

Charles Payne's Common Sense Newsletter

January 2009




Wall Street Strategies- Providing independent stock market research since 1991 through a balanced approach to investing and trading

Presidential Files

Past is prologue, and there are going to be many times over the next four years where we will get that feeling of déjà vu. These days everyone is a historian, including the next president of the United States. There are three distinct White Houses that the Obama Administration will draw lessons from with respect to handling economic crises and challenges (of course, with respect to politics and handling a divided nation, the template will be Abraham Lincoln). I believe that it's a great idea, but each crisis has its own unique DNA and there will be new hurdles that predecessors didn't have to navigate.

It is clear that President Obama will borrow from three presidents that faced enormous, yet unique, challenges. The bulk of his ideas to help the country are rooted in a New Deal-like philosophy, which means heavy government spending, heavy government regulations, and heavy governmental involvement in private sector wages. I do find it interesting that liberal think tanks are saying it would be smart to artificially lift the price of gasoline to \$4.00 a gallon because shortfalls are leading to the deterioration of roads. So, the idea that more roads are great investments may not be so truthful. In fact, proponents of the plan point out that the stimulus used for roads and bridges would have a positive homeland defense benefit, too. I like the notion that 40% of the stimulus package may include tax cuts, but that is only the start. The real linchpin will be tax cuts to large corporations, and tax cuts for multinationals to incentivize repatriation of foreign revenues. Be that as it may, it is going to be important for investors to be students of the past because these pages of history are being dusted off to perhaps save the country...once again.

Franklin D. Roosevelt 1933 to 1945	
	<p>Last: 0736.40 Change: 09.02, 0.70% Open: 0666.47 Low: 0664.00 High: 0740.04 As of: 11:06 AM EST DJI: Dow Jones Industrial Average Index</p> 
<p><i>Inauguration Message</i></p>	<p>"The only thing we have to fear is fear itself."</p>

<p><i>Milestones and Key Events during first 100 days</i></p>	<ul style="list-style-type: none"> • Emergency Banking Act • First Fireside Chat...topic banking system • Civilian Conservation Corporation Bill (federal works projects) • Federal Emergency Relief Act (federal work programs) • Creates TVA • Creates SEC
<p><i>Initial Stock Market Reaction</i></p>	<p>The stock market, which tried to rally in 1932, took off on optimism that FDR would take a more hands on approach.</p>
<p><i>Stock Market Reaction Throughout Presidency</i></p>	<p>The Dow Jones Industrial Average began at 56.0 and rocketed, non-stop, to the shadow of 200.0 in early 1937. However, the index dipped to 100.0 and finished at 160.0 at the end of his fourth term, less than half the 380.0 peak reached in 1929.</p>
<p><i>Overall Assessment</i></p>	<p>Many viewed his predecessor Herbert Hoover as indifferent because of his inclination to allow market forces to fix the problem. While there is no doubt that certain aspects of the New Deal were helpful (FDIC comes to mind), it wasn't the idyllic blueprint it's being made out to be these days. Several acts, including the National Industrial Recovery Act 1933, National Labor Relations Act 1935, Agricultural Adjustment Act 1933, Soil Conservation and Domestic Allotment Act 1936, and The Tennessee Valley Authority played roles in artificially increasing wages while making it harder for businesses to generate profits. Farmers being paid not to grow crops, including wheat, led to tenant farmers starving and forced the famous mass migration of African Americans out of the South and into northern cities. Taxes tripled from 1933 to 1940, and protectionism led to global dissention.</p> <p>There was a notion that business competition drove down incomes and the government had to play a role to level the playing field. The fact of the matter is that it took World War II to propel the nation out of the grip of the Great Depression, which we landed in part due to the lack of regulation, but to a greater extent because loose credit drove the stock market and undermined the foundations of banks (9,000 banks went bust by 1940).</p>
<p><i>Economic Lessons</i></p>	<p>How ironic is it that we fix the excesses of spending money we don't have (we being the government and individuals) by spending money we don't have. Moreover, I'm deftly afraid of the unintended consequences. Inflation down the road, a deficit that we never recover from</p>

<i>Economic Lessons (continued)</i>	protectionism, and turning away from solutions that need to germinate and may not show initial results. The New Deal manipulated wages, slowed business, and while it provided a fairer work environment, it harmed many people, including many of the poorest people in the country.
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GDP and Public Debt (in millions of current dollars)


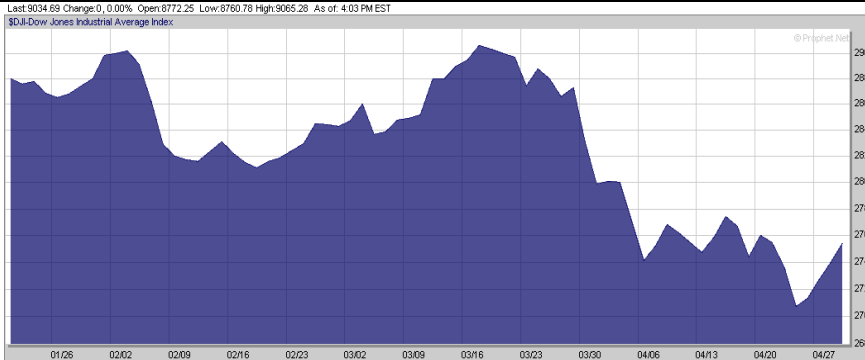
Data Point	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940
GDP	\$97,400	83,800	67,600	57,600	61,200	69,600	78,500	87,800	89,000	89,100	96,800
Public Debt	\$14,330	15,387	16,776	19,470	23,291	27,344	32,957	34,355	34,087	36,899	38,338

Source: White House Office of Management and Budget

Final Takeaway

Irving Fisher said that the cause of the Great Depression was “over indebtedness and deflation.” There are few historians that disagree with that assessment. Where all the debate comes from is the *solution* to the Great Depression. The flat-footed Federal Reserve without question played a large role, and that history has driven the current policy of Ben Bernanke. Higher taxes hurt the cause too, but for many, intense regulations were also problematic. The thing is today deregulation has been tied exclusively to Republicans, even though it has been a political trend for decades, so the hammer will come down. There is a notion that more regulations could have caught or stopped people like Bernie Madoff. There are already rules in place, however, and the fact is, smart crooks will almost always circumvent any system of rules. Additional rules are fine when designed to promote growth, not to punish success.

There are pros and cons to the New Deal, and I could only hope that we select the former while resisting the urge to go for the latter.

<p>Dwight David “Ike” Eisenhower 1953 to 1961</p>	
	
<p><i>Inauguration Message</i></p>	<p>“A people that value its privileges above its principles soon lose both.”</p>

<p><i>Milestones and Key Events during first 100 day</i></p>	<ul style="list-style-type: none"> • Executive order that suspended wage and salary controls instituted in the 1950s • Returned collective bargaining • Created Department of Health, Education and Welfare • Refuses clemency for Julius and Ethel Rosenberg
<p><i>Initial Stock Market Reaction</i></p>	<p>The Dow Jones Industrial Average, which rallied in the year before, peaked at 294.0 just days before the inauguration.</p>
<p><i>Stock Market Reaction Throughout Presidency</i></p>	<p>The Dow Jones Industrial Average may have stumbled initially, but it took off soon thereafter and never looked back. By September 1953, the index tumbled to 250.0, but rallied to 675.0 by January 1960.</p>
<p><i>Overall Assessment</i></p>	<p>After years of Democrats in the White House, the public opted for a Republican. Ironically, for the most part Ike supported the tenets of The New Deal, with his crowning economic glory being the Highway System Act of 1956. It was inspired in part by the autobahn, and the notion that in the event of attack, citizens needed to be able to escape U.S. cities and the military needed to be able to enter. The project was also pitched as a way to promote commerce, too. Unemployment actually increased after the legislation was passed, but the stock market climbed significantly.</p> <p>Eisenhower was against tax cuts to spur the economy, and many believed that his programs were non-event with respect to economic growth. Keep in mind that by 1950 the United States had become 27% of the world's Gross Domestic Product, usurping Great Britain. There was a tremendous amount of momentum that came with victory at war and lower taxes. Eisenhower's legacy, which has improved in recent years, was more focused on his role in the civil rights movement. He supported the 1954 ruling of Brown vs. Board of Education, and pushed for the Civil Rights Acts of 1957 and 1960. Moreover, this military man instituted the so-called "Eisenhower Doctrine" in January 1957 to protect U.S. interests in the Middle East. The doctrine's aim was to use armed forces to protect nations of the world from international communism.</p> <p>Although there was rampant poverty in the 1950s, most Americans longed for those good old days. Individual purchasing power was greater than it is now adjusted for inflation, but the U.S. global dominance has declined to the point where the U.S. is now only 15% of the world's Gross Domestic Product.</p>

<i>Economic Lessons</i>	<p>During his period as president, Eisenhower was criticized for a narrow thinking administration and for having a cabinet of “eight millionaires and a plumber.” Of course, the next administration is virtually all millionaires and no plumbers. Fighting the Cold War was more important an endeavor than steering the economy, but the Highways Act makes it important to compare the Eisenhower Administration to President-elect Obama. There is no doubt that our highway system is a no-brainer solution with respect to creating jobs and finding a creative way to funnel money into state coffers. There are drawbacks to be sure, but there is something about people working, especially via physical labor, that goes beyond the good feeling that comes with getting a paycheck.</p>
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GDP and Debt (in billions of current dollars)

Data Point	1953	1954	1955	1956	1957	1958	1959	1960	1961
GDP	\$37.0	38.0	40.0	43.0	45.0	46.0	49.0	52.0	53.0
Debt	\$49.0	51.0	55.0	58.0	60.0	64.0	69.0	72.0	77.0

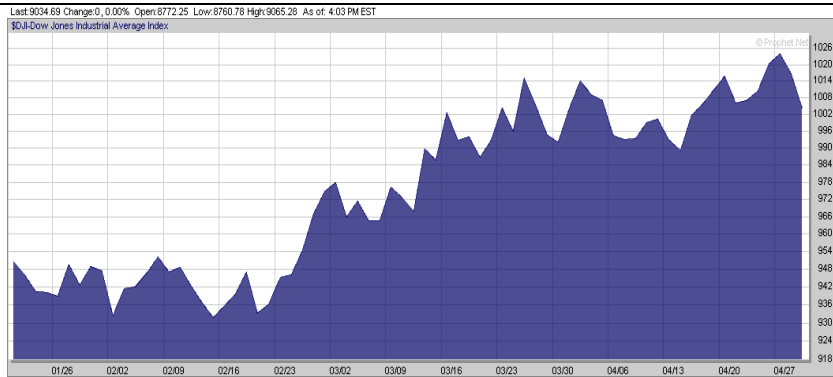
Source: Federal Reserve

Final Takeaway

When Eisenhower became the 34 president of the United States, the unemployment rate stood at 2.9% and held steady for a while. When the Highways Act was passed the rate was 4.3%, a year later 4.2%, but by June 1958 (two years later) the unemployment rate climbed to 7.3% and more or less stayed in that area until decreasing to 6.6% by January 1961. In retrospect, Eisenhower is considered one of the top ten presidents in American history as his administration set the tone for the federal government’s involvement in the civil rights movement, established a firm stance in the fight against communism, and was a caretaker to a solid economy and sizzling stock market. In addition to borrowing his highways playbook, I would say to Barack Obama that he is positioned to use the greatest weapon Eisenhower possessed.

In 1942, on the eve of leading an allied troop invasion of North Africa, General Eisenhower stated “without optimism victory is scarcely obtainable.”

Ronald Reagan 1981 to 1989



<p><i>Inauguration Message</i></p>	<p>“In this present [economic] crisis, government is not the solution to our problems; government is the problem.”</p>
<p><i>Milestones and Key Events during first 100 days</i></p>	<ul style="list-style-type: none"> • Presented economic plan that included \$41.1 billion in budget cuts, and a 30% tax cut over three years • Signed executive order creating the Presidential Council of Integrity and Efficiency in order to look for corruption and inefficiencies in federal government • Shot by John Hinckley
<p><i>Initial Stock Market Reaction</i></p>	<p>The stock market enjoyed a strong rally during the first hundred days of Reagan’s first term, climbing almost 10% in that period and establishing a trend that went on throughout the next eight years with one (huge) hiccup.</p>
<p><i>Stock Market Reaction Throughout Presidency</i></p>	<p>The stock market was virtually unstoppable during Reagan’s term, but then it hit a brick wall. On October 1987, a day otherwise known as “Black Monday”, a sharp reversal for the stock market saw the Dow Jones Industrial Average climb from just over 1,000 to 2,700. Still, the stock market proved to be a great place for investors to be in the 1980s.</p>

<p><i>Overall Assessment</i></p>	<p>The debate over whether the market likes large government versus small government was put to bed as the stock market doubled during the eight year period Ronald Reagan worked to dismantle overburdening regulations, including subversive measures such as price controls on domestic oil prices that triggered a giant shift in America’s reliance on foreign oil (Reagan also repealed the windfall profit tax in 1988). There is no doubt that America enjoyed what many economic historians have dubbed “The Great Expansion”, the largest post war economic boom that created 18.0 million jobs during Reagan’s terms, and 35.0 million in total.</p> <p>The Reagan period also saw a sharp decline in union influence and power when the members of the air traffic controllers union (PATCO) were unceremoniously terminated from their jobs. Then, there was the issue of the national debt, which ballooned to \$3.0 trillion from \$700.0 billion and was labeled “my greatest disappointment” by Reagan. Of course, in addition to the hard hitting measure to right the economy, Reagan is also known as the man that beat communism by winning the Cold War. Yes, the Russians took heed and tore down that wall.</p>
<p><i>Economic Lessons</i></p>	<p>Tough measures can be enacted as long as people understand the end game. By keeping Paul Volker at the helm of the Federal Reserve, President Reagan bought into the notion of tough love and allowed higher interest rates to squeeze out runaway inflation.</p>

Assorted Statistics

Data Point	1981	1982	1983	1984	1985	1986	1987	1988	1989
Unemployment Rate	7.6%	9.7%	9.6%	7.5%	7.2%	7.0%	6.2%	5.5%	5.3%
Fed Debt (billions \$)	994	1,137	1,371	1,564	1,817	2,120	2,346	2,601	2,868
Violent Crime (per 1,000)	58.6	56.0	51.8	50.3	52.1	54.8	55.5	56.6	57.4
Life Expectancy	74.1	74.5	74.6	74.7	74.7	74.7	74.9	74.9	75.1

Source: infoplease.com & Census Bureau

Final Takeaway

During the presidential campaign I wondered why, from time to time, Barack Obama would compliment Ronald Reagan’s presidency. Now, I think I know why. Right now, it appears that the next president of the United States will be using a page or two from the Reaganomics playbook. Of course, Reagan was tough on unions despite once being the president of the Screen Actors Guild, and he repealed an oil windfall profits tax that was the beginning of the end of U.S. dependence on domestic crude. Ironically, historians say that Reagan pushed through

less deregulation of markets than Jimmy Carter or Bill Clinton. Moreover, he swiftly amended his Economic Recovery Tax Act of 1981 when he signed into law the Tax Equity and Fiscal Responsibility Act which made taxes fairer. Still, in a seven year period, the top income tax bracket declined to 28% from 70%, and U.S. tax revenue increased to \$1.0 trillion from \$517.0 billion (not adjusted for inflation).

Conclusion

Jobs are so vitally important to getting the economy turned around. Sending out checks a couple of times a year may provide relief, but making U.S. businesses more competitive and able to hire more workers because of lower taxes and incentives for research and development has to be considered.

The interesting aspect of the stimulus plan is there isn't much discussion on the purchases of toxic assets, which seems to still be the boogeyman in our economy. Sure, the New York Federal Reserve has begun to purchase some of this debt, but they will have to buy much more in order for frightened banks to begin to lend once more. There is a real good chance that the government will have to actually back loans to people with poor credit and flimsy job security. If that doesn't happen, and unemployment continues to climb, it is likely that housing will wane throughout 2009.

- Barack Obama has history as a guide.
- Barack Obama has precedents as a guide.
- Barack Obama has popularity and a willing public.
- Barack Obama is now seen as pragmatic.

The new president must be prepared to make tough and occasionally unpopular decisions. Right now, I think that the plan may be too bifurcated or trifurcated to have the intended impact. While I have misgivings about printing so much money, fixing the infrastructure would be the fastest way to generate jobs. (Ultimately, corporate tax cuts would create more sustainable job growth with better wages.) Now, there is a chance that there will be less money for those road projects unless the total package is larger than political observers have estimated thus far (I think that it will be far more than \$1.0 trillion and closer to \$2.0 trillion). There will be creative ways, however, to get money to municipalities. Cities got Obama in the White House, after all.

One thing is for sure, future generations of Americans are going to have one heck of a debt bill waiting for them. President Obama has to be bold, but he can't get caught in the weeds of erecting barriers to trade on Wall Street or promoting one economic class (read Middle) over others (read Upper and Lower). I'm still not sure if the plan will work. I believe that it will create investment opportunities, after all when a trillion or two dollars tumbles into the economy many people are going to make a ton of money. At some point this year, even if it's not on the radar, investors have to carve out exposure in their portfolio to address a surge in inflation.

It is safe to say that President Obama will be decisive, full of surprises, and show a willingness to go against the grain. I worry about the urge to lean toward his liberal roots, but the situation facing the nation must be bigger than ideology and politics. We must not abandon free trade,

and we must not hamstring business. In fact, we should unshackle business from onerous taxes, and we must encourage risk-taking. In the end, it's not the policies per se of three of the greatest presidents in America's history; rather it's the spirit of their terms that became special gifts to the nation.

- **FDR**-grit and compassion
- **Eisenhower**-resolve and optimism
- **Reagan**-hard decisions and belief in capitalism

2009 Key Presidential Investment Ideas

There are many ways to play (by that I mean trading stocks in alternative energy, infrastructure, and homebuilders, etc) the Obama White House, but there are certain stocks that are worthy of buying and owning throughout 2009 based on the success of the three key presidents, FDR, Eisenhower, and Reagan. These former administrations will inspire White House policy for the next four years.

Barack Obama Investment		
Industry	Stock Symbol	12-Month Price Target
Metal	FCX	\$45.00
<i>Freeport-McMoRan Copper & Gold Inc.</i>		
<p>At some point flooding the system with dollars that have been generated from thin air will trigger an inflationary response that will take gold prices higher. In the meantime, copper could see renewed demand from U.S. and global infrastructure spending. Execution has been dubious at best, with management missing the Street's earnings estimates in three of the last four quarters. Still, insiders have begun to buy, having made six transactions recently for a total of 59,000 shares.</p>		

Ronald Reagan Investment		
Industry	Stock Symbol	12-Month Price Target
Retail	BBY	\$43.00
<i>Best Buy Inc.</i>		
<p>I realize that it may be a stretch to put Reagan and Best Buy in the same sentence but I believe it was his supply-side economics that erased depression in consumers, who responded strongly to interest rates tumbling from 20% (some credit card interest rates were above 25% in many instances), inflation tumbling from 15%, and the top tax bracket coming down from 70%. Best Buy has no real rivals, and with electronics one of the few niches in retail where there is excitement driving demand the company is well positioned to take advantage of its unique opportunity. Earnings for FY10 are pegged at \$2.31 per share, but I think that the company will do better. Furthermore, in the last six months there have been 10 insider transactions, all buys, for a total of 1.8 million shares...that's confidence. That's a key Reagan trait.</p>		

Dwight Eisenhower Investment

Industry	Stock Symbol	12-Month Price Target
Trucking	ABFS	\$45.00
Arkansas Best Inc.		
After Hurricane Katrina, the share price of Arkansas Best began to climb from less than \$33.00 to more than \$50.00 less than a year later. There are many obvious plays on the notion of massive rebuilding, but someone has to haul all the stuff around and it could be a huge windfall for truckers. Crude oil is a wildcard with this stock but there isn't a direct correlation to the daily price of diesel. Moreover, the next big leg in petroleum-based products could be to the downside.		

Franklin Delano Roosevelt Investment

Industry	Stock Symbol	12-Month Price Target
Medical Technology	CERN	\$60.00
Cerner Corp.		
One of the easiest campaign promises to fulfill will be to fix the antiquated computer systems at U.S. hospitals and physician offices. Cerner has a solid track record of execution, and earnings estimates for FY09 haven't declined in recent months. This is the optimal play on healthcare information technology. FDR focused on improving the lives of Americans, including their health, and carrying on that legacy means big business opportunities.		

Mental Preparation and the Right Game Plan

The ideas above carry a fair amount of risk, and they could take laborious routes to get to my eventual price targets. Therein lays one of the biggest problems facing investors right now in my view. You could buy the right stock now and be spooked out because it's not moving higher fast enough or the broad market is moving down too fast. I don't expect you to have the perfect mindset. It's not your fault; it simply is the residual effect of what happened last year. I saw this movie before in the post "Internet Bubble" crash period where investors were loathe to take on new positions and anxious to sell at the lows. Many missed the bottom, and many of them called me when the Dow Jones Industrial Average was back to 13,000 and higher.

The flip side of that were the scores of investors that refused to sell. They held those losers until there was nothing left except worthless stock certificates. I don't want you to make those mistakes. Call your representative, or email info@wstreet.com to review our opinion on the mental moves you need to make to take advantage of future volatility rather than being victimized by it.

Thanks and Good Luck,

Charles Payne

Notes from the WSS Research Desk

Brian Sozzi, Equity Analyst

Retail Sector 2008 Recap and Glimpse into 2009

Bad...

The notion that videogame software/hardware sales are *recession proof* was dispelled this holiday season. Since the start of November, shares of the industry's largest game developer companies, Electronic Arts Inc. (ERTS), THQ Inc. (THQI), Take-Two Interactive Inc. (TTWO), and Activision Blizzard Inc. (ATVI), are lower by an aggregate 34.0% following disappointing holiday quarter earnings guidance. Despite the ongoing transition to new game consoles from the likes of Nintendo (Wii), Microsoft (Xbox 360), and Sony (Playstation 3), and many households are opting to stay home for entertainment, yet, the volume of software sold is down significantly not only for children's games but also for a few "Triple A" offerings (think Madden). It's hard to imagine premium launch pricing, \$49.99-59.99, holding deep into 2009 just based on the sheer magnitude of the titles in, and arriving, to the marketplace.

We already started to see price reductions this holiday season at retailers GameStop (GME) and Target (TGT) for videogame software, which is usually unheard of at this point in a console cycle. After all, it's difficult to justify the purchase of the latest football game for the kiddies when the prospect of job loss is running high.

...to Worse

The bursting of the crude oil, among other asset bubbles, has garnered a fair amount of press time in end of year pundit commentaries. What has succinctly flown under the radar is the popping of the "conspicuous consumption" bubble of the well to do class and those aspiring to live large. Impacted by quickly eroding equity portfolios and 401K statements that are in the doldrums, the rapid reversal in the wealth effect has led to high net worth consumers making tangible adjustments to income allocation on watches, handbags, and other paraphernalia deemed to signify excess. In fact, "discrete luxury" is now embedding itself within the halls of the wealthy, as these individuals who feel to blame for the financial calamities of 2008 are focusing luxury purchases on merchandise removed of brand logos.

Key Holiday Season Statistics

- Retail sales week before Christmas: -5.3%
- Super Saturday sales: +0.5% (weather and calendar shift hurt sales)
- Customer traffic week before Christmas: -24.0%
- Customer traffic entire holiday season: -6.5%
- Super Saturday customer traffic: -17.0%
- Gift card sales -5.3% to \$24.9 billion; +5.8% 2007; +34.0% 2006

2009 Areas of Focus

Sector Trends

Luxury Goods

1. **Creative ways by management teams to reduce costs;** one ridiculous example was Bulgari's decision to remove the shiny finish from the back of new watch introductions.
2. **Shift to less showy merchandise;** Coach (COH) has been ahead of the curve in evolving its merchandise assortment away from its classic logo "C" appearance. Next year will be all about discrete luxury.
3. **High-end department stores pulling out all the stops in terms of customer service to lure in shoppers;** gone are the days, at least for now, of scant service and a generally hoity shopping environment.
4. **The rise of consignment stores,** where regional department stores move goods in the hopes of earning some form of cash on inventory bought.
5. **A rapid retrenchment** by the accessible luxury consumer as trading up is no longer an option as savings accounts are rebuilt.

Videogames

1. **Pricing:** this is not receiving the attention it deserves, but two plus years into the current console cycle transition and the inability to hold premium prices is troubling. In my opinion, the console cycle has been very disappointing from the aspect of share price performance of the top game publishers.
2. **Earnings warnings:** the decline in prices and volume as well as bloated development costs will likely lead to pretty dour initial calendar 2009 outlooks when holiday quarter earnings roll in early February.
3. **Scuttlebutt** of new consoles in development from the leading manufacturers.
4. **Electronic Arts** going from acquirer to being acquired; valuation is well below that of the prior console peak in 2005, and with a strong stable of gaming assets and a ton of cash on the books, an entertainment minded company may swoop in (think Disney).

Bankruptcy Watch

The retail sector bankruptcy rumblings are really starting to gain momentum following what was a horrific holiday season characterized by soft sales and margin erosion. I have been saying for over a year now that capacity in the retail sector was overdone and a thinning of the herd would transpire once consumers woke up to the realities of their poor balance sheets. The elevation of these concerns and realization of a bankruptcy wave in the first half of 2009 will likely correlate to a fall in the S&P 500 Retail Index (RLX) moving into January, so much so that a retest of the November low is possible if it dips below the 50-day (on the cusp of doing so). Aside from the sluggish spending backdrop, increased bankruptcies in my opinion are going to lead to deflation of the inventory retailers are holding. As an example, flat panel television prices during the holidays fell off a cliff, and discounter Costco (COST) noted it's getting stock at attractive rates. Another good example is being seen in the jewelry industry, with independent chains slashing prices as they liquidate, which is having a chain effect at department stores.

- **Pier 1 Imports (PIR):** dwindling cash, high debt, bad store locations, evaporating sales, tough competition; wicker furniture can no longer do the trick.
- **Dillard's (DDS):** will play the role of Circuit City in that there are just too many department stores catering to the middle market consumer; high debt; angry activist shareholders sprouting.
- **Ann Taylor (ANN):** buy one get one free sale at Loft division this holiday season indicates efforts to streamline expenses is not offsetting horrific volume; losing customer loyalty; wear to work women essentials (suits) simply not in demand, neither is evening attire.

Opportunities

In addition to the wave of retail bankruptcies next year, I happen to believe there will be some bargain hunters circling the retail sector. Valuations are near historical lows (which tends to happen at a market bottom), and many companies have done a load of heavy lifting in 2008 to reduce inventory, bolster cash, and reduce waste. I am still going through the process to unearth which retailers would fit certain qualifications, but the three listed below have some stories that raise the probability for a buyout.

Macy's (M)

- Strong brand
- Strong nationwide presence
- Note coming due in mid-2009 will need to be refinanced; it may not happen, and it may force management's hand to do undertake drastic measures

Limited Brands (LTD)

- A host of strong brands
- Major work has been done since 2007 to close stores and shed underperforming brands
- Could be broken up, with weaker brands used to pay down excess debt
- Still controlled by company founder

Abercrombie & Fitch (ANF)

- Strong brand
- Starting to go global, may be a good time to buy into that at depressed valuations
- Huge cash pile
- No debt

Top Pick for 2009: American Eagle Outfitters Inc. (AEO)

- Relevant brand in teen apparel sector
- Has provided customers with strong product value equation since the summer, which should help to crystallize brand loyalty

- Sub-brands “aerie” and “Martin & OSA” have opportunities to gain market share during sector downturn which will cause store closures; each brand serves unique market niches and are much better aligned with consumer demands relative to Abercrombie & Fitch’s Gilly Hicks and RUEHL sub-brands
- Clean balance sheet with no debt and strong liquidity position

Special Case

Metropark: This may be the next hot retail growth stock, provided credit markets loosen up and the IPO goes through. The company offers a very unique merchandise assortment of branded goods, and just has a cool shopping environment (DJ booth at the front of some stores). CFO Thimio Sotos is the former CFO of Jones Apparel Group (JNY), while the current CEO Orv Madden is the founder of Hot Topic (HOTT). The store base now sits at about 55-60 and comparable store sales (comps) are running anywhere from 15.0% to 30.0% higher year over year. Since opening in 2004, the company has steadily improved its profits. I would suspect the company will eventually get a boost from the issuance of its own private label goods, once of course consumer loyalty is higher. Merchandise is premium priced branded goods. The store layout is fairly no frills, and the box is small in relation to other specialty retailers. I liken the assortment to edgy, along the lines of Guess (GES). It could be a great international concept as well. The proposed stock symbol will be “MTPK”.

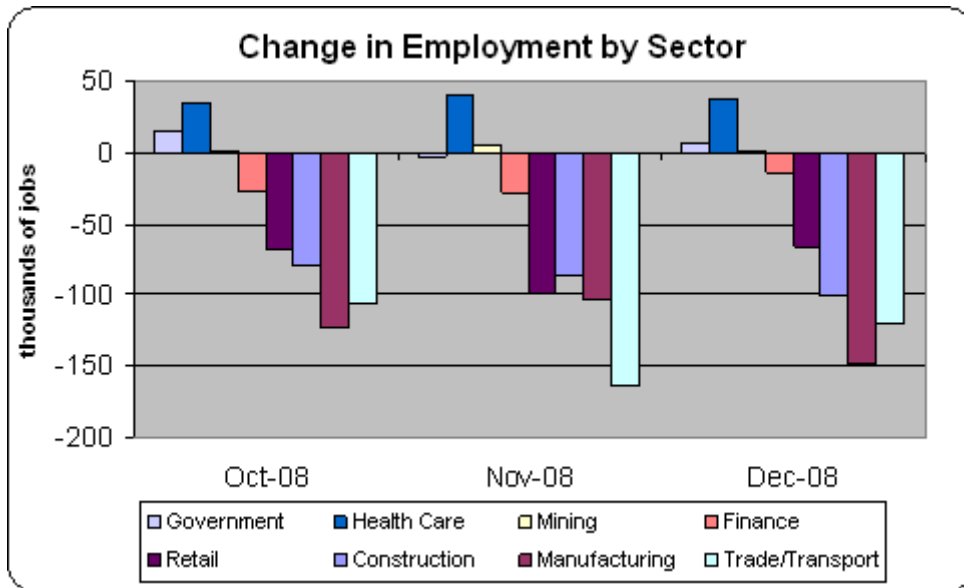
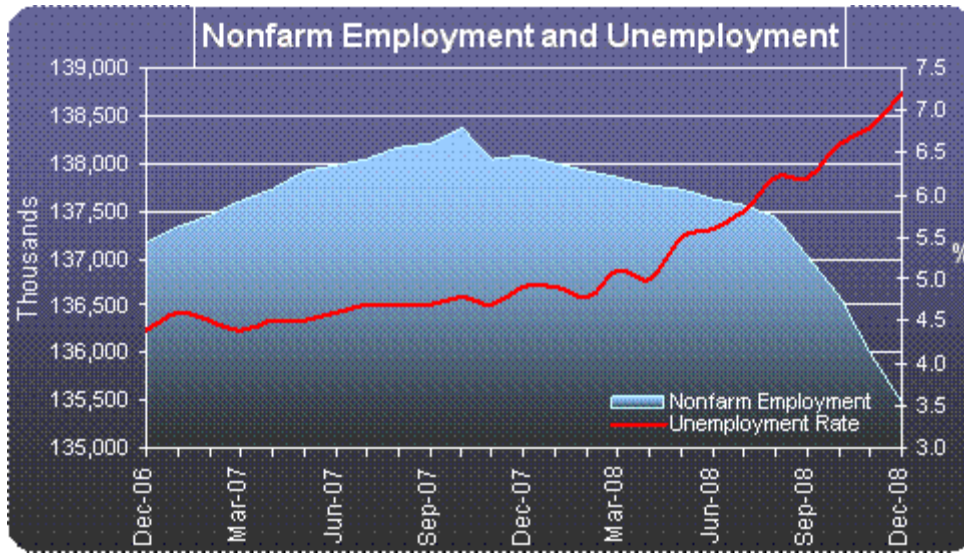
Bring Back Rosie the Riveter

Charles Payne

It’s official, 2008 was the worst year for jobs since 1945 when Rosie the Riveter put down her drill and went back to the kitchen. The loss of 524,000 jobs was more or less in line with the consensus, but many experts were bracing for direr results (the highest estimate I saw was a loss of 750,000 jobs). For the full year, 2.589 million jobs were lost (the revision will eventually take that number higher). The Street's initial reaction was just about as I expected. Stocks were set to rally big time with a number below 500,000, so this number is something investors are going to have to gnaw on before taking action. That said, if the market doesn't slump, watch for tepid investors to perhaps put a toe into the water.

Brian Sozzi

The thinking going into the jobs report today was two fold. A better than advertised number and the mustard seed of optimism enveloping the market could continue to sprout. A worse than expected number and that budding seed of optimism would be trampled by a backhoe. Non-farm payrolls in December declined by 524,000, below the consensus of 545,000 and surely light years away from the ever famous whisper numbers. According to the Labor Department, the job losses were “large and widespread”, with manufacturing and construction leading the charge down. Here is where confusion comes into play with respect to the next move in equities. While the economy bled less than projected jobs, there were huge unfavorable revisions to the October and November data. October was revised to total job losses of 423,000 from 320,000 previously, and November now saw 584,000 people lose work versus 533,000 previously. The revisions, and the sheer magnitude of jobs lost in December, indicate an economy that is struggling to bottom.

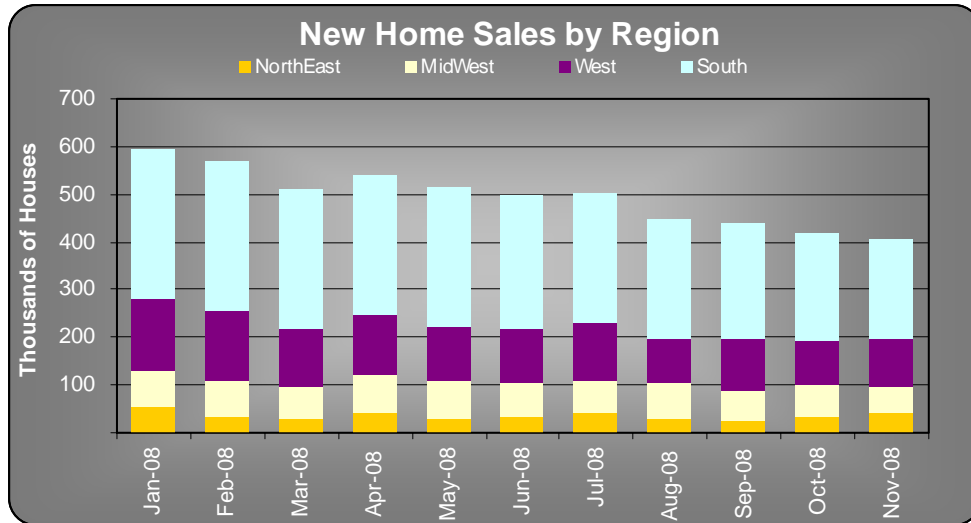


David Urani, Equity Analyst

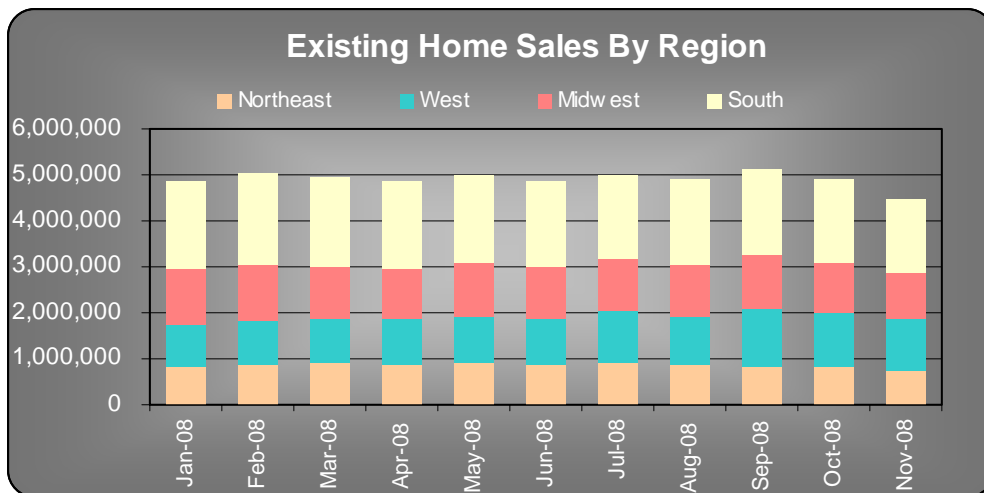
Housing, Housing, Housing!

Ever since the financial market’s deep fall from grace took place in October 2008, we have been increasingly worried about the state of the housing market. Not only did the fallout further restrict access to credit, but after the events that transpired, most consumers seemingly concluded that it would be crazy to try to buy a house. A popular index of consumer sentiment, pending home sales, as measured by the National Association of Homebuilders plunged to fresh record lows in November as traffic of prospective buyers slowed to a trickle.

New home sales came in at an annualized rate of 407,000 for November, falling well below the 420,000 consensus estimate. The Northeast and the West ticked upward from October, while the South and Midwest came down a notch. Supply also came down and prices turned slightly higher, likely as a result of changing rates of sales geographically.

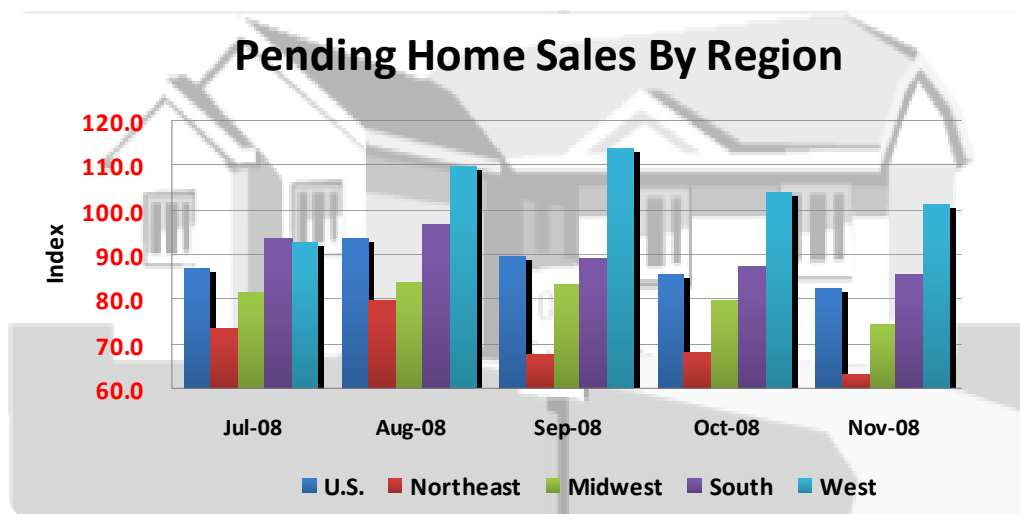


Sales of existing homes hit an annualized rate of 4.49 million in November, which also fell well below the consensus estimate that called for sales of 4.90 million. Sales were down across all regions, but particularly in the Northeast, which we had been worried about. Previously, the Northeast was serving as sort of a (relative) beacon of strength, but it is now apparent that the nationwide lack of credit and job losses, particularly in the finance industry, is making a mark. The rate of sales also made a leg down in the South, falling by 200,000 homes to 1.64 million annually. We are now preparing for home prices to start taking a turn for the worse in the Northeast and the South as these markets start to play catch-up with the weaker markets.



For several months, a wave of foreclosure sales were helping to clear inventory, particularly in California, and although there is still a relatively high rate of foreclosure sales, supply built up in November as new foreclosures continued to swamp the market. Total outstanding inventory of existing homes inched up by 0.1%. Although prices continue to fall at a fast pace, supply is still on the rise, insinuating that the housing correction is ongoing. The average home price of \$181,300 was down 12.3% from last year, as opposed to being down 10% year over year in October. In recent months, the rate of foreclosure actually began to slow, mostly as a result of initiatives from some state governments to stall the foreclosure process and help borrowers refinance into more affordable loans. However, recent studies show that more than half of modified mortgages re-defaulted after six months, meaning that these efforts were not enough to fix the problem. Also, the onset of a full-blown recession has not made making monthly payments any easier for struggling (and soon-to-be struggling) borrowers.

Pending home sales, an indicator of future existing home sales, showed yet another dip for November. The standout item for us was the 7.2% decline in the Northeast. The Northeast had been resilient for most of 2008, but has lately fallen victim to market pressures, possibly driven in large part by layoffs in the financial sector as noted above. It now appears as though stronger regions such as the Northeast are entering into quicker sales declines.



At this point, there seems to be two factors preventing homebuilding equities from plunging. First was the November 25 announcement by the Treasury Department that it will guarantee \$600.0 billion worth of Fannie Mae and Freddie Mac loans. This action substantively lowered mortgage rates, with 30-year loans falling below 5.5%. This should improve credit availability for those looking to buy homes, and allow struggling borrowers to refinance into much lower rates. The second factor is the prospect of a government plan to aid the housing market. Although no potential specifics have been announced by the upcoming Obama administration, we believe they may seriously consider a proposal put forth by a group of homebuilders. They have proposed improving the existing housing plan passed in July by raising the tax credit, allowing down payments with the tax credits, and fixing 30-year mortgage rates at 2.99% temporarily. The plan is very similar to the one enacted in 1975, which arguably had an immediate impact in improving the U.S. economy.

Whether or not we should use more government intervention to help the economy, of course, is debatable, but it seems clear that the new administration will be very active. We agree that not only would the proposed housing plan be effective and that doing nothing would cause the housing market to continue to slide downhill for some time. The plan would improve the housing market, and would significantly bolster the state of the economy as a whole, as stabilized home values would in turn stabilize consumer spending. The only issue at stake is that the Fed has so much on its plate at the moment, that one must wonder how much more money it can shovel into the system before the government itself becomes stretched. One may never know that answer, but we believe that a revamped housing plan should be priority number one on the government's agenda. It could save us a bunch of grief before we end up having to pay for more disproportionate bailouts.

Conley Turner, Equity Analyst

Gaming on the Ropes

The gaming industry is currently going through a period that is cathartic and at the same time proving to be transformative. As the economic picture in the U.S. deteriorates, and consumers reign in spending, the gaming industry is fully engrossed in a process of self discovery. Prior to the onset of the current period of restrictive credit, falling home prices, and growing unemployment, the prevailing sentiment was that the gaming industry was somehow immune to economic cycles.

Adding fodder to the grim employment announcement was the recent report by the Congressional Budget Office that forecasted that U.S. Gross Domestic Product will decline by 2.2% during 2009. The fallout would be millions more people losing their jobs in the coming months. In fact, the projection for U.S. unemployment is that it will exceed 9.0% by early 2010. This translates into an additional 3.0 million more jobs being lost in 2009.

This forecast is particularly sobering to residents in the Las Vegas area where the unemployment rate is already soaring and outward migration by the population is increasing. Clearly, there is more pain to come as the prospects for any near-term economic recovery in the U.S. remains unlikely.

That said, the gaming industry is clearly going to face major challenges for at least the next 12-months. However, the good news is that it is not going away as human nature is not likely to change anytime soon. Once the economy stabilizes and growth resumes, the crowds will indeed return to Las Vegas and other gaming venues as the siren of the casinos will continue to lure the hopeful as did the gambling parlors of yesteryear. A new generation of gamblers will once again emerge to breathe life into casinos.

Among the operators that are well positioned to benefit in the long-run is Wynn Resorts (WYNN). The company remains well capitalized despite the prevailing environment, and has sufficient financial flexibility to pursue its various development projects and address operational needs. Wynn continues to build upon its positive brand image particularly in the non-gaming operations. Shares of Wynn Resorts are attractively valued but only for a long-term portfolio. Given the prevailing economic conditions, the shares are likely to remain highly volatile in the near-term.

David Silver, Equity Analyst

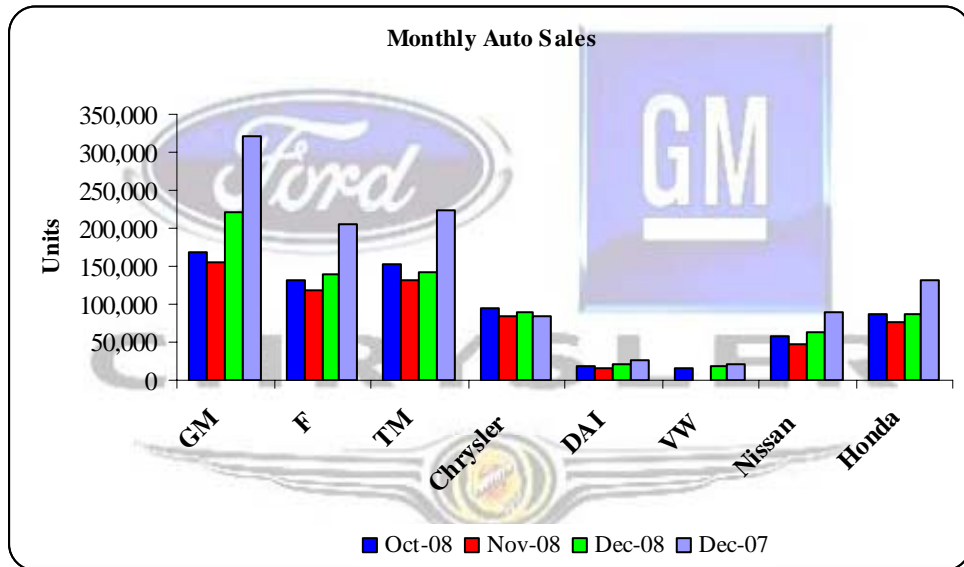
Ugly December Auto Sales

“Extra, extra, extra, read all about it... automakers report another month of falling sales.”

This doesn't really seem like a headline that would grab your attention as December was just another month, similar to the past six-months, in terms of dismal auto sales. In total, sales of cars and light trucks fell 36% to 896,124 vehicles, according to Autodata Corp. That was an improvement over both November and October; however, it was still the fourth month in a row that sales failed to exceed one million vehicles. For the full year, U.S. auto sales declined 18% to 13.24 million vehicles, representing the lowest total since 1992. Annual sales for 2007 had been 16.2 million.

Company	Vehicles	Change Y/Y	Change YTD
General Motors	220,030	-31.2%	-23.0%
Ford Motor Company	138,458	-32.4%	-21.0%
Toyota Motor Company	141,949	-36.7%	-15.0%
Chrysler	89,813	-5.3%	-30.0%
Daimler	20,848	-23.5%	-1.5%
Volkswagen	17,577	-14.4%	-3.2%
Nissan Motor Company	62,102	-30.7%	-10.9%

The chart above outlines total monthly auto sales compared to December 2007, as well as the percentage of change for total vehicle sales during 2008. There was only one automaker to see sales increase year over year, and that was Subaru, which saw sales increase 0.3% to 187,699 vehicles from 187,208 in 2007. The following chart demonstrates the sequential improvement during December, but shows the drastic declines compared to last year.



Looking over the results, we were not taken by surprise by the drastic drop. We knew that auto sales would be horrid, but what we were surprised by was sales at General Motors (GM) remaining afloat, even before the GMAC announcement. At the end of December, the government announced another bailout, this time for GMAC, the company's financial arm. The financing company received \$6.0 billion, and that investment allowed it to lessen the restriction on receiving financing. The government gave \$1.0 billion to General Motors and forced them to increase its stake in its financial arm. As a result, Cerberus Capital saw its 51% stake diluted. Previously, a customer needed to have a FICO credit score above 700; however, currently, GMAC is financing sales for customers with FICO scores above 621 (620 represents sub-prime), which encompasses most Americans. This was a good first step, but the economy really needs to begin to improve before the automakers can find their way out of the woods.

Some of the bump during the month came as a result of pent up demand for vehicles. I do think that there is greater demand for vehicles than the current sales trend represents. However, the rush to the showroom is still five or six-months away. There should be a big jump in auto sales in the middle of 2009 as that pent up demand is released as consumers who have been putting off purchasing a new car finally take that trip to the showroom. But, we do expect auto sales to settle in an annualized rate of approximately 14-15 million units. All these restructuring efforts that are currently being undertaken by the industry (Ford included) need to position the companies so that the industry can be profitable with sales around 14 million vehicles; if more sales are required, the industry will continue to be stuck in the mud.

At the end of 2008, the North American automakers had some unjust criticism placed on their shoulders, notably that it was their own fault that auto sales were dismal. Clearly, after the sales figures in November and December with Toyota (TM) declining 33.9% and 36.7%, respectively, and Honda (HMC) declining 31.6% and 34.7%, respectively, maybe it wasn't just mismanagement or union costs that brought on this downturn. Both mismanagement and higher union and production costs are among the reasons that the automakers are struggling financially, but if auto sales remained at 2007 levels, we would not be in these troubles. The companies (specifically Ford and General Motors) would have been able to implement their turnaround plans. Just imagine, instead of crucifying the CEOs of the Detroit Three, we could be praising them as saving a city and many local economies. Instead, there has been outrage about more taxpayer money going to a "lost cause."

With respect to the individual companies, Ford looks to be in the best financial position (of the Big Three), but we would avoid most stocks in the sector. Ford still has too heavy a dependence on the F-150 and other light trucks and SUVs. Additionally, we are still waiting for all of Detroit to bring over those more profitable smaller cars from Europe; the wait has been a little over a year now. General Motors is going to see its equity extremely diluted due to the current aid package, and that is not even taking into account additional rounds of aid that will probably be doled out in the future. Toyota is getting hit extremely hard on two fronts, first in Japan and also in the United States. We would still be sitting on the sidelines with respect to that stock. Daimler (DAI) and Volkswagen (VKRAY) are our two favorite investments in the industry. The European automakers, particularly BMW and Volkswagen, are foaming at the mouth for the opportunity to gain a stronger foothold in the United States. BMW's U.S. Chief, Jim O'Donnell, said recently "The U.S. will be the growth engine of the future. This is where we will continue to focus our efforts." Both Volkswagen and BMW are in the midst of building new plants in the

United States, and with a combined market share of below 5% there is ample room for growth. We would however wait to commit any new capital to these stocks at this time.

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