



JPS Global Investments—The Quarter in Review

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Market Summary

Thankfully, 2008 is over. Though it was a year to remember, it certainly is not a pleasant memory. Let's put everything on the table: The S&P 500 Index saw a price decline of 38.5% for 2008; its worst performance since 1937. The Nasdaq Composite Index was down 40.5%; the worst decline in its 38-year history. The Dow Jones Industrial Average declined 33.8%; its worst year since 1931. I have wondered what it would have been like for an investment manager back then. There is no one to ask, no mentor to seek out. Say you graduated from college in 1930 and immediately started managing money for people at the ripe old age of 22, you would be 100 years old today. There really is no one to ask.

The End of Wall Street as We Know It

Bear Stearns and Lehman Brothers did not survive, Merrill Lynch was sold, and Goldman Sachs and Morgan Stanley became banks, surrendering to a more regulated charter. That was Wall Street. It is no more. Fannie and Freddie are effectively in conservatorship, AIG has been virtually nationalized and Washington Mutual was rescued from collapse by the FDIC and passed on to JP Morgan Chase with government guarantees. Other large banks such as Wachovia and Citi substantially rely on the government bailout

program(s) for survival. The dust will settle and our financial system will be smaller and more regulated. The challenge for American capital and government will be to strike a delicate balance between risk taking and regulation; to conserve the best of American capitalism and mitigate the worst.

When Will the Market Turn Around?

The million dollar question if there ever was one. Much like the investing community wasn't able to predict the timing, severity and speed of the downturn, it will likely not pinpoint the reversal either. However, markets will turn around eventually. The only compass we have is history. To the extent that history repeats itself, I note that in past recessions the markets have recovered about half way through the economic downturn. According to the National Bureau of Economic Research, the current recession started in December of 2007, so we are almost 13 months into it. The only 3 recessions that lasted longer than that were the ones of 1981, 1973, and 1929, which lasted 16, 16, and 43 months respectively. If we take a pretty conservative estimate and assume that this recession lasts throughout 2009, we would currently be somewhere near the halfway point, at which markets have historically bottomed out. That is not to say that the market could not test its lows during the next few months, but to suggest that eventually

the story may follow its historic script.

What is Good for GM is Good for America?

Detroit is in trouble. The combination of a shift in market preferences away from SUVs and other gas guzzlers combined with the collapse of consumer credit and confidence made for the perfect storm. The debate over whether to bail out the automakers, has become one of great urgency, with their life expectancies being quoted in months, rather than years. The Washington consensus that seems to be emerging is that Detroit must be saved. Personally, I think that in the long run we will suffer less if we just turn off the life support, but in the short-term it may be just too much for the economy to handle under the dire circumstances we are facing today.

Though Detroit is partially to blame for its current predicament due to its failure to foresee the shift to smaller, more efficient cars, it also had its hands tied to a certain extent. With its legacy labor and healthcare structure it could not compete on cost with its global rivals and was forced to focus on higher margin vehicles, i.e. SUVs.

In the 1970s Sweden faced a similar situation with its shipbuilding industry. Ultimately, Sweden acknowledged that it was not competitive in building ships anymore and contracted its industry, but not until spending a decade on wasted subsidies. Perhaps, if we want to make room for the new (green) jobs that will boost our economy and thus create new opportunities for our workforce, we must not cling on to what used to be the U.S. economy and focus on what will be the U.S. economy. So unless Detroit can reinvent the car industry through technological innovation (i.e. electric cars and battery technology), it will have to compete on cost and may eventually go the way of the dinosaur.

Sustainable Investing Update

The Eco-stimulus Package

Obama is to be commended for his “Green Team.” The fact that he picked Steven Chu, the Nobel Prize-winning director of the Lawrence Berkeley National Laboratory, as Secretary of Energy, shows he means business with regards to tackling climate change. Another impressive name on the roster, Carol Browner as “energy czar,” further signals Obama’s commitment to the environment. Ms. Browner was head of the EPA under President Clinton and is sure to take a stronger stance on combating climate change than the current hesitant and overly compromising EPA administration. Other appointments include Lisa Jackson, the former New Jersey environmental policy official, as head of the EPA and Nancy Sutley, deputy mayor of Los Angeles, as chairwoman of the President’s Council on Environmental Quality. Perhaps Obama realizes that his administration will cast the dye with regards to whether we are going to be successful in our quest to reduce green house gas emissions. Time is of the essence and this is a part of his administration where compromise seems a luxury we cannot afford.

Of course, it takes more than a good team. However, we can expect Obama to put his (our) money where his mouth is. Different numbers have made the rounds and the future will tell, but a green energy plan to the order of \$150 billion seems to come up frequently. The vision is to have energy independence from the Middle East and Venezuela in 10 years. A pipe dream? On the other hand, we did manage to put a man on the moon within a similar time frame. Perhaps the only limit we face is the limit of our imagination.

Stimulus is not just brewing in DC. The California Air Resources Board recently approved a cap and

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trade program that is supposed to bring California back to 1990 emission levels by 2020, as was mandated in State Assembly Bill 32. The plan estimates that if we continue business as usual, we will be putting 596 million tons of CO₂ into the air by 2020, which the plan intends to cut by 170 million tons. Pollution permits are allocated to various industries including transportation, power generation, manufacturing, housing, and others. Moreover, these permits will be auctioned rather than handed out free of charge. From there on, permits will be traded by the participants to meet compliance with their respective caps. Ultimately, regulation, if it incentivizes market-driven solutions, can be an effective change agent, rather than a lid on business activity. If the incentives are placed correctly, we can expect a true stimulus to the green economy.

The China Challenge

China gets 80% of its electricity from coal and adds roughly 1 gigawatt of new coal-based power every two weeks. The total power capacity of sub-Saharan Africa minus South Africa is 20 gigawatts; China builds that in less than 10 months. This is just an example of one of many other China statistics in the realm of environmental Armageddon that will make your head spin. However, in the words of John Gardner, the founder of Common Cause, the climate challenge may be best described as “a series of great opportunities disguised as insoluble problems.” (“Hot, Flat, and Crowded,” p.170, Thomas Friedman). That is how we intend to approach it at JPS Global. Every challenge in China provides an incredible opportunity for green investors.

Take the car industry for example. According to a China Daily article dated January 9, 2009, 22 people per 1,000 own a car in China, which

translates to 28.6 million cars. In the U.S. there are roughly 765 cars per 1,000 people. If China wanted to match us, they would have to add roughly 1 billion cars! Let’s hope they find a better way of getting from A to B. But even if they do find a better way, there will likely be a lot more than 28.6 million cars in China. To take advantage of this opportunity in a “green” way I purchased shares of BYD, a Chinese company that trades on the Hong Kong exchange and is coming out with an electric car, which will be on the market 1 year ahead of even Toyota’s version. BYD plans to sell the car in the US starting mid-2010. To top it off, the Chinese government is subsidizing the R&D for electric vehicles and gives consumers tax breaks for the purchase of such a vehicle.

We will continue to look at China’s (and thus the planet’s) greatest environmental challenges, to find exciting investment opportunities.

Green.google.com

As quoted in Network World on October 2, 2008 “[Google is] tiring of its mission to organize the world’s information [and] has set itself a new objective: save the planet.” The \$4.4 trillion plan would yield a net saving of \$1 trillion by 2030 and reduce carbon emissions 48% below today’s levels. To achieve its objective, the plan calls for switching from coal-fired electricity to wind, solar, and geothermal generation. Furthermore, it has a strong focus on the demand side of the energy equation. On that front, Google is targeting greater efficiency in the operation of our computer and building infrastructures. On the transportation side, the plan calls for an increase of plug-in electric and hybrid vehicles sales to 100,000, 3.7 million, and 22 million by 2010, 2020, and 2030 respectively and for fuel efficiency standards for conventional vehicles to be increased to 45 miles per gallon. The future for green investors is bright indeed!

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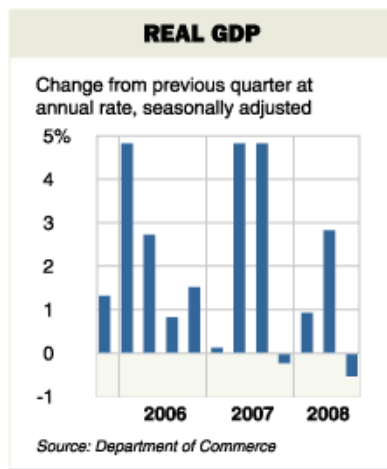
Financial Markets Data

Performance as of 12/31/08

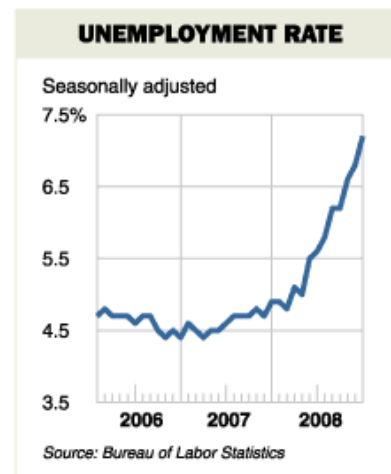
	1-mth	Qtr	1-yr	3-yr avg.
JPS Global Green Economy SA.	4.22%	-23.75%	-37.49%	N/A
S&P 500 Index	1.06%	-21.95%	-37.00%	-8.36%
Dow Jones Ind. Avg.	-0.39%	-18.39%	-31.93%	-4.09%
NASDAQ	2.70%	-24.61%	-40.54%	-10.58%
KLD Global Climate 100 Ind.	5.57%	-21.02%	-38.90%	-4.01%
WilderHill Clean Energy Ind. (PBW)	1.53%	-41.99%	-68.87%	-18.95%

All returns are Total Return, with the exception of NASDAQ and PBW returns, which are Price Return.

Economic Indicators



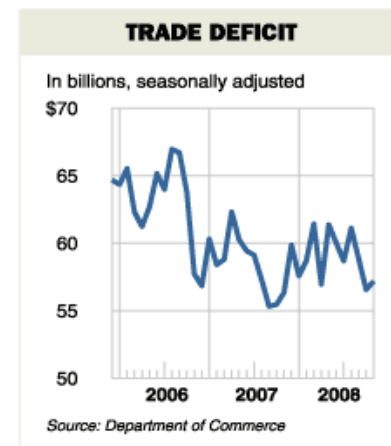
Q3: -0.5%



December: 7.2%



December: 38.0



October: \$57.2 billion

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