STRATEGAS

Investment Strategy Report
Wed. Nov. 19, 2008

Strategas Research Partners, LLC

Jason DeSena Trennert	(212) 906-0133	jtrennert@strategasrp.com
Nicholas Bohnsack	(212) 906-0132	nbohnsack@strategasrp.com
Chris Verrone	(212) 906-0135	cverrone@strategasrp.com
Don Rissmiller	(212) 906-0134	drissmiller@strategasrp.com

REACHING PRIOR VALUATION EXTREMES COMPARING 2008 TO '74, '82, & '02

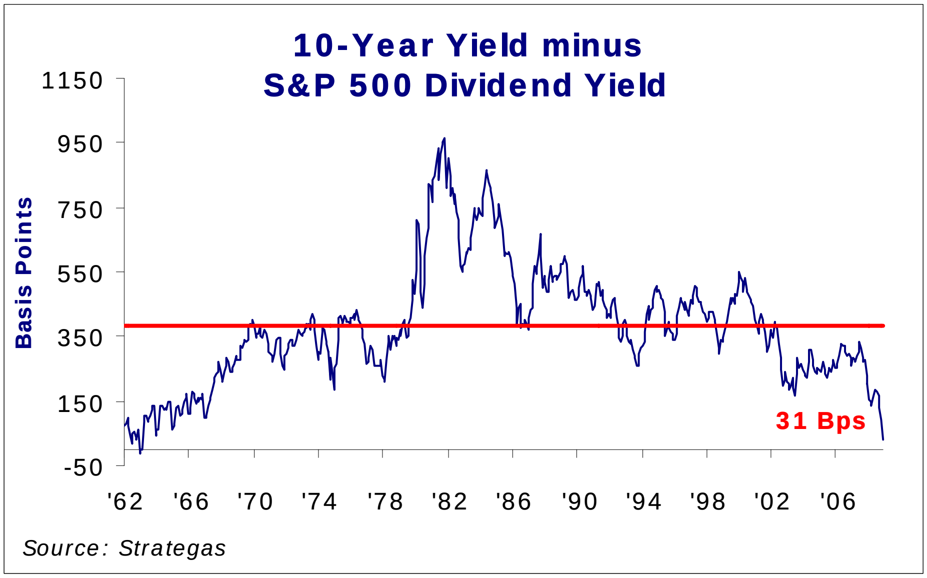
As the bear market drags on, we continue to get more and more questions about how the current market stacks up to prior periods in terms of valuations. While the panoply of problems facing the U.S. economy makes many wonder whether single-digit multiples are likely, our analysis of valuations suggests that single digit multiples are far more common in periods of high inflation rather than in periods of deflation. The average earnings multiple in the 1930s was 16.7x, with a trough of 9.2x in 1932. Almost all valuation measures place the current market near historic trough multiples. Perhaps the most compelling metrics are the Rule of 20 (Inflation plus the Forward PE) at only 14.2 and the relationship between the dividend yield and the 10-year. The Rule of 20 calculation suggests that modest multiple expansion is possible while the level of the market's dividend yield relative to the 10-year suggests that stocks are quite cheap relative to Treasuries.

S&P 500 Valuations at Recent Market Troughs

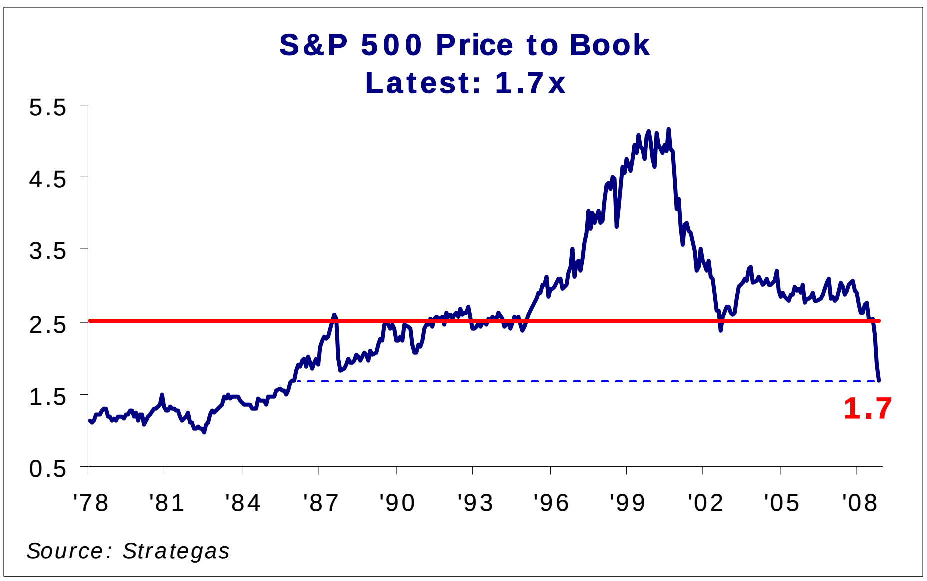
	Oct. 3, 1974	Aug. 12, 1982	Oct. 9, 2002	Current
Price	62.28	102.42	776.76	848.92
Dividend Yield	5.7%	6.6%	1.9%	3.2%
10-Year Yield	7.9%	13.1%	3.6%	3.5%
Price to Earnings (Trailing)	7.1x	7.8x	18.5x	12.3x
Price to Sales	-	-	1.2x	0.8x
Price to Book	-	1.0x	2.4x	1.7x
Price to Cash Flow	-	-	7.7x	6.7x
Risk Premium*	6.2%	-0.3%	1.8%	4.7%
Rule of 20**	20.3	15.0	17.6	14.2

*Risk Premium = Trailing Earnings Yield minus 10-Year Yield
*Rule of 20 = NTM P/E + CPI Y/Y % Change

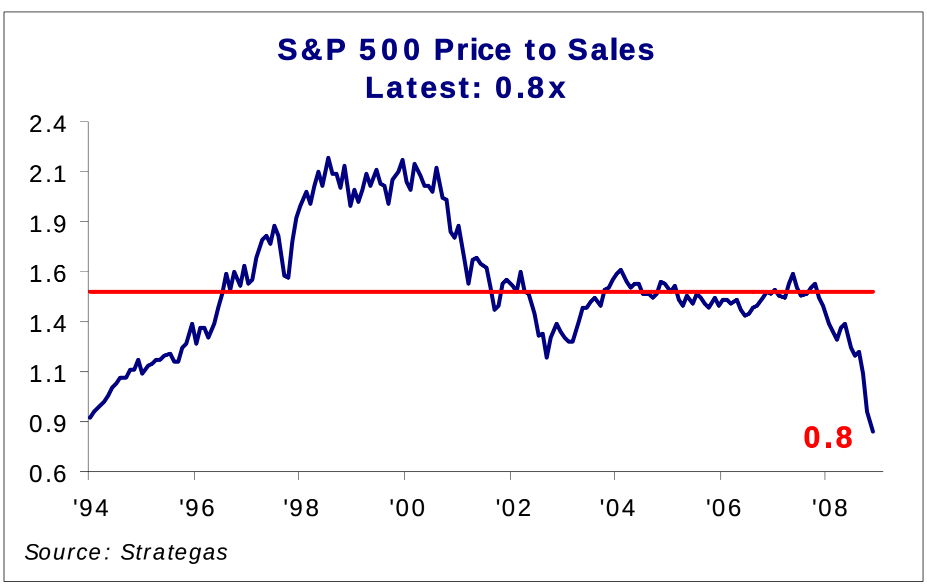
VALUATIONS APPROACHING EXTREMES



The last time the market's dividend yield approached the 10-year was late 1962.



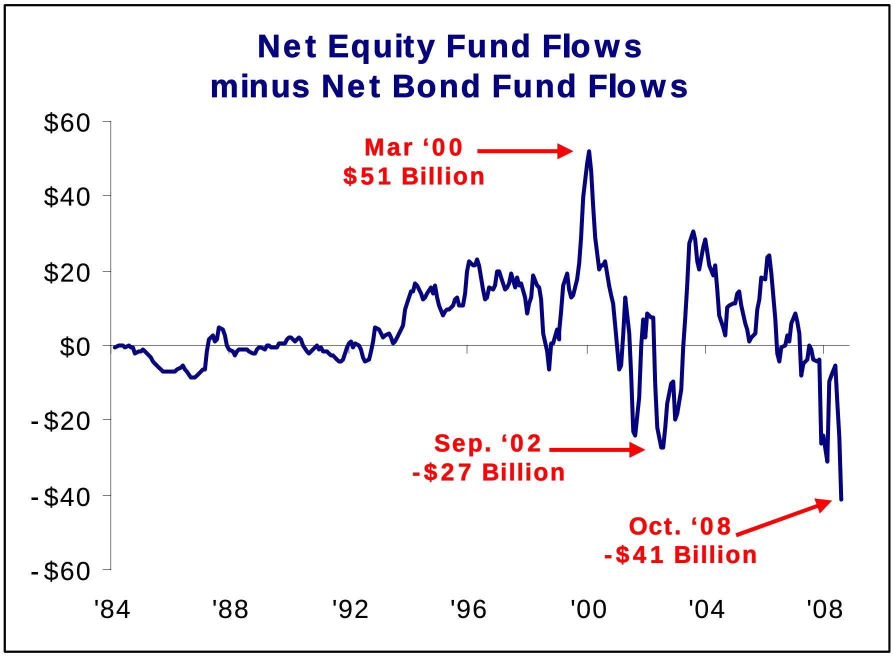
The market's current Price-to-Book is now lower than it has been at any time since 1986.



The S&P's price to sales multiple is now 0.8x, lower than at any time we have available data (unfortunately only to 1994).

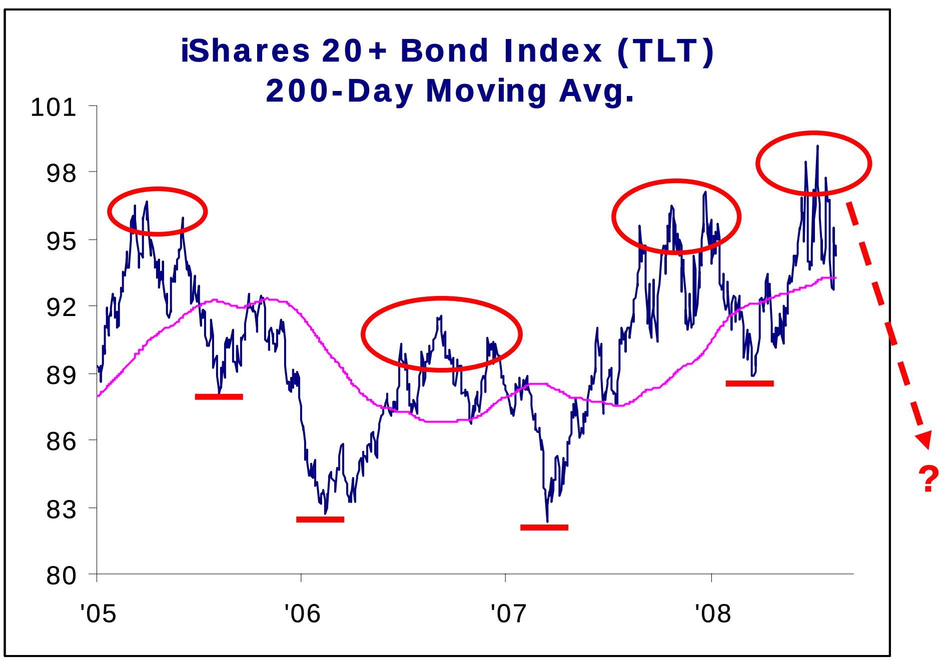
Strategas Research Partners, LLC
Chris Verrone (212) 906-0135 cverrone@strategasrp.com
Jason DeSena Trennert (212) 906-0133 jtrennert@strategasrp.com

Contrarians Take Note,
Bonds vs. Stocks: Monitoring Net Fund Flows



Without a meaningful catalyst on the horizon, it remains difficult to make a bullish case for equities. However, at the same time, it's getting harder and harder to imagine the run in Treasuries is sustainable as more risk gradually creeps back into the market.

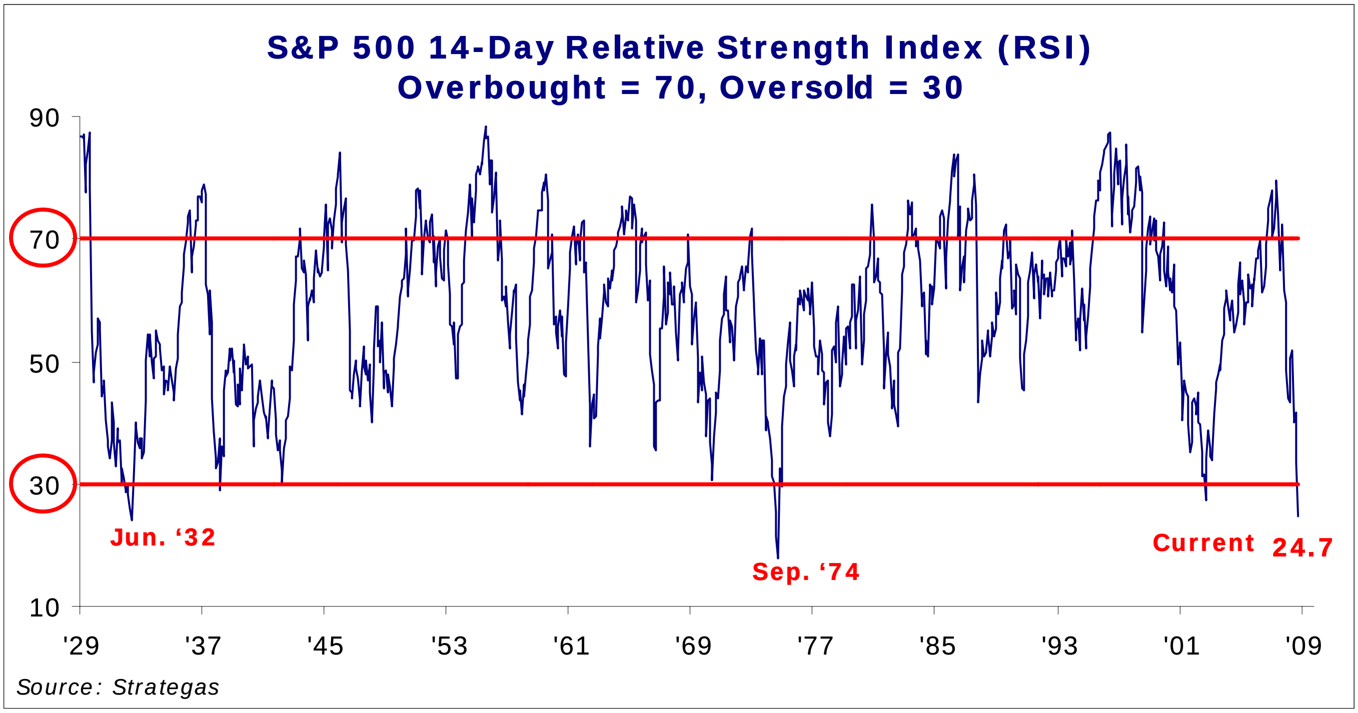
One reliable indicator we've tracked over the years is the difference between equity fund flows and bond fund flows. **<u>At the very least, the chart at left suggests bonds are probably over-owned at this point, especially with the supply of Treasuries increasing as the budget deficit surges.</u>**



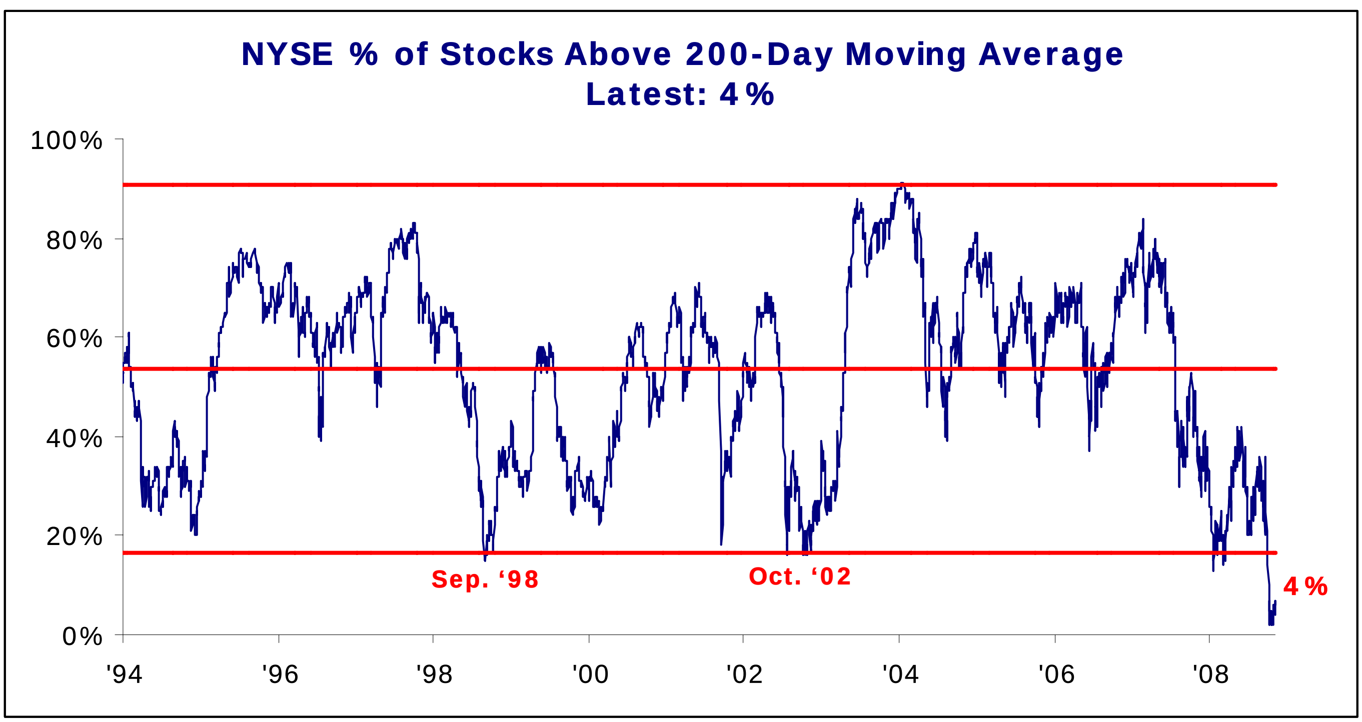
Along the same lines, we're keeping a close eye on the TLT and its relationship to its 200-day moving average. As we've seen over the last 4 years, a material break down through the 200-day has spelled further weakness in price. **<u>At present, the Index is just 1.5% above the benchmark.</u>**

Updating our Most Bullish & Bearish Charts:

* The S&P 500 14-Day RSI has only printed a lower reading twice since 1929 **(Bullish)**.



* Since 1994, the amount of NYSE stocks currently trading above their 200-day moving average has never been fewer **(Bullish)**.



STRATEGAS

Investment Strategy Report
Thu. Oct. 30, 2008

Strategas Research Partners, LLC

Jason DeSena Trennert	(212) 906-0133	jtrennert@strategasrp.com
Nicholas Bohnsack	(212) 906-0132	nbohnsack@strategasrp.com
Chris Verrone	(212) 906-0135	cverrone@strategasrp.com
Don Rissmiller	(212) 906-0134	drissmiller@strategasrp.com

WHAT ARE TROUGH MULTIPLES?

One question that has come up repeatedly in our meetings in recent weeks is, "where should multiples bottom?" Some have wondered whether our fair value chart on page 2 shouldn't include the potential for single digit multiples next year. **While this year has taught us that just about anything is possible, we believe multiples have likely bottomed near-term**. By Monday of this week, the trailing multiple for the S&P 500 dropped to 12.2x, below the average trough multiple of 13.3x since 1957. Single digit multiples were evident in the 1974 and 1982 bottoms, periods marked by both significantly higher inflation and long-term interest rates. Of course, deflation may be more of a risk than inflation today. While we believe that the Fed's all-out attack on deflation will be successful, we think it's important to note that the average earnings multiple in the 1930s was 16.7x, with a trough of 9.2x in 1932. At over $1.8 Trillion, the Fed has more than doubled the size of its balance sheet in recent months, showing that it has learned from the 30's policy mistakes.

Historical Market Bottoms: Multiples, Treasuries, Inflation, & Taxes

S&P 500 Trough	Level	Trailing P/E	10-Year Yield	Inflation	Top Marginal Tax Rate
10/22/57	38.98	12.2x	4.0%	2.9%	91.0%
6/27/62	52.32	16.1x	3.9%	1.2%	91.0%
10/7/66	73.20	14.8x	5.0%	3.8%	70.0%
5/26/70	69.29	14.0x	7.9%	6.0%	71.8%
10/3/74	62.28	8.3x	7.9%	11.8%	70.0%
8/12/82	102.42	8.8x	13.1%	6.0%	50.0%
12/4/87	223.92	12.6x	9.0%	4.3%	38.5%
10/11/90	295.46	13.1x	8.7%	6.4%	31.0%
10/9/02	776.76	19.8x	3.9%	2.0%	38.6%
Average		**13.3x**	**7.0%**	**5.0%**	**61.3%**
10/27/08		**12.2x**	**3.8%**	**4.9%**	**35.0%**

REAL RETURNS AT SECULAR LOW