

United States Equity Markets

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May 7, 2009

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I. Introduction

The committee at SISR has decided to remove 5 companies from the portfolio and take a 67% short position against the portfolio by shorting the S&P Dep. Receipts (SPY). The market has had an historic run up since March of 2009, 4 of the positions have significant gains: Holly (HOC) +50.75%, Wells Fargo & Co (WFC) +80.73, L-3 Communicati0n holdings Inc (LLL) +25.70%, Polo Ralph Lauren Corp (RL) +40.65%; and one Harris Corporation (HRS) -33.22% a significant loss.

For the past 3 days despite good economic data the markets have acted very choppy and given the profits the SISR portfolio has made we are looking to go forward with only a 33% long exposure for the next intermediate period. We were simply looking for a short term hedge of the portfolio in the event there is a correction following this historic gains in the markets. To do this we shorted the SPY to provide us with a hedge of 67% of the portfolio.

II. Rational for Deletions

1. & 2. Harris (HRS) & L-3 Communications (LLL):

We still think that our bifurcation thesis holds for the difference between traditional defense and communication defense. LLL has acted very strongly while HRS has been very weak. Much of our concern is not that the military will not purchase communication equipment over traditional equipment; we are concerned that the contracts will be more highly scrutinized and as a consequence margins may become squeezed more than in the past 10 years. Already the administration has hired many more individuals or proposed hiring additional appropriations personal just for this reason. We feel there are be better places to invest going forward after a decade of exceptional growth.

3. Holly Corp (HOC):

Our price target for Holly was \$30.00. In the morning HOC traded as high as 31.63 before it fell back to 25.25 at the close. Had this been a real portfolio we would have been long gone at 30 plus. Since this recommended list was set up with trades at the end of the day in this instance we lost out, other time we likely will gain so we expect that it will balance out. We were very clear in our earlier work that we were looking for \$30 and when we got \$30 our analysis indicated a sell. We are concerned that despite the fact that the gas crack has been holding up with the increase in crude with the price of crude over \$55 per barrel, and the continued over production of distillates, these factors are enough of a concern for us to jump ship on HOC.

4. Wells Fargo & Co (WFC).

The information is now out with respect to the stress test and the portfolio is up 80.73% on this position in less than two months. With uncertainty and being up so much we were hard pressed to see why we should remain in this position. The easy money was made going forward would be more of an uphill battle.

5. Polo Ralph Lauren (RL):

Ralph Lauren was removed from the portfolio because we wanted to lighten up the long exposure, our position in this holding was up 40.65%, and we felt that at this juncture this position was fairly priced for a slow to modest recovery. We still feel strongly about this company and if we see a buying opportunity in the mid to low \$40 range we will likely, if conditions warrant, reinvest in the company.

II. Rational for Hedging the Portfolio

1. S&P Dep. Receipts (SPY) – Short Position

Since we started this portfolio on October 18th 2008 we have been very careful to slowing move into the purchase of various securities. We had chosen several winners in a down market and became fully invested within a week of the bottom of the market in March. The market has been up nearly 35% in a 2 month period, various resistance levels are upon us, and the market has been very sloppy for the past few days. We think that there is a greater than even chance to see a 50% pull back of those gains.

The market responded when the economic data became mixed. Everyone was satisfied as we were with second derivative positives. Now impatience has set in and we are sensing that people want more than a second derivative positive and want to see some real positive data. Today we found that initial claims were stronger than expected, retail same store sales were much better than expected, and still the markets sold off. Wal-Mart blew away expectation and was up \$0.38, in contrast to the past 6 month period an event like that would have seen a \$4 to \$5 move, particularly after the big drop of last month on lower than expected sales.

On Tuesday ADP came out with job losses down from 708K to 491K and the markets sold off. The advance decline line has been weak as has technology. It is simply time to take a rest, hedge the portfolio for a few days to a few weeks and see where everything is by then. Our long run outlook is for a modest recovery that will continue for at least several years, but right now we are simply trying to be cautious with the progress that this portfolio has seen over the past several months.

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Recommendation Scale:

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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.

3 – Neutral – The stock is expected to perform in line with 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.

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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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