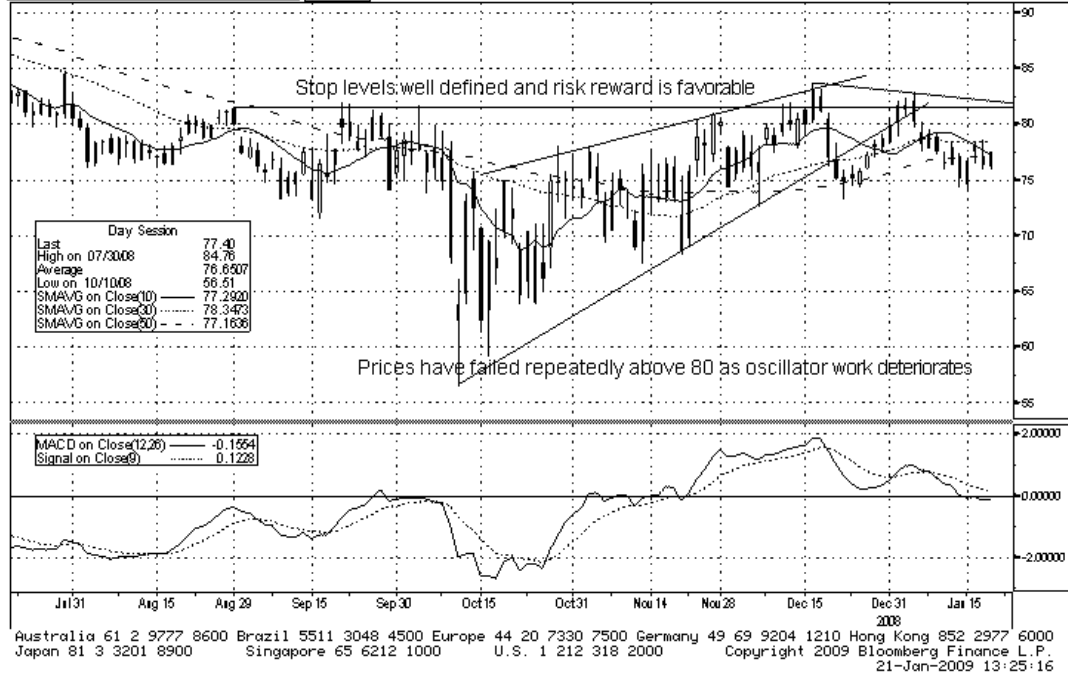
**WMT** US \$ ↑ **48.71** - .08 N 1s L 48.7/48.71 T 46x6 Msg:D.CURNUTT  
 At 12:24 Vol 9,459,946 Op 49.51 T Hi 49.64 P Lo 48.67 Z ValTrd 463.436m

**WMT US EQUITY** Show GPC - Candle Chart Page 1/22



**XOM** US \$ ↓ **77.38** +1.09 N 8s Z 77.38/77.38 P 1x1  
 At 13:25 Vol 18,558,243 Op 76.255 D Hi 77.45 N Lo 76 N ValTrd 1426.513m

**XOM US EQUITY** Show MACD - Moving Average Convergence/Divergence Page 1/11



**XOM** US \$ ↓ **77.35** +1.06 N 1s P 77.35/77.37 T 10x7  
 At 13:09 Vol 17,771,874 Op 76.255 D Hi 77.45 Lo 76 T ValTrd 1365.878m

XOM US EQUITY  GPC - Candle Chart Page 1/22



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