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Previous Market Recap - November 19, 2008

Utilities Market - Recap

Introduction

Since our prior market recap dated November 19, 2008, the S&P 500 and the Dow Jones Industrials played "catch up." The S&P 500 increased 6% from \$857 and the Dow, 7% from \$8,364, while the utilities indices were pretty much unchanged. As Table 1 indicates, the regulated indices have modestly outperformed the Industrials on year-to-date, 3-months, 6-months and 12-months bases, but we're not sure that losing a lot, but nevertheless less than the other guy is a formula for success. Utilities investors continued to favor safe, predictable, regulated companies over quasi regulated power generators such as **Exelon Corporation (EXC-hold)** and **PPL Corporation (PPL-hold)** and more direct plays such as **Questar Corp. (STR-not rated)**. Energy prices hurt them going down, and there's no reason they shouldn't help if recent declines reverse.

Table 1
Comparative Performance
Utilities versus S&P 500 and Dow Jones Industrials

Column	(1)	(2)	(3)	(4)	(5)	(6)
		Price				
Intraday		12/8	YTD %	3-mos %	6-mos %	1-yr %
S&P 500	SPX	910	(38)	(28)	(33)	(39)
Phila. Index	UTY	395	(31)	(18)	(26)	(33)
SPDR	XLU	29	(31)	(19)	(28)	(34)
Dow Ind.	INDU	8,974	(32)	(22)	(27)	(34)

Best & Worst Performers

On both year-to-date and 3-months bases, the best performers include traditional, conservative names such as **Southern Company (SO-hold)**, **Consolidated Edison (ED-hold)**, **Wisconsin Energy (WEC-not rated)** and **Xcel Energy (XEL-hold)**. Two gas distributors also outperformed: **Nicor (GAS-not rated)** - minus 13% ytd and **Integrus (TEG-hold)** - minus 16% ytd. Both have above-average yields (5% for GAS and 6.2% for TEG versus XLU average of 4.6%). Beyond the yields, both companies are relatively small in terms of market value (\$2-\$3 billion) and not typically viewed as sources for general liquidations.

See page 5 of report for Analyst's Certification, page 5 for Important Disclosures and pages 5-6 for Other Disclosures and Disclaimers

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Quasi utilities, with nuclear generation that stood to benefit from rising energy prices, reduced earnings estimates and experienced significant declines in share prices. Exelon declined 33% year to date, but showed signs of recovery for the 3-months, declining 17%. PPL Corporation shares declined 41% year to date and 22% for the 3-months. Questar, minus 43% ytd and minus 34% 3-months, as primarily an E&P company, reacted to both lower energy prices and cut backs of earnings forecasts. Independent power companies naturally reacted to the drop in energy prices. Among the poorest year-to-date performers were **AES Corporation (AES-not rated)** - minus 67% and **Dynegy (DYN-not rated)**, minus 71%.

Constellation Energy (CEG-not rated) was the worst year-to-date performer, but a peek at our market review published in May 2007, when its shares were trading at \$94, had 80% of the analysts following the company rating it buy or outperform. Constellation, while under severe stress, agreed to be acquired by MidAmerican Energy Holdings (\$4.5 billion-\$26.50 a share). CEG shareholders are scheduled to vote for the deal on December 23, 2008. In the meantime, Electricité De France offered to purchase half the nuclear generation for \$4.5 billion and fossil fuel generation for an additional \$2.0 billion. Stay tuned.

Table 2
S&P Utilities
Best & Worst Performers
Year to Date & Latest 3-Months

Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Year to Date Best		Intraday		Analyst	3-Months Best		Intraday
Company	sym	12/8	Ytd	Bias	Company	sym	12/8 3-mos
Southern	SO	37	(3)	33	Southern	SO	37 (1)
Nicor	GAS	37	(13)	13	Con. Edison	ED	40 (7)
Wisconsin Egy	WEC	42	(14)	54	Progress	PGN	40 (8)
PG&E	PCG	37	(15)	56	Wisconsin Egy	WEC	42 (9)
Integritys	TEG	43	(16)	57	Xcel	XEL	19 (11)
Worst					Worst		
Questar	STR	31	(43)	71	NiSource	NI	11 (30)
Allegheny	AYE	33	(48)	100	Questar	STR	31 (34)
AES Corp	AES	7	(67)	63	AES Corp	AES	7 (53)
Dynegy	DYN	2	(71)	71	Constellation	CEG	27 (58)
Constellation	CEG	27	(74)	9	Dynegy	DYN	2 (59)

Most and Least Loved

In bull markets, it's dangerous playing the iconoclast. Companies that perform well and have favorable recommendations typically outperform. In bear markets, however, analysts' recommendations tend to lag market performance. Table 3, column 4 lists the number of buy/outperform ratings as a percentage of total recommendations as per Bloomberg Financial Service. The table lists the 5 companies with the highest analysts' biases in the 32 XLU components and the 5 lowest. **First Energy (FE-not rated)**, **Sempra Energy (SRE-not rated)** and **Centerpoint Energy (CNP-not rated)** outperformed, albeit modestly, declining 22% to 28% versus the XLU 31% drop year to date.

The least loved among the XLU didn't fare too poorly. Of the 5 least loved with 10% or less bias, **DTE Energy (DTE-hold)**, minus 20%, and **Con. Edison (ED-hold)**, minus-19% outperformed.

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Table 3
S&P Utilities
Most Loved versus Least Loved
Year to Date

Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Most		Intra		Analyst	Least		Intra	Analyst	
Company	Sym	12/8	Ytd	Bias	Company		12/8	Ytd	Bias
Allegheny	AYE	33	(48)	100	DTE Energy	DTE	35	(20)	10
CMS	CMS	10	(41)	86	Ameren	AEE	34	(38)	10
First Energy	FE	56	(22)	79	Pinnacle	PNW	31	(28)	9
Sempra	SRE	45	(28)	77	Constellation	CEG	27	(74)	9
CenterPoint	CNP	13	(23)	75	Con. Edison	ED	40	(19)	7

Note: Highlighted numbers reflect better-than-average performance

Size

Larger companies, accounting for the bulk of the weightings, performed in line or exceeded the mean. Of the 5-largest capitalized companies (in terms of equity market value) only Exelon underperformed year to date, minus 33% versus the 31% for the XLU. **FPL Group (FPL-hold)** declined 31% in line with the average. Southern Company 3% decline led the group followed by **Dominion Resources (D-buy)** and **Duke Energy (DUK-hold)**, both dropping 25%. The standout among the smaller capitalized companies was Nicor.

Table 4
S&P Utilities
Biggest versus Smallest
Year to Date

Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Largest	Sym	Intraday 12/8	Ytd	Mkt. \$-bil	Smallest	sym	Intraday 12/8	Ytd	Mkt. \$-bil
Exelon	EXC	55	(33)	37	Pinnacle	PNW	31	(28)	3
Southern	SO	37	(3)	28	Teco	TE	12	(31)	2
Dominion	D	36	(25)	23	CMS	CMS	10	(41)	2
Duke	DUK	15	(25)	19	Nicor	GAS	37	(13)	2
FPL	FPL	47	(31)	19	Dynegy	DYN	2	(71)	2

Note: Highlighted numbers reflect better-than-average performance

S&P Components: The following table lists the 32 components of the XLU and arrays according to ticker symbol.

Column 2: Prices Intraday on December 8, 2008.

Columns 3-6: Year to date, 3-months, 6-months, and 12-months percent changes.

Column 7: Analysts biases as measured by the percentage of buy/outperform to total recommendations as per Bloomberg Financial Service.

Column 8: Equity market capitalizations.

Columns 9-12: Consensus 2008 and 2009 earnings and price/earnings multiples as per Bloomberg Financial Service.

Columns 13-14: Dividends and yields per share.

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Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Company	sym	Intraday 12/8	Price ytd	Price 3-mos	Price 6-mos	Price 1-Yr	Bias %	Mkt.Val. \$bil	EPS 2008c	EPS 2009c	P/E 2008c	P/E 2009c	Div. PS	Yield %
Ameren	AEE	34	(38)	(17)	(23)	(38)	10	7	2.95	3.34	11.4	10.1	2.54	7.6
AEP Corp.	AEP	30	(36)	(23)	(29)	(39)	59	12	3.15	3.15	9.5	9.5	1.64	5.5
AES Corp.	AES	7	(67)	(53)	(64)	(68)	63	5	1.12	1.17	6.2	6.0		0.0
Allegheny	AYE	33	(48)	(22)	(38)	(48)	100	5	2.32	3.23	14.3	10.2	0.60	1.8
Constellation	CEG	27	(74)	(58)	(69)	(74)	9	5	4.85	5.45	5.6	5.0	1.91	7.1
CMS	CMS	10	(41)	(25)	(33)	(43)	86	2	1.19	1.26	8.6	8.1	0.36	3.5
CenterPoint	CNP	13	(23)	(18)	(21)	(28)	75	4	1.25	1.31	10.6	10.0	0.73	5.5
Dominion	D	36	(25)	(16)	(22)	(27)	26	23	3.13	3.31	11.4	10.8	1.58	4.4
DTE Energy	DTE	35	(20)	(18)	(19)	(30)	10	6	3.01	3.30	11.7	10.7	2.12	6.0
Duke	DUK	15	(25)	(16)	(15)	(27)	24	19	1.22	1.29	12.4	11.7	0.92	6.1
Dynegy	DYN	2	(71)	(59)	(77)	(75)	71	2	0.11	0.23	18.4	9.1		
Con. Edison	ED	40	(19)	(7)	(1)	(20)	7	11	3.01	3.18	13.1	12.5	2.34	5.9
Edison Intl.	EIX	32	(40)	(28)	(38)	(45)	57	10	3.84	4.25	8.3	7.5	1.22	3.8
Entergy	ETR	83	(30)	(15)	(29)	(32)	71	16	6.65	7.65	12.5	10.9	3.00	3.6
Exelon	EXC	55	(33)	(17)	(37)	(35)	75	37	4.19	4.25	13.1	13.0	2.10	3.8
First Energy	FE	56	(22)	(20)	(27)	(24)	79	17	4.32	5.20	13.0	10.8	2.20	3.9
FPL	FPL	47	(31)	(17)	(27)	(35)	65	19	3.84	4.11	12.1	11.3	1.78	3.8
Nicor	GAS	37	(13)	(20)	(11)	(17)	13	2	2.28	2.55	16.2	14.5	1.86	5.0
NiSource	NI	11	(40)	(30)	(34)	(40)	18	3	1.23	1.23	9.3	9.3	0.92	8.1
PG&E	PCG	37	(15)	(14)	(6)	(23)	56	13	2.94	3.19	12.4	11.4	1.56	4.3
PS Ent.	PEG	29	(41)	(24)	(34)	(41)	55	15	2.92	3.14	10.0	9.3	1.29	4.4
Progress	PGN	40	(17)	(8)	(5)	(20)	25	10	3.02	3.12	13.2	12.8	2.46	6.2
Pinnacle	PNW	31	(28)	(14)	(5)	(30)	9	3	2.45	2.51	12.5	12.2	2.10	6.8
PEPCO	POM	17	(41)	(28)	(33)	(40)	70	3	1.91	1.97	9.1	8.8	1.08	6.2
PPL Corp.	PPL	31	(41)	(22)	(39)	(43)	67	12	2.08	1.89	14.9	16.3	1.34	4.3
Southern	SO	37	(3)	(1)	7	(4)	33	28	2.36	2.46	15.9	15.3	1.68	4.5
Sempra	SRE	45	(28)	(22)	(21)	(30)	77	12	3.92	4.45	11.4	10.0	1.40	3.1
Questar	STR	31	(43)	(34)	(53)	(44)	71	5	3.79	3.40	8.2	9.1	0.50	1.6
Teco	TE	12	(31)	(28)	(45)	(34)	38	2	0.84	1.31	14.1	9.0	0.80	6.8
Integrus	TEG	43	(16)	(17)	(15)	(17)	57	3	3.48	3.92	12.4	11.0	2.68	6.2
Wis. Egy	WEC	42	(14)	(9)	(11)	(16)	54	5	2.89	3.18	14.5	13.2	1.35	3.2
Xcel	XEL	19	(18)	(11)	(10)	(21)	25	8	1.46	1.53	12.7	12.1	0.95	5.1
Average		33	(33)	(21)	(28)	(35)	49	12	2.74	2.99	12.0	11.0	1.49	4.5

Note: Highlighted numbers reflect better-than-average performance

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		% Investment Banking
Buy	12%	0%
Hold	88%	0%
Sell	0%	0%

The principal risks to the achievement of our price targets include general market trends, disappointing earnings and lower energy prices and adverse regulatory developments.

Our target prices are based on projected earnings for the following calendar year, and an assumed price/earnings ratio in line with the company's historical valuation or those of other companies with similar businesses and prospects.

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