



JPS Global Investments—The Quarter in Review

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Market Summary

U.S. markets delivered positive returns for the quarter. The S&P 500 Index, Dow Jones Industrial Average (DJIA), and the NASDAQ were up 5.8%, 8.5%, and 7.5% respectively. Fundamentally, the market is not overly expensive, as the S&P 500 is trading at a price of 17 times earnings, which is close to its average of 16 times earnings over the last few decades.

There are some reasons for concern, however: a weak U.S. housing market, the sub-prime mortgage fallout, and emerging inflation fears are all developments that could create some headwinds going forward. Having enjoyed generous market returns in recent times, it is perhaps good to remember that the 20.3%, which is what the DJIA delivered for the 12-month period, is about twice the historic market rate of return.

The Housing Market continues to be weak. Existing home sales came in at 5.99 million units in May, which is 10.3% below the 6.68 million-unit level in May 2006. New home sales were estimated to be 15.8% lower compared to a year ago and privately owned housing starts were off 24.2% over the same time period. A weak housing market can be a drag on consumer confidence and consumer spending.

Sub-Prime Lending. Wall Street saw profitability in getting involved in sub-prime lending when credit was easy and home prices were going up. Through creative financial risk management, Wall Street was able to package sub-prime loans into collateralized securities and spread the risk over different pools of investors, minting a respectable coin in the process. Then short-term mortgage rates went up, foreclosures went up, and collateral value took a dive. This was big trouble for hedge funds that like to borrow aggressively on their collateral, as Bear Stearns had to learn the hard way. If the problem deepens, it could spill over to other sectors of the market.

Interest Rates are still very low compared to historic figures. However, the 5% yield on the 10-year Treasury note is a psychological barrier that has been passed. Certainly, 5% is nothing to be ashamed of, considering that we are still near 40 year lows here. However, if rates climbed to 5.5% or 6% it could put a damper on the stock market, which does not like rising rates. Inflation fears have reduced the likelihood of a rate cut by the Federal Reserve and if the bond market pushes up long-term rates, the days of easy credit could be coming to an end. Businesses and consumers being more careful with credit could dampen spending. Higher rates also make stocks less attractive as deposit rates become more appealing.

China

I am a big believer of international investing. Limiting your search for investments located in the U.S. can overlook excellent opportunities. Increasingly, companies compete in a global marketplace, reducing the importance of where their headquarters happen to be located. Of course, when trolling the globe for opportunities, one should always keep risks such as currency, political environment, and liquidity in mind. That brings me to my next point: China.

The Chinese market, as measured by the Shanghai Composite, is up 128% over the 1-year period. This is an incredible rate of return. Even if you believe in the full promise of the Chinese economy, it is hard to make the investment case. Is it realistic to assume that the Chinese stock market will continue to rack up returns like that without a major correction? I read a particularly disturbing article in the Wall Street Journal by James Areddy about how Chinese retail investors operate in the stock market. Apparently, their version of a brokerage office closely resembles a casino. “Investors drink, tea, smoke, and chat as they make trades on computers lined up like slot machines. In stead of dropping in coins, they swipe bank cards to pay for shares. [...] Some pass cigarettes to congratulate friends on seeing the price of their stock rise.”

Apparently, individuals, with limited investment knowledge, make up between 60% and 80% of trading, which is unlike the U.S. where trading is dominated by big institutional investors. Stocks with 8s in the price are considered a good buy, as the number 8 represents wealth and fortune. So if you can get your hands on a stock that costs 8.08 you are going to do well. Conversely, if you have a stock that is selling for 4.44 you are in deep trouble, as the number 4 signifies death. Of

course, that stock is going to go down, as everyone will try to sell it. So if you want to partake in the China boom, I would prefer indirect investments (companies that sell products to China) and select Chinese companies rather than broad market participation.

Sustainable Investing Update

Cars are at the center of the debate on global warming as they are such an obvious contributor to the problem. Car companies are taking notice. GM is afraid it will continue to lose market share due to consumer perceptions that it makes gas guzzlers. GM is working on a concept car called the Volt. It will have a large battery pack that is recharged by a gas engine and could get as much as 150 miles per gallon. GM also continues to work on hydrogen fuel cell technology. The idea is to create a revolutionary car such as Toyota’s Prius, which will cast a halo effect over the entire product line. They have a long way to go, but the mindset is changing. In other car news, Enterprise Rent a Car is adding flex fuel cars to its fleet in an experiment in the DC area. Hertz is also responding and has recently announced it will have 3,400 Priuses by next summer. On a side-note, in Beijing about 1,000 cars a day are added to the city’s streets.

Alternative fuels. It seems that hardly a day goes by without news about some new way of making fuel from almost anything one can imagine. Syntroleum and Tyson Foods are planning on building a \$150 million plant to convert chicken fat into liquid fuel. Tyson Foods is doing something similar with ConocoPhillips in the area of “renewable diesel.” The ConocoPhillips effort will crank out 75 million gallons annually, which is only about 5% of the regular production of an average refinery. Then it will be blended into diesel at up to 5%

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per gallon. In Washington ConocoPhillips is trying to get a \$1/gallon biodiesel credit for the concoction. So the message is twofold: we can applaud the efforts of companies trying to bring alternative fuels to the market, but they need to be closely monitored to ensure that the intent of their efforts has substance.

Whole Foods has had some issues as of late. It seems that the from-the-hip-shooting Chairman John Mackey has entered into a debate with the Federal Trade Commission (FTC). Generally, it is not a good idea to power play with the FTC or any other entity with great bureaucratic authority. Sometimes it is not about being right. I believe Whole Foods is right, however. The FTC has blocked the merger of Whole Foods and Wild Oats, citing it will create a monopoly for natural foods. With Kroger, Safeway, Costco, and WalMart starting to look at organic food, it seems highly unlikely that Whole Foods will establish anything remotely similar to a monopoly. Nevertheless, the stock is down, testing new 52-week lows. I saw it as a buying opportunity and believe Whole Foods will continue to be a force in the organic and natural foods marketplace.

America's Greenest City. There are several different ways of ranking how green a city is. There are probably a dozen cities ranked "America's Greenest City." I imagine it is sort of similar to each local restaurant proclaiming "voted best restaurant." It is nice to strive for the title though. Recently, San Diego earned the EPA's designation as America's #1 Green Power city. The city has also launched a Cleantech Initiative to attract cleantech companies to the area and to improve environmental practices at existing businesses. San Jose is also in the running and saw its cleantech company base jump 83% to 22 last year, according to city officials. They want to diversify their traditional

tech economy and are ideally situated with lots of creative talent and venture capital around. Austin is another city that is on the case. At least, San Diego is still "America's Finest City."

Hot Solar Stocks. Investors are excited about solar, perhaps a little too excited. Chinese solar stocks have been particularly popular. China Sunergy was up 51% on its NASDAQ debut. Other Chinese companies include Suntech Power Holdings, Trina Solar, LDK Solar, and Yingli Green Energy Holding Co. In Spain, Solaria Energia joined the list of public solar stocks. Europe has some established players in the field, with Renewable Energy Corp from Norway being the largest. One of the continuing concerns in the solar industry is the cost of silicon, which is 50% of the cost of solar panels and is in short supply.

BP regularly takes out full page ads in the Wall Street journal touting its "beyond petroleum" strategy. The litmus test is what the company is actually doing and whether it is living up to its branding. BP is certainly making inroads. Recently, BP announced a joint venture with Associated British Foods PLC and DuPont to build a \$400 million biofuel plant in the UK. With the exception of Marathon Oil, other big Western oil companies have yet to announce plans of industrialized-scale to produce plant-based gasoline. The factory will use surplus wheat to produce bioethanol, starting in 2009. BP is also looking at second-generation biofuels, which are based on inedible plant material.

Sustainable Investing Momentum continues. Citigroup, Lehman Brothers, and UBS have all issued reports on the risks and opportunities associated with climate change. These efforts will increase the awareness of sustainable investing with retail investors. Europe is taking

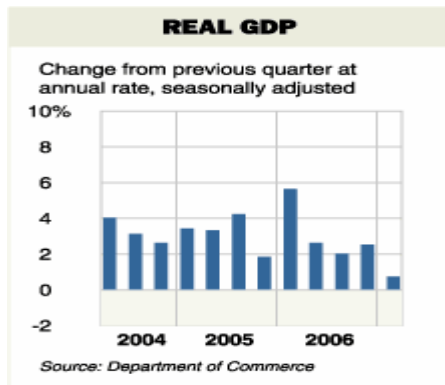
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a lead in the adoption of environmental, social, and governance (ESG) standards in investment decisions. Some of Europe’s largest public funds have stated that they will adopt ESG standards going forward, at a recent fund forum in Monaco. The future is looking bright for sustainable investing and opportunities abound.

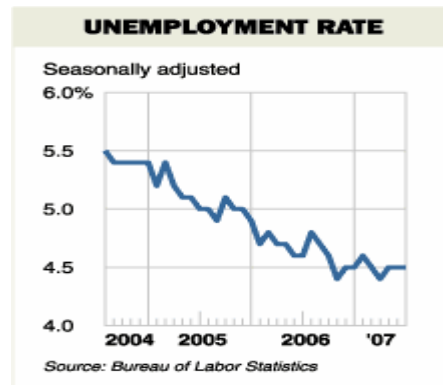
Financial Markets Data

Performance as of 6/29/07				
	Qtr	Yr-to-date	1-yr	3-yr avg.
S&P 500 Index	5.8%	6.0%	18.4%	9.8%
Dow Jones Ind. Avg.	8.5%	7.6%	20.3%	8.8%
NASDAQ	7.5%	7.8%	19.8%	8.6%
Russell 2000 Index	4.1%	5.8%	15.0%	12.4%
Domini 400 Social Index	5.6%	5.4%	19.2%	9.1%

Economic Indicators



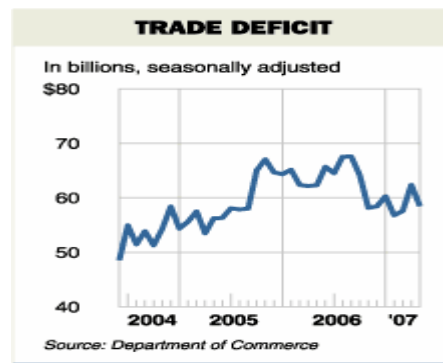
Q1: +0.7%



June: 4.5%



May: +0.5%



April: \$58.5 billion

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