

Market Update Conference Call

Conducted on October 14, 2008 at 11AM EST

Operator/Logistics: Good morning and thank you for standing by. At this time all participants are in a listen only mode, after the presentation we will conduct a question and answer session and to ask a question press star 1. Today's conference call is being recorded and if you have any objections you may disconnect at this time. I would now like to turn this call over to your first speaker Ms. Amelia Wood and you may begin ma'am.

Amelia Wood/Introduction: Good morning and welcome to the investment markets update conference call sponsored by an independent investment advisory council made up of top advisors located throughout the country. In addition to the hundreds of callers joining us today, we also are pleased to have the following advisors: Tim Crandall, Chris Crandall and Chuck Hartman of The Retirement Network located in Chicago, IL; Rick Kent and Jim Russell of Allegiance Advantage Group located in Atlanta, GA; John Linge, Bill Traer, Mary Vertner, and Shane Corbett of the CPA Retirement Network located in Jacksonville, FL; and Dennis Davis of Allegiance Financial Strategies Group located in Birmingham, AL.

These 4 offices are part of a national investment committee consisting of independent investment advisory companies located throughout the county. The investment committee meets quarterly to guide the members of the group in portfolio design and investment selection. In fact, their next quarterly meeting will be held this Thursday and Friday in Richmond, VA and the following meeting will be held in January in Jacksonville, FL. Each quarterly meeting guest speakers including, economists, money managers and others make presentations updating members about current market conditions.

Today's presentation is an example of what the committee members would hear at their quarterly meetings. This presentation will not be as technical in nature, given today's audience consisting of their valued investment clients. The featured speaker of today's call will be Steven Roberts of JP Morgan Investments; Mr. Roberts is a vice president and client portfolio manager in the JP Morgan U.S. Equity Group. He's been with JP Morgan since 1996. Steve is responsible for client portfolios across U.S. Equity strategies, primarily focusing on the Behavioral Finance portfolios within North America. Prior to joining JP Morgan, Steve was with John Govett Investment Management located in the United Kingdom. Steve holds a B.A. in accounting from Lancashire University and is a qualified Chartered Accountant as well as member of the Institute of Chartered Accountants of England Wales.

The subject of today's conference call is JP Morgan's view of the economy and investment markets. It will include a discussion of JP Morgan's opinion of where the economy and the investment markets are now, and where JP Morgan's thinks they are going.

Mr. Roberts will speak for 20-30 minutes. After that he will entertain questions from callers regarding his topics only. If you have any questions regarding your personal situation, please call your advisor directly. Due to the speaker being located in NY, and the sponsors being located throughout the country. The sponsors do not have the ability to answer questions directly during this call. If you have any direct questions for them, please contact them at their local offices. And now I would like to welcome Steve Roberts to our call.

Steve Roberts/Presentation: Well good morning and thank you Amelia for the introduction and good morning to everybody on the call. I'm glad actually that the call was not on Friday, but that it is on Tuesday because we have had a tremendous rally in the equity markets as of yesterday. But it is something that I actually think we at JP Morgan have been expecting and anticipating for quite some time. So it is good to see the market beginning to trend up, although up until about 15 minutes ago, it started to go south a little bit. I think that is just natural in this sort of very volatile market environment. I think what I would like to do in the 20 – 30 minutes is break it up into two things. Let's talk about the equity market as it stands right now and what JP Morgan's perspective is around that, and then shift it really to more long-term vision because I think that's really ultimately what we have to do is try and move away from the short-term focus which is very emotionally driven right now, very sentiment driven in this market, and get more onto the fundamentals of the economic outlook, which some might think is dire, some might think not so, but let's take equities as a snapshot.

I think that it would be very interesting to note that a number of investors over the last several days have been anticipating possibly the bottoming of the equity markets. Now no one knows exactly where that bottom is and there might be a slight retrenchment over the coming days and coming weeks but it is very clear from the investor community that the valuations and spreads associated with the equity market pretty much directing us towards a time to get back in. It certainly is a time that you do not want to be out of the equity market. I mean classic sentiment drives us away from staying the course and unfortunately allows us to flee to what we think is a safe haven of cash and that has been very apparent through the down turn in this equity market. A lot of emotions have been driving a lot of the negativity in this market place and yet an awful lot of positive injection around the credit crisis and the government intervention not just at a domestic level but on an international and global scale the magnitude many of us on this call have never ever experienced before. But I think the thing that we can take stock from is that we actually have been here before in the aspect of market decline. If you take the deterioration of our equity market through Friday, the S&P from its peak to trough, which was back in October 9, 2007 was the peak of the S&P, it's deteriorated now 42% down to where it was this Friday, closing around about 900. The bounce that we have had put us back up the scale somewhat, the returns on Monday offered 12 % rallies on that day but cumulatively now the S&P as of the close last night, is down 36%. The thing to take stock of and the way which we look at this is that we actually have been here before. The market cumulatively declined in 2000 to 2002 from peak to trough a cumulative total of 49%. So, it was down roughly 50% in the deterioration and the quote-end quote recession of 2000, it was actually the same number back in the '73/'75 crisis. When the market deteriorated in early January '93 down to late end of '94, again a cumulative 49-50%. So it would very much appear to us that we have been here and the bottom was getting close. Now other information that was out there to focus in on is that from our perspective investors were beginning to get excited about the equity markets I mean, I think the gentleman that really spearheads a lot of investors view who are long-term value oriented is Warren Buffet. And Warren Buffet's activity over the course of the last several weeks has indicated why it is so imperative that we try and decouple the emotions of the marketplace. Now hard though it is, investors like Buffet decided to buy into this market not necessarily at the bottom but historical information clearly indicated that you had opportunities out there and he was deciding to step in. Constellation Energy, half the value it was a week earlier, Buffet jumps in and buys the company for \$5 Billion. He then steps in with Goldman Sachs; he then strikes a deal with General Electric. All very sound robust corporations, certainly on the General Electric

front, an indication of the fundamentals that shows you the way forward. The problem is that this market has not been traded on fundamentals. Sentiment has driven this market to an over sell. And I think the most important thing we as investors can do is try and take stock of the emotional behavior of our goals, portfolio managers as well as individuals, that unfortunately only ever choose to get into an investment scenario when we feel comfortable, when we are emotionally positive about the market place, tends to be when the market is trading up. Conversely, we are very much negative about the market, getting out and choosing not to be in equity land especially when ultimately the market is down. That is a classic behavior that investors end up unfortunately buying high and selling low; not the way you want to move. What is very interesting, and this is data that is published by Dalbar¹, they published a 20-year historical information flow. What it shows you is through the last twenty years, through 1997 to 2000, I'm sorry 1987 to 2007, the S&P generated 11.9% per annum over those 20 years. In that same time period, an individual investor who chose to override the investment advice and guidance and ultimately only bought in when they felt good and got out when they felt not so good, ended up with a return of 4.5%. That's why the average investor² never realizes the full potential of an investment opportunity because their emotions take override here and it is very important to note that getting out when this market was in a downward spiral is fine but the biggest challenge is stepping back into the market once you've come out and hence why a lot of investors end up not realizing the uptick. Those of you who have stayed the course or stepped into the equity market over the last couple of days, certainly the last few weeks, and partook in the downturn ultimately are beginning to participate in the upswing and that's important. But the upswing is really driven by fundamentals and the fundamentals are driving a lot of opportunities here at JP Morgan Asset Management we're seeing potential investments across the board. It's very important to note that although there is an awful lot of negativity, a large proportion of corporations in the United States still have very sound and robust balance sheets, still have incredible amounts of free cash-flow available and are also publishing positive earnings and positive profitable figures all the way through this difficult environment. So we are a lot more optimistic on the longer term of the equity market and certainly in the short-term. This roller coaster ride although will continue, we feel we will be able to sustain a positive trend on the uptick. Now that's just broadly speaking on the equity market.

My area is not the fixed income but what is very apparent is that the credit crisis over the last 12 months or so has ground the industry to a halt where we're unable to effectively trade in a comfortable manner. Confidence has deteriorated to a situation where highly regarded and highly respected banks 6 to 12 month ago, no longer wish to trade with each other. Government intervention was a necessity. The classic movement of the market environment would have been a nice behavior to happen but unfortunately it was a requirement for government intervention. The challenge at hand is that a lot of investors who have sat on the sidelines and been ultimately negative around this information are discounting that information and waiting for the true factual evidence to filter through, and we believe that is happening certainly with the intervention of the government today with nine banks being given capital infusion.

But I think we have to look further beyond the end of the nose, beyond the short-term vision where the opportunity lies, why we are a little bit more optimistic than most. And I think you have to take a step back from the economic environment and look at the vital life signs of this economy, of the United States. Where are we? Where are we going? What is the true potential?

And what are the down sides? Now the down side is that we are in recession and I think that the realization and the acceptance across the marketplace the US will be in a recession or is already in one. But it is important to note how severe that recession will be. Over the last decade, sorry, over the last century I should say, the United States has gone through what I would consider an economic global warming environment, i.e. we've gone through a period where our expansion periods in the United States have gotten longer and longer and our recession periods have gotten shorter and shorter. Somewhat long summers and short winters in fact the expansion period is now averaging 45 months while the recession period or the contraction period is only 14 months, more importantly the last two major recessions were only 8 months in length. So it is important to note that, yes we are potentially in a recession but this could be considered a mild to sort of average recession rather than a deep, dire recession that a lot of the media has grabbed attention with over the last several weeks. Our view drives four main components of that perspective, it really is around growth, it's around jobs, it's about profitability and it's about inflation. If you look at those four vital life signs and you somewhat try and look at that from a fundamental perspective you may well come out with a more bullish opinion not a euphoric opinion but a lot more conservatively, optimistic than the massive amounts of pessimism that has basically entrenched our economy and certainly our financial marketplace over the last three, four, maybe even five months in some aspects depending where you look.

Growth...absolutely the growth of the economy is contracting, that is understandable given the environment that we've been in but it somewhat is important to note that one of the main components of the GDP in the United States, one of the main drivers of whether our economy will contract into deep recession or whether we'll go to somewhat of a mild to medium time terms recession that we actually think. Housing has been a huge proponent of sentiment in the marketplace. Confidence is low because the investor community and the home ownership community have witnessed their real estate diminish in value. That is a real situation that has impacted the market. The average percentage of the Gross Domestic Product of the United States, housing accounts for 4% of the GDP. And we have been through what we consider the vast majority of the bubble bursting. If you look at house starts in the United States we peaked at 2.3 Million back in January '06. Where we stand today, we are averaging around about 900,000 house starts at the moment. If you look at the demographics of society we should be coming in at an average of 1.7, so we are well below the average, the market has slowed down dramatically. At that same time, inventory, unsold new homes, is effectively following the same trajectory from peak back in the 2006 period to where we are now in a downturn down somewhat like 29 to 30% off of its peak. So again we feel as if the housing market is getting close to a bottom, we don't think a huge rally but again that is not going to impact GDP. Government spending will continue to be fairly robust, which accounts for roughly about 20% of GDP and corporate America has never been in a massive expansion mode and therefore, we don't anticipate a contraction on the GDP side as it accounts for only 10% of the Gross Domestic Product.

The main driver of whether the US is in a mild to medium recession versus a deep recession is the American consumer. Consumption accounts for roughly 70% of the GDP in the United States and it is we the American consumer who are gonna determine how deep or how mild this recession can be. Now what is very apparent is that we are gonna have a period of contraction in consumer spending pattern that is very obvious. In fact this quarter that just came through, it

is the first quarter that the American consumer has posted a negative spending pattern in the last 16 ½ years. So now the pressure is coming on the American consumer as we retrench our spending behavior. Credit is a challenge. We are no longer taking money out of our equity in the house. We are no longer leveraging on credit cards. Deleveraging is happening around the economic marketplace, the American consumer will do the same thing. But, we don't anticipate a shift in spending behavior by the American consumer from a 100% spender to, into a savings pattern. We anticipate a plateau, a deterioration somewhat but not to the magnitude that everyone anticipates.

The other area is jobs. Jobs are absolutely, or unemployment is absolutely on the rise. Unemployment is now upticking at 6.1, other analysts and strategists out there call for numbers of 7 – 8% unemployment. 8 being the worst, 7 a more moderate number ballpark where we might think we may be here at JP Morgan. The most important thing to take stock of the unemployment number, it is a lagging indicator of the economic environment and the opportunity that lies ahead. Rear-view mirror investment approach is not the way forward. What is very apparent when you look at unemployment is we are gonna see corporations streamline jobs. That is gonna impact the consumer to some degree. That is going to impact the individual from an emotional and personal perspective, but from a corporate perspective it is a lot more positive. Because productivity here in the United States has actually not deteriorated but improved. If you've got a smaller work-force which has a great amount of productivity, that hits your bottom line and profitability. That will help push forward the economic environment here in the U.S. if you look forward from an investor stand point. So although it is a bad thing for society, it may well be a good thing in the longer term from corporate America stand point. And that turns me to profits. Corporate profits have been ugly. The last quarter that came out the earnings growth for the S&P 500 was down nearly 30%, but it is very important to identify where that has come from. Two of the ten sectors in the United States S&P 500 produced negative earnings. That means 8 out of the ten primary sectors produced earnings growth and actual corporate profits on the positive side. The two that posted negative were, as you can appreciate, financials and consumer discretionary. Consumer discretionary is obviously those products that we would like to have but in a challenging environment we are gonna wait 12 months for before we repurchase. It is understandable that the discretionary market is down. And in the financial world, the vast majority of the negative earnings growth, that's been apparent through 2008 has been the dramatic write down that the financial institutions have had to make. Those write downs are coming to a close, they're not over, that is very clear that some corporations will have to continue to address those sort of write downs and conservative balance sheet. But with the infusion at the top, with the design of the government effectively taking out those bad or toxic assets off the balance sheet and corporations not having to address the write down. That will start to stabilize the negativity on earnings and profits. So again looking bad right now, but we are looking more positive moving through 2009 certainly the second half and obviously through 2010. So we are a little bit more optimistic if we give ourselves a more medium term outlook.

The last thing to the equation and it does couple with profits and certainly around financials is inflation. Very apparent that in the summertime period with oil trading all the way up to the, the \$140 a barrel, there was clear emotion associated with inflationary pressure. Headline inflation was high in the ball park of around about 5%. Headlines include energy and food. Highly cyclical/highly volatile commodities that drive the headline inflation. Economic faculties focus in

on corn. Let's get a trend of where inflation's going. And the inflationary trend here in the United States is flat lining at around about 2.3% to 2.5%. Our view around inflation in the short to medium term is somewhat nonexistent to benign, it is there but it is not going to be impactful negatively to the economic scenario. And our main view around that comes from the primary driver of long-term inflationary pressure and that is that you've got growth potential in the marketplace or you've got wage demand inflationary pressure. Here in the US, we do not have any wage demand inflation whatsoever in our market as you can appreciate. The view point of United States is there is a lack of union power to drive wage demands up, there is an abundance of quote-end quote cheaper labor that is available to the US marketplace and there is a real sentiment that there is no demand or driver to act for a way to drive in an environment where you are seeing employment numbers push up. So we're fairly confident that although headlines have been high, with the demise of the commodity prices across the globe, with the stabilization of the core inflation you're gonna see headlines move closer to core rather than core move up towards headlines. In conjunction with that inflation, the Fed Funds Rate is a significantly low area of the market and if you see that at 1.5%. That is a real economic stimulus to this marketplace. We've got the financial packages beginning to seep in now. It will take several weeks for the actual capital injection from the top, but I think that the other events that are taking effect will ultimately move the financial huge cog in our industry and grease it sufficient to start the wheels turning. One of the reasons why Fed Fund Rates are going to remain low, and that's our view in the short to medium term. Later down the path as we see economic growth, we will see an uptick in interest rates, but right now keeping rates low. One of the key drivers of why we are keeping rates low is we need the financial institution to become more profitable again. Write downs will start to diminish, there will be a lack of write downs from a corporate stand point as those toxic assets are removed off the balance sheet. Then you've got the capital infusion, the interjection by the government to aid with the liquidity crisis as it were, stabilization of commercial paper, support in the inter-bank lender behavior depending which country you look at, ultimately saying we are now giving you the confidence and conviction to start trading amongst each other. Whilst I keep rates very, very low, the borrowing rate for a bank should maintain fairly low with a decent spread on what I charge the average customer, commercial or residential, that spread will seep straight down to the bottom line of the financial institutions and hopefully start to include earnings and profitability. Now with that stimulus comes the fear of inflationary pressure though we feel that is way, way down the path. And so as you move through 2009, second half of '09, fed fund rates may increase as the government starts to manage any potential inflationary pressure that comes from the massive amounts of growth injection that this market is effectively going to materialize by the end of '08. The top, the low rates, the support of the commercial paper, the support of the interbank lending, all of that is gonna take the next couple of months to truly work its way into the system. That extra flow of money is gonna create a growth potential in the marketplace. It's gonna start to expand the market, and what the government does not want is an overheating so they are gonna manage it very efficiently with the use the Fed Fund Rates slowly creeping up over time so to really recap and then maybe pass it back to Amelia for questions is that yes we've seen this environment before. Equities have deteriorated cumulatively maybe some fifty percent you know twice before the last two primary recessions that we've been in. With the exception of Monday's phenomenal rally, that is all I can put it down to, we were on that same trajectory. And I think over the course of the next couple of weeks we are gonna see the market up and down and the volatility as the confidence begins to slowly seep into the investor community. The economic situation whilst not fantastic is not as dire as some may speculate and again this

is just an opinion based off of those vital life signs; growth, is not as bad as people perceive it to be but it is important to note that we the American consumer can dictate the magnitude and depth of this recession all around our spending behavior patterns. And I am not just talking exorbitant spending but just steady consumer spending patterns. Jobs will deteriorate or I should say unemployment will increase but that is a significant lagging indicator for everyone to take stock at but is a positive for corporations. Profits look ugly right now but moving forward we anticipate the vast majority of the S&P 500 moving to profitable areas some are already there and then inflation and interest rates remaining low and really not much of a major issue in the short to medium-term. So, yes it does sound a little bit more upbeat but I actually think we have to get back to fundamentals to truly get perspective out here and not looking with short-term vision which is an awful lot of what the investor community has been doing over the course of the last couple of months. So Amelia if I pass it to you, and then maybe to questions if necessary.

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¹ The Dalbar Study mentioned in this call does not take into consideration the sales charges paid by investors working with financial advisors. Had the sales charges been taken into consideration, the returns shown would have been lower. If you would like more information regarding the Dalbar study, please contact our office.

² An average investor is defined as one that would sell their positions after experiencing large losses. This same investor would also be inclined to reenter the market if the market was going up.

Past performance is no guarantee of future results. The performance shown is not indicative of the performance of any specific investment.

An investor should carefully consider the investment objectives, risks, charges and expenses before investing. The fund prospectus contains this and other information about the investment company. For a copy of the prospectus, please contact your advisor. Read the prospectus carefully before investing or sending money.

An investment in a money market the fund is not FDIC insured or guaranteed by any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.

The US Treasury Temporary Guarantee Program provides a guarantee to participating money market mutual fund shareholders based on the number of shares invested in the fund at the close of business on Sept. 19, 2008. Any increase in the number of shares an investor holds after the close of business on Sept. 19, 2008, will not be guaranteed. If a customer closes his/her account with a fund or broker-dealer, any future investment in the fund will not be guaranteed. If the number of shares an investor holds fluctuates over the period, the investor will be covered for either the number of shares as held as of the close of business on Sept 19th, 2008, or the current amount, whichever is less. The program expires on Dec 18, 2008, unless extended by the US Treasury.