Volume 23, No. 1, April 24, 2009

QUARTERLY UPDATE
CWS CAPITAL PARTNERS LLC

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CALENDAR OF EVENTS

Monday, May 25, 2009
Memorial Day, CWS Office Closed

May 20, 2009
Semi Annual Conference Call

June 15, 2009
2nd Quarter 2009 Estimated Tax Payment Due

Friday, July 3, 2009
CWS Office Closed for Independence Day

July 31, 2009
2nd Quarter 2009 Quarterly Packages Mailed

August 2009
Big Brothers and Big Sisters Annual Sand Castle Building Contest

September 15, 2009
3rd Quarter 2009 Estimated Tax Payment Due

October 30, 2009
3rd Quarter 2009 Quarterly Packages Mailed

November 2009
Semi-Annual Conference Call

November 26th and 27th
Thanksgiving Holiday – CWS Office Closed

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IS IT 1932 OR 1942, 1958, 1962, 1970, 1975, 1978, 1982, 2002?

By Gary Carmell

Two caveats: If you dislike a lot of numbers, then this article is not for you. In addition, if you're hoping to get the answer to the question posed in the title by reading this article, you will be disappointed. With that said, please proceed at your discretion.

Often times questions can be more important than answers. I believe that finding the correct historical parallel to today's very challenging set of economic circumstances is one of the key requirements for investors and government leaders in order to avoid losses, to take advantage of opportunities, and to implement optimal policy for the nation. I am spending a lot of time thinking about this and learning about the 1930s to help me formulate a well reasoned opinion. I truly don't know what I think at this point. On the one hand, the amount of system-wide leverage, speculation, and a very weak banking system rotting from trillions in bad loans show some ugly parallels with the 1930s. On the other hand, the amount

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of fiscal stimulus and the aggressive response from the Federal Reserve combined with some powerful financial market indicators suggest that today is more like most of the post-war recessions, and we are very close to a bottom. If we're in 1932, then we can be faced with another ugly downturn before we reverse course on a long path to recovery. If we are not, then happy days are here again.

Let's start with the bad news first. From February 10 through March 8, 1932 (17 trading days) the Dow rallied by approximately 23.6% before crashing 54% to reach its depression low of 41.22 on July 8, 1932. Since March 9, 2009, the Dow has rallied approximately 23.5% from its current cycle low of 6,547.05 (23 trading days). Finding myself with some time on my hands and with nothing better to do, I decided to do some statistical partying. I ran some basic correlations, using as my baseline the 378 trading days from when the Dow Jones Industrial Average peaked on October 9, 2007 at 14,164 through April 9, 2009, to determine which other 378 consecutive trading days going back to 1928 had the most similar patterns to today. If those with the highest correlations were close to other market bottoms in history, then this may help determine if we are very near the bottom. This too shows close connections to 1932 and other market bottoms in the post-World War II era.

Let's start with the negative news. The correlations exceeded 0.92 (1.00 is the highest) for the trading period ending January 29, 1932 when the Dow closed at 74.19 and on May 13, 1932 when it finished the session at 53.23. In the first instance the Dow would fall another 55% (not including dividends) while in the second it would decline by 24% before hitting bottom in July. The good news is that in both instances the nadir was reached within 2-5 months. 1933 was no walk in the park, however, as the Dow would rally to 77.24 on September 3, 1932 (an 87% gain, thank you very much) only to plunge another 35% to close at 49.67 on February 7, 1933. From there it was a nice trajectory upward to 192.77 reached on March 10, 1937 before crashing again a year later by 49% on March 31, 1938 when it closed at 97.46. That was not for the faint of heart.

Now it's time for a little good news. The following table shows other cycles with the highest correlations to today. Each cycle appears under the dates in the Last Date column and indicates how far each one was from the bottom and the peak as well as how many trading days from each bottom and peak. The table also shows the percentage change from the bottom (positive number) or to the bottom (negative number) as well as how much more appreciation was available until the next peak was reached. This is a very busy table.

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There is no reason to get bogged down with all of the numbers unless you get a rush from data. I will give you my interpretation below.

Of the eight cycles represented in the table (not including the most recent one), each had its last trading day within 100 trading days (approximately 4-5 months) from market bottoms with six of them already above the bottom as the new bull markets began. The other two (1970 and 1982) still had more downside ahead for a period of time before each moved into bull territory. Under all circumstances reasonable profits could have been made buying at these entry points. There was also far more time before reaching a cycle peak. There was a much longer trek down the yellow brick road of each new bull market as compared to the road of the recently reached or soon to be reached bottom. In addition, today's stock market behavior is very negatively correlated with every peak in the cycles. In

Last Date	DJIA Value	Dow Bottom	Dow Peak	% from Bottom	% from Peak
5/27/42 (.8759)	99.31	4/28/42 (25 days) (.8562)	5/31/46 (1,187 days) (-.9288)	7.1%	112.4%
11/13/62 (.893)	618.859	6/25/62 (98 days) (.0264)	2/9/66 (816 days) (-.8318)	18.0%	59.7%
2/14/67 (.8477)	848.39	10/10/66 (87 days) (.5715)	9/26/67 (155 days) (-.3251)	15.3%	10.1%
4/2/70 (.8972)	787.02	5/22/70 (-38 days) (.8776)	4/28/71 (272 days) (-.6347)	-20.3%	19.7%
2/4/75 (.9367)	695.24	12/9/74 (39 days) (.8383)	9/22/76 (413 days) (-.874)	22.0%	45.2%
3/9/78 (.9454)	746.45	3/1/78 (6 days) (.945)	4/27/81 (791 days) (-.8169)	1.3%	35.83%
3/17/82 (.8644)	791.29	8/9/82 (-100 days) (.7849)	9/1/84 (459 days) (-.8254)	-2.7%	61.2%
12/9/02 (.8056)	8473.41	10/9/02 (42 days) (.6333)	10/9/07 (1,216 days) (-.8928)	16.3%	67.1%
4/9/09	8083.38	3/9/09 (23 days)	??	23.5%	??

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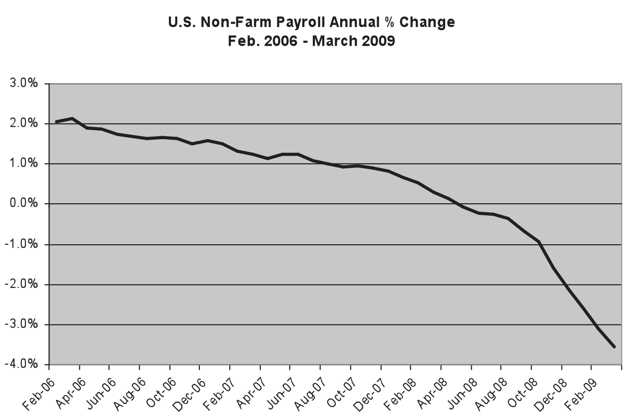
other words, it's not only good to see today's cycle show a similar pattern as compared to past bottoms, but it is also healthy for it to display the opposite behavior of previous peaks. Socrates used to describe something not only by what it was, but also by what it wasn't, and this is what I am trying to do with the correlations presented in the above table. This is further statistical support the market is much closer to a trough, and it is important because the stock market almost always bottoms before the economy and job market does. We do need a turnaround in jobs.

An employment recovery is sorely needed as job losses have accelerated at one of the fastest paces since 1947. The following chart shows how employment has fallen off a cliff since June 2008.



Source: Bureau of Labor Statistics

In the nine-month period between June 2008 and March 2009, the U.S. has shed 4.6% of its jobs. To put this in perspective, since 1947, there have been only four months that lost jobs at a faster rate during a nine-month period. These were March 1958 (-5.4%), July 1949 (-5.1%), May 1958 (-4.9%), April 1958 (-4.8%). March 2009 tied with June 1949 at -4.6%. This is a pretty striking statistic. How do today's job losses compare to the previous employment cycles since 1948? The following table summarizes the pertinent data.

Peak Jobs – Trough Jobs	Length (# of Months)	Job Loss %
12/48 – 2/50	14	-7.6%
12/51 – 3/52	3	-3.0%
12/52 – 2/54	14	-5.3%
12/56 – 3/58	15	-6.8%
12/59 – 2/61	14	-4.9%
12/69 – 2/71	14	-3.0%
10/74 – 2/75	4	-4.6%
10/81 – 1/83	15	-4.7%
6/90 – 2/91	8	-3.1%
11/00 – 1/02	14	-3.6%
11/07 – 3/09	16	-5.0%

One can see that this recession from a jobs perspective has not only been the longest in post-war history, but is also one of the most severe. It's interesting to note how all of the longer downturns have been 14 or 15 months and now we have reached 16 with this one. We have lost over 7 million jobs which is the largest absolute number of jobs lost in the post-war era. Chalk one up to 1932 now that we have breached the 15 month mark.

When will the job market improve? One indicator I look at is a bit esoteric, and I have

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referenced it in past writings, but it has been a fairly good leading indicator of turning points in the labor market. This, too, is offering conflicting signals between 1932 and virtually all other post-war recessions.

I like to look at the interest rate spread between safe corporate securities (AAA ratings) and more risky ones (Baa ratings). I think this is a better indicator than comparing these to risk-free Treasuries because sometimes investors gravitate to and from risk-free assets when there is excessive pessimism or optimism. The spread between risky corporate bonds and safer ones has a lot of information content because we can gauge investor appetite for risk while corporations can and do default and the U.S. government is perceived to be default-free.

Often times when there is economic distress and jobs are being lost, the spread widens substantially from its lows during the cycle. This makes sense because investors tend to extrapolate the current economic problems into the future, and they move away from risk towards more security. Eventually, however, investors determine that they are paying too great a price for security and giving up too much reward by avoiding riskier assets. They begin to take advantage of the high yields and low prices offered by riskier bonds. This usually happens prior to a turning point in the employment cycle. Eventually this has a self-reinforcing effect as the stronger performance of riskier bonds leads to more money being attracted to the category. This lowers the cost of capital and leads to more demand for funds to refinance debt or finance expansions and acquisitions. In turn, this begins to spark acceleration in economic activity and is reinforced by increased production to replenish insufficient inventories to meet the growing demand. Hiring ultimately follows.

The following table shows how many months prior to the absolute number of jobs hitting bottom that the Baa-AAA spread reached its cycle peak.

Month Jobs Hit Bottom	Months Prior Baa-AAA Spread Peaked	Spread Peak
February 1954	0	66
March 1958	-2	123
February 1961	-9	82
February 1971	-2	148
February 1975	0	203
January 1983	-4	269
February 1991	-1	141
January 2002*	9	141

*One month later, the spread reached 138, close to the peak but not quite.

It is interesting to note that all of the bottoms except for one were reached in January or February. Only one of the eight cycles was not preceded by the Baa – AAA spread peaking, and that was the most recent one in 2002,

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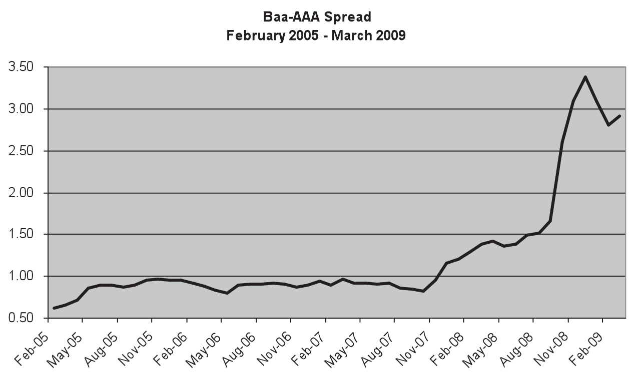
although it reached 138, very close to the 141 top one month after employment troughed.

This has been a good indicator at employment peaks as well, as evidenced by the following table. This is the opposite of the previous table in that economic peaks tend to occur when the spreads are very narrow because investors are much more risk-seeking while getting very little reward because they think the good times will continue.

Month Jobs Peaked	Months Prior Baa-AAA Spread Hit Bottom	Spread Trough
December 1952	-2	53
December 1956	-8	44
December 1959	-6	58
December 1969	-47	32
October 1974	-7	61
October 1981	-36	70
June 1990	-14	82
November 2000	-10	55
November 2007	-33	62

In terms of predicting employment peaks this has always been a good leading indicator. The problem is that it can telegraph a turn in employment 3-4 years ahead, which is not very reliable. On the other hand, the longer growth continues in the face of an increasing cost of capital, the larger the crash. For example the spread reached a trough in March 1928 while the stock market peaked 18 months later in September 1929.

So where are we now with regard to this indicator? The following chart shows what it has done since the spread hit its cycle low in February 2005.



Although the spread hit bottom in February 2005, from the chart it is clear that it was range bound through November 2007, commensurate with the peak in employment. The obvious question is where do we go from here? The spread, as of this writing, is 314 so it does appear to be creeping back up again which is concerning for the following reason. I went back in time to find out what 50-month period had the highest correlation with the most recent 50-month spread pattern (2/05 – 3/09). What do you know? The closest correlation was with January 1928 through February 1932, smack dab in the middle of the roaring bull market and Great Depression. The concern centers around the following chart which graphs the two data sets plus tacks on another 12 months for the 1930s data to give some potential trajectory for today.

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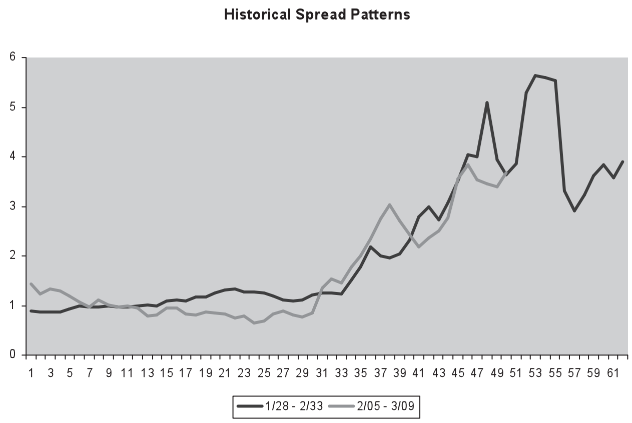

Although the chart above does look ominous for the economy as another round of credit tightening can be very painful, there is a lot of precedent from other post-war downturns that this will not take place as this current period of time is also highly correlated with the period ending April 1958, January 1971, June 1975, and May 2002, all of which were very close to the cycle lows in employment.

Apartments, like all commodities, respond to supply and demand. Demand has been weakening as the economy went into a tailspin while supply is elevated but will be dropping rapidly as construction financing is virtually non-existent. If we follow the 1932 trajectory then it will be a rougher road to a bottom, albeit one that should still be relatively close at hand (within a year). If we follow virtually every other post-war recession then the bottom may already be upon us.

SEMI-ANNUAL CONFERENCE CALL

Please join us for our CWS Semi-Annual Conference Call on May 20, 2009 at 11:30 a.m. pacific time.

The call-in details are as follows:

Date: Wednesday, May 20, 2009
Time; 11:30 a.m. Pacific Time
Dial: (877) 718-5095 toll free
Code: #5914935

If you are unable to join us on the live call, the earlier recorded call will be available via the digital replay system from 5:00 p.m. pacific time Wednesday, May 20, 2009 through Friday, June 19, 2009.

The details for accessing this pre-recorded call are as follows:

Dial: (888) 203-1112 toll free
Code: #5914935