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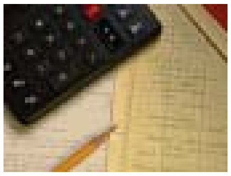

Economics & Financial Markets

United States Equity Markets

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New Addition to the SISR Recommendation List: J.B. Hunt Transport (JBHT) – Expect better than expected Q109 Revenues

I. Introduction

Current Price $23.97 – Midday 1PM
P.E.: 15.13
Market Cap: 2.97B

The committee at SISR has decided to add J.B. Hunt Transport Service Inc. (JBHT) to our recommended list. We are recommending J.B. Hunt Transport Service Inc. as a Market Outperform, based lower fuel costs, and greater demand for Diesel Fuel, and expectations of a market recovery.

II. Rational for Selections

There are three reasons why we are recommending JB Hunt to our recommended list:

1. Diesel prices are 52.6% lower than they were one year ago and they are currently 30.4% lower than they were last quarter.
2. After nearly falling off a cliff demand for diesel has been unexpectedly increasing as shipments of manufactured goods have been improving slightly.
3. We are looking for the economy to recover significantly by the middle to the end of the summer, given that all the necessary and sufficient conditions for a recovery are currently in place.

Rational #I: Lower Diesel Fuel Prices

The primary reason for recommending JBHT is that diesel prices have been declining over the past two quarters. On a q/q basis diesel prices have declined by 30.44% and on a y/y basis they have declined by

52.59% for Q109 to date with only one more week of data for the quarter. We used the average quarterly price from the quarter based on the weekly diesel New York Harbor data from EIA. The y/y data is the current y/y change as of the close on Friday March 20, with other quarters being y/y change at the end of the respective quarter.

Figure I: Diesel Prices Q/Q and Y/Y

Diesel Prices Q/Q Percent Change

Year	Q1	Q2	Q3	Q4
2006	-1.35	17.53	-2.26	-14.62
2007	-1.35	17.03	4.68	18.99
2008	10.28	29.76	-7.45	-43.24
2009	-30.44			

Diesel Prices Y/Y Percent Change

Year	Q1	Q2	Q3	Q4
2006	26.25	34.43	11.15	-3.25
2007	-3.25	-3.66	3.17	43.78
2008	60.74	78.24	57.59	-24.83
2009	-52.59			

Source: EIA, SISR

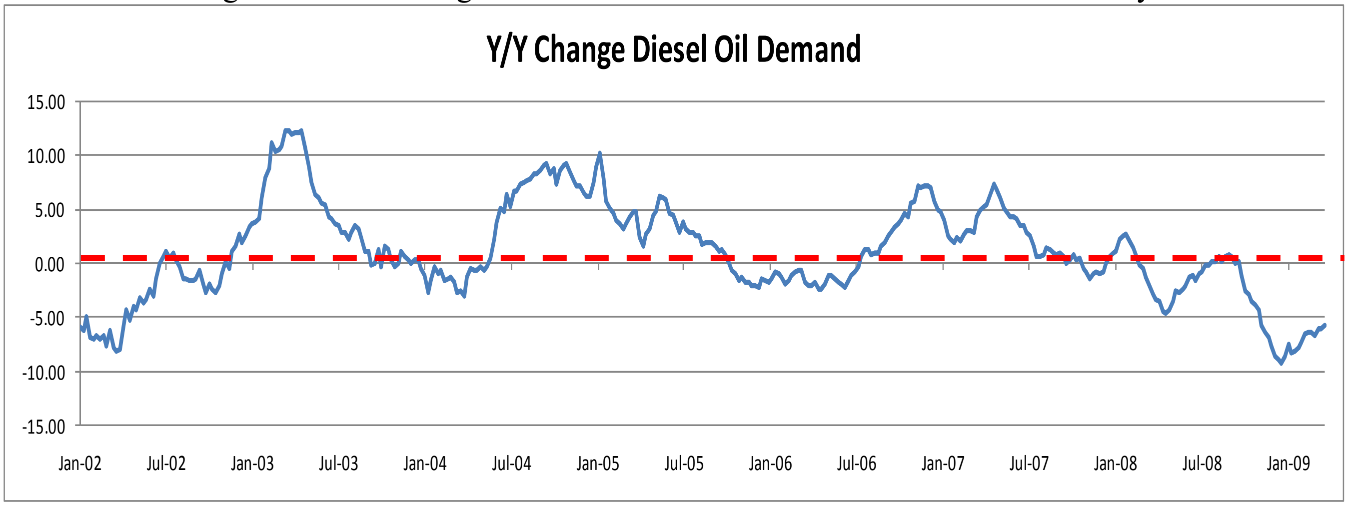
In Q408 JBHT earned $0.41 in contrast to $0.42 for Q407, almost exclusively on the basis lower fuel cost. Their y/y revenues were down significantly from to 945.0M to 880.0M a decline of 6.9% with lower net income of only $0.01. The Q408 returns were aided by the 24.8% y/y decline in fuel cost. The earnings decline includes the reduction in fuel surcharge which declined by 9.96% but their profit on their fuel surcharge increase to 50.5M from 24.4M for Q407, the prior year. That 26 million in profits from the surcharges differences, was how their made their number despite their lower revenues.

For Q109 the y/y price of diesel has fallen by 52.59% a larger amount than the 24.83% in Q408. This indicates that if the surcharges have remained at even slightly elevated levels we would expect that revenues will come in better than expected with consensus being for revenues of $0.23 for the quarter in contrast to $0.28 for Q108. It will all depend on the profits from the fuel surcharge relative to last year, and our expectation is that it will be higher in than in the prior year quarter allowing for a beat of expectations by 2 to 4 cents.

Rational # II: Increase In Diesel Demand

Last week on Thursday almost all the truckers stocks were up in the 6 to 8% range. We believe that the increase in stock price was the realization that diesel demand had increase after a fairly chronic decline since Lehman when the economy went into a steep decline. Trucking of goods and services were significantly affected as seen in Figure II, with the demand for diesel declining significantly beginning in August of last year.

Figure II: Y/Y Change in Diesel Fuel Demand Jan 02 to March 09 Weekly



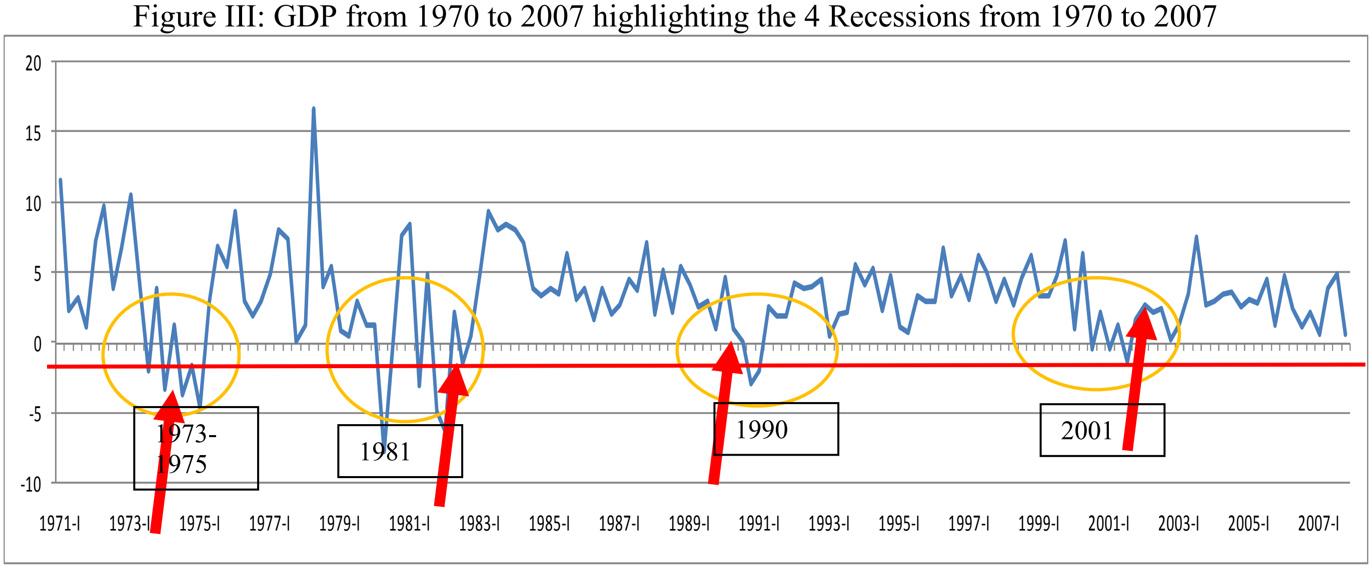
Source: EIA, SISR

From August to the middle of February as the economy stalled, diesel demand as to be expected, also stalled. In fact y/y diesel demand was down as much as 10% y/y. In recent weeks we have seen an uptick in the second derivative of diesel demand on a y/y basis. Demand is still negative however but improving as indicated by the positive second derivative. It was this uptick that awoke the market for truckers last week.

We have not done a full analysis of this but for the past 2 year this indicator of diesel demand appears to track JBHT's revenues quite well. We need to do a fuller analysis with JBHT and other companies to see how good this indicator is, and work with various seasonal adjustments. However, preliminary tests appear that this is a very promising tracking indicator to revenues. As noted, revenues were down about 7% in Q408 with diesel demand being down about the same in Q4 08.

Rational # III: The Economic Recovery

Figure III: GDP from 1970 to 2007 highlighting the 4 Recessions from 1970 to 2007



Source: NBER, SISR

In our prior work on recessions we have shown that recessions have a passive and not a direct relationship to market tops and bottoms. In all post WWII recessions except 2002 (complicated by 911) the markets rebounded long before the end of the recession. We may currently be at one of those inflection points because the necessary and sufficient conditions for ending the recession are currently in place. All the conditions that caused the recession the financial crisis, housing, and oil have governmental structures in place to eliminate those problems. This is a necessary condition for the markets to rebound prior to the end of the actual recession.

Since 1970 the market bottom occurred at different period in relation to the recession with the exception of 2001 which was affected by the 911 attacks.

1. October 3 1974 for the November 1973 to March 1975 recession – Near late middle
2. August 12, 1982 for the July 1981 to November 1982 recession - Near the end of the recession
3. October 11, 1990 for the July 1990 to March 1991 recession - Near the beginning
4. October 9, 2002 for the March 2001 to November 2001 recession - One year after

When analyzing economic recessions and markets we need to distinguish between financial forecasting and economic forecasting. We find that the economists who have tried are mostly unsuccessfully in using economic indicators to understand timing of the financial markets, and the finance professional have had trouble dealing with recessions, because most finance models break down during recessions. Understanding these relationships is critical for current discussions because markets tend to hit bottom during recessions, and not when the recession is over.

A. Necessary and Sufficient conditions for Market Bottoms

In our work on recessions in January and February of 2008 we argued that there are four principles that serve as necessary and sufficient conditions for market bottoms: These were as:

"Principle #1: In each recession the market recovery occurred only when there was sufficient evidence that the underlying conditions of the recession were resolved or perceived to be effectively concluded.

Principle #2: The FFBond relationship needs to be clearly in the positive for the financial institutions to be expected to recover, and in each recession this relationship went negative prior to the recession.

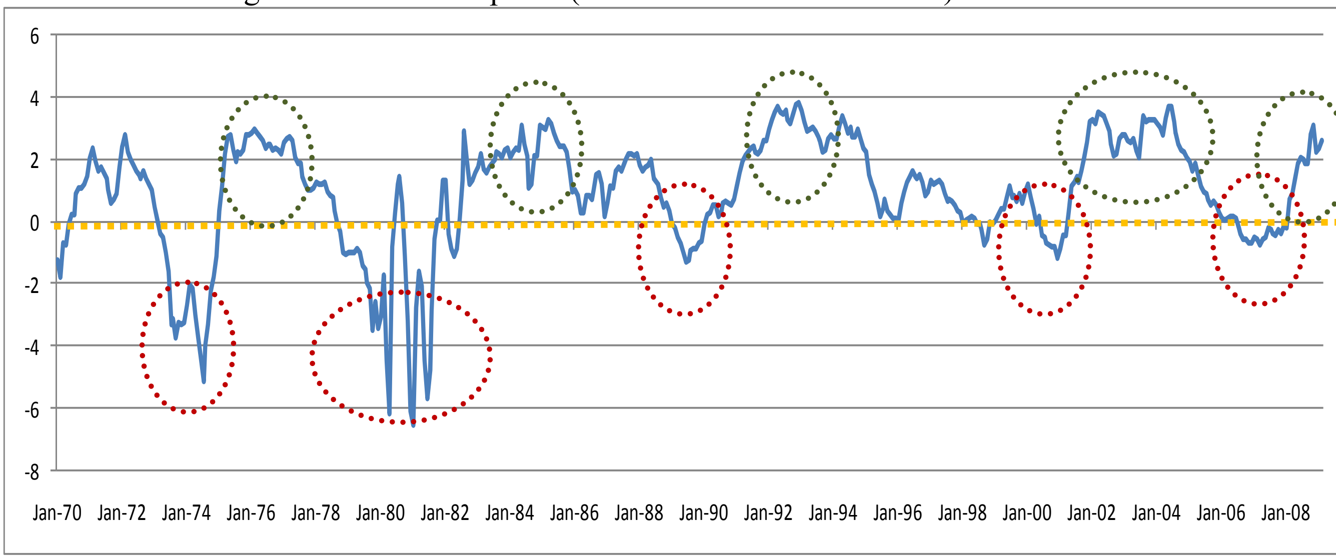
Principle #3: Traditional valuation metrics in a recession are virtually useless, as are traditional economic forecasting metrics for understanding when the economy will rebound. The necessary condition is the cause of the recession must be addressed and only those metrics that can speak to that issue is relevant for the market prior to a rebound.

Principle # 4: No two recessions are alike and the remedy for resolving the problem are all indeterminate but dependent only on the cause of the recession. The fed is often the cause, but the fed is only the reactive cause and not the true cause."

Maintaining the Target Fed Funds Rate

By keeping the fed funds rate low this has been one of the mechanisms by which the Federal Reserve has enabled the banks to become profitable. We have argued extensively over the past few weeks about the importance during a recession of keeping the FFBond rate over 2%.

Figure IV: FFBond Spread (10 Year note less Fed Funds) 1970 to 2009



Source: Federal Reserve, SISR

In February and March of 2008 we argued that one of the central conditions for economy to emerge from a recession was what we identified as Principle #2: That the FFBond relationship needs to be clearly in the positive by 1.5% or greater for an extended period for the financial institutions to be expected to recover, and in each recession this relationship went negative prior to the recession. With the announcement of expected profitability by Citigroup (C), Bank of America (BAC) and JP Morgan (JPM) last week, the fruit of those efforts by the Federal Reserve have become apparent.

TARP

The Tarp Program initially was intended to remove the toxic assets from bank balance sheets. That approach particularly in a lame duck administration appeared difficult to orchestrate. The net effect was an attempt to capitalize the banks with additional assets. TALF 1 used this approach exclusively and even provided liquidity to banks that claimed they did not need the additional capital.

The logic for the change is somewhat simple, if a bank or other Major Corporation, prior to the crisis, experienced trouble they would either sell assets bringing in additional capital, or do a secondary or private placement in order to raise capitals. The U.S. Government only stepped in when the banks were in sufficient trouble that no serious investor were willing to take the risk of adding capital to the troubled banks. The program was much less complicated and given the urgency of the problem it certainly bought the system sufficient time to work the other issues out.

The process was simple, clean and performed with a high degree of efficiency. Companies like American International Group (AIG), Citi Group (C), and Bank of America (BAC) even came back for more needed capital. The system appears to be working in that no major financial institution currently appears to be on the brink of failure and today's announcement from Citi brought cheer to the markets.

Comprehensive Stress Tests

Comprehensive stress tests are intended to determine under the worst of circumstances what level of capital would be needed to support the financial system. This would enable the Treasury to be prepared in the event of the most severe meltdown. It would enable them to have programs and a set of expectations of what the necessary capital requirements would be under the most extreme conditions, so that they would not enter a recurrent crisis under prepared like in the last instance with the failure of Lehman.

Additional Assets for the FDIC

Several weeks ago it was announced that the Treasury would be providing the FDIC with an additional 500B in available capital in the extreme case that they would need the money to support the FDIC program of insuring bank accounts up to the limit of 250 K per account, in the event that a bank failed. This money was made available because there are an increasing number of smaller banks that are currently failing in this economic environment. The FDIC has increased the insurance premiums on banks during this troubled period as another safety measure to keep the FDIC well funded.

Launching of the TALF Program

The FOMC announced that they would launching the Term Asset-Backed Securities Loan Facility (TALF) with the intention of extending credit to households and small businesses and other asset classes including mortgages.

TALF I The TALF program was originally set up on November 25, 2008 within the Federal Reserve with 200 B in assets with the mandate to: "lend up to $200 billion on a non-recourse basis to holders of certain AAA-rated backed by newly and recently originated consumer and small business loans. The FRBNY will lend an amount equal to the market value of the ABS less a haircut and will be secured at all times by the ABS."

TALF II was expanded on February 10 to 1 Trillion dollars, and "could broaden the eligible collateral to encompass other types of newly issued AAA-rated asset backed securities, such as commercial mortgage backed securities, private-label residential mortgage-backed securities, and other asset backed securities…The Board's objective in expanding the TALF would be to provide additional assistance to financial markets and institutions in meeting the credit needs of households and businesses and thus to support overall economic growth in the current period of severe financial strains." The TALF programs we believe are the first steps in creating a market and creating a basis of value for these troubled assets, while enabling the banks to use some of those assets as capital for lending purposes.

The FOMC recently announced that they were beginning to take applications for this program and it was in the process of being launched imminently. We believe that this program in conjunction with the public-private Investment Fund: will be the vehicle for moving these toxic assets off the balance sheets of banks and with private funds in conjunction with government capital backing once a market can be made and a value placed on them. The TALF will help create a market value and the Public Private Investment Fund will purchase these troubled assets that are currently frozen and have a limited market i.e. level 3 assets on the balance sheets of banks.

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<u>Toxic or Legacy Assets</u>: On Monday March 23, 2009 the Treasury department announced their plan for dealing with the Toxic-Asset problem in the financial system impacting various banks balance sheets. The announcement has four major components:

1. TARP: would provide 75 to 100B in capital to help purchase the legacy assets.
2. TALF: is where this program will be centered
3. PPIF: is the 50% partnership between the government and the funds that will purchase the legacy assets. The funds will be the experts assessing the value of these assets.
4. FDIC: will oversee the multiple PPIF's and serve as the guarantee of the debt.

The PPIF is intended to use the skill of major trading institutions in collaboration with the Treasury to purchase toxic assets or legacy assets as they are now called from the banks. These purchases by the Treasury and the funds are intended to: (1) make a market in these assets and (2) assist the non-skilled 50% partner, the Treasury, in valuing these assets. The Treasury will use the knowledge of the skilled entity to correctly access the proper value of these assets, with their skilled partner having a financial interest in this exercise. The expected benefit will be to all parties: (1) the banks which will be able to sell these assets over time for more than they currently can sell them now and improve their balance sheets, (2) the funds can make a nice profit patricianly since these assets are secured by the FDIC, and (3) the Treasury can profit by piggy backing on the skill set of their partners decision making abilities, and similarly make a profit or at least recoup some of the money they have fronted to the financial institutions.

The FDIC will function as the agency that will conduct the action and also provide the debt guarantees for the program. The Treasury will use 75B to 100B TARP capital to generate between 500B to 1T in capital to purchase the legacy assets (toxic assets). The FDIC has already been approved for an additional 500B in funding to act as the guarantor.

The brilliance of this program is the use of the private sector to price the assets and for the Government to piggy back on that level of expertise. The second component that is well constructed is that the TALF "is intended to incorporate this program into the previously announced Term Asset Backed Securities Facility (TALF)" (Fact Sheet- Public Private Investment Program).

1. The first part of using the experts to price these assets needs no comment. The only question is how quickly the banks will be willing to sell these legacy assets.
2. TALF is the invisible hand that has the ability to purchase these assets and will be the place where the markets are adjusted in some way. The TALF program will function like the Fed in its traditional role of being the adjustment switch to make sure that the pot is constantly at a slow

boil. The TALF will interact and trade with the funds and function as the mechanism to make sure that this market is orderly.

We at SISR are having trouble finding fault with these program as a resolution to the current problems, and it appears quite clear that all the necessary conditions are in place to sufficiently support the banking system under the most extreme condition, and we expect that the markets will lead the economic recovery. We believe that all necessary conditions are in place for a market rebound.

III. Conclusion

Assuming that all the necessary conditions are in place for a market recovery we expect that trucking and particularly JHBT will outperform the market. The reason why we are recommending JBHT currently as opposed in several months from now, when the economy actually improves is that we expect that with diesel prices as depressed as they have been all quarter, it is likely that JHBT will beat consensus by 2 to 4 cents. Also the price is rather depressed and diesel demand appears to be slowly picking up, which likely indicates that trucking demand is also improving. We are looking for continued improvement in the stock price throughout the year and expect the price of JBHT will outperform the market.

IV. Other Companies currently on the Recommended List

Starting in September of 2008 we began to formally initiate coverage on several Companies. These included:

A. The Mosaic Company (MOS)
B. Holly Corporation (HOC)
C. Abercrombie (ANF)
D. Aeropostale (ARO)

We have also issued recommendations on several companies which we have identified as companies on our recommended list, but did not formally initiate coverage on these companies for first call and Bloomberg estimates with formal estimates. These include:

E. Harris (HRS)
F. Caterpillar (CAT)
G. Accenture (ACN)
H. Polo Ralph Lauren (RL)
I. Darden Restaurants (DRI)
J. Cheesecake Factory Inc. (CAKE)
K. Applied Materials (AMAT)
L. L-3 Communication Holdings (LLL)
M. Wells Fargo & Co. New (WFC)
N. Bank of America (BAC)

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Recommendation Scale:

Stock Rating:
1 – Recommended List – The stock has our highest recommendation and is expected to outperform the average equal weighted expected total return of the overall Market irrespective of sector. Our investment horizon is 12 – 18 months except as specified by the reporting analyst.
2 – Overweight – The stock is expected to outperform the equal weighted expected total return of the sector coverage. Our investment horizon is 12 – 18 months except as specified by the reporting analyst.
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5 – Rating Suspended – The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when SISR Inc. is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector Ratings:
1 - Recommended Sector – The sector has the highest recommendation with continued improving valuations and rapid growth.
2 – Positive – The sector fundamentals and valuations are improving with a positive second derivative.
3 – Neutral – The sector fundamentals and valuations are flat with the second derivative close to zero or with a neutral slope.
4. Negative – The sector fundamentals and valuations are negative with a negative second derivative.
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Price Chart:

A price chart, with changes of ratings and price targets in prior periods, is included above, for all securities covered in this report.

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