J.P. Morgan Global Wealth Management
Rebecca Patterson, 212-464-2093
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J.P.Morgan

Opportunity ***Calls***

Weekly views and solutions across asset classes

The Big Picture

2009 will go down in market history as a year of notable surprises. Versus consensus forecasts taken at end-2008, economic growth recovered much faster than expected (with positive U.S. and global GDP returning in Q3, versus consensus expectations for Q1 2010). On a related note, equities rallied much more sharply than expected from early March lows, helped by turning macro sentiment, but also by positive earnings surprises. Indeed, positive surprises increased sequentially from Q1 to Q2 and Q3 (the latter seeing 80% of S&P 500 firms, a record, beating analyst estimates; Chart 1). Both high-grade and high-yield credit spreads narrowed dramatically, as demand easily outstripped supply. U.S. Treasury yields, meanwhile, remained remarkably low, especially in context of the greater than $2.1 trillion in gross Treasury issuance for 2009 (more than four times the annual average issuance seen over the previous decade). So much for worries about finding buyers for the bonds. Exceptionally low yields on cash and better risk appetite quickly undermined the dollar, which fell nearly 12% on a trade-weighted basis from early March highs, and more than 30% against some higher-yielding, commodity currencies (like the Brazilian real and Australian dollar; Chart 2). While a recovery in commodity prices from extremely low valuations and against a backdrop of recovering growth was not a big surprise, the magnitude of the commodity rally was – the CRB commodity index rose more than 30% in 2009. Within that trend, crude oil (WTI) trading around $74/bbl in mid-December compared with prices around $55/bbl expected by the forward curve as of end-2008 (Bloomberg data).

Our *Opportunity Calls* investments this year were largely successful because of our timing (getting in these reflationary trends early) and the vehicles we selected (for instance, using equities and a "curve" index to buy oil in Q1 to reduce the negative impact of the steep contango). Pages 2-3 of this final 2009 issue review the themes of the year and how we invested in them.

Chart 1: Equity returns; March 2009 lows to Dec. 18

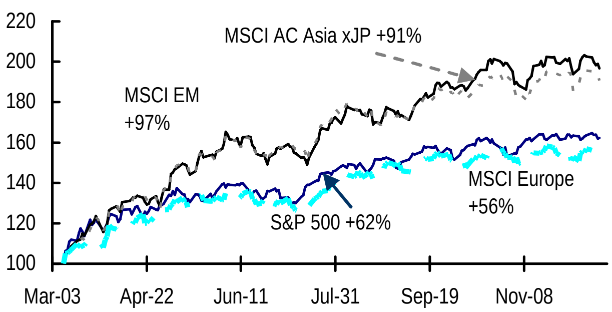
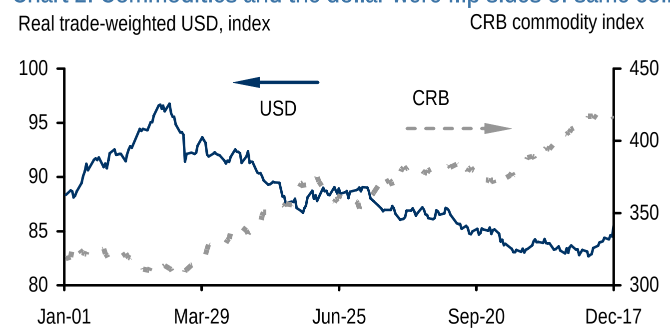


Chart 2: Commodities and the dollar were flip sides of same coin



Opportunistic Ideas: Highlights from 2009

Theme / View	*Solution Snapshot*
Equities	
Energy restructuring	Exploration & Production Stock List and 18-month BREN
Capturing near-term rallies	Callable structures on SPX, RTY, EAFE and SX5E
Emerging Markets & USD diversification	10 stocks with EM exposure, 18 month Market Plus & JPM EM Fund
Fixed Income	
USD diversification	JPM International Currency Income Fund
Monetizing a rising rate view	10-year CMS and Libor rising rate notes
Yield pickup over cash & cash bonds	GECC Credit Linked step up notes & California RANs
Total return in FI market	JPM Strategic Income Opportunities/Income Opportunity
FX & Commodities	
Long WTI Oil below $40/bbl	18-month CCI and GSCI BRENs, Participating Review Notes
Long Gold with buffered downside	SARN, BREN, Coupon Note, Reverse Convertible
Long Diversified Commodities with downside buffer	DJ-UBSF3, S&P GSCI Agriculture, Manufacturing Metals
USD Diversification with principal protection	USD Diversification Basket, BRIC, BANC, KIS, Best of the Globe
Alternatives	
Other people's mistakes	CMBS, RMBS, PE Secondaries, Leveraged loans, DIP, convertibles
Specific industry opportunities	Coatue (Tech long/short hedge fund); Caduceus (healthcare)

Please see pages 2-3 for more details both on asset class views and solutions. Solutions are brokerage only unless otherwise noted.

Equities

View: The best way to visualize the performance of the global equity markets in 2009 is to picture a check mark. It began with initial declines prompted by fears of the financial situation spiraling out of control and bottomed as the market's worst fears were alleviated. Since the March lows, equities have been supported by improving economic and liquidity conditions, and management cost cutting which have led to a series of positive earnings surprises. On the year, developed U.S. and European markets returned 25% and 29% in local currency terms, while the faster growing emerging Asian markets surged 66%. Today, global equity valuations have returned to normalcy, but with large dispersions still existing at the sector and security level. As we look forward to a still-improving economy, we continue to see equity upside at least in the first half of 2010, with somewhat less visibility in the second half.

Top Three Equity Ideas From 2009

Energy restructuring: Exploration & Production Stock List and 18-month BRENs (initiated Jan. 26)

- In January, we formed a **bullish view on oil prices** and believed the anticipated industry consolidation would be an additional catalyst. Lower oil prices had driven down valuations which led to some **mid-cap E&P companies** being attractive acquisition targets.
- **Basket of 7 E&P stocks** - XTO Energy, Noble Energy, Chesapeake Energy, El Paso, Newfield Exploration, Pioneer Natural Resources, and Encore Acquisition.
- Since the January launch, the **basket is up 63%** which is 34% vs. S&P 500, 49% vs. S&P Energy and 32% vs. USO
- Part of the thesis was that companies could be purchased by majors. Since the launch, two of the 7 names in the basket have been acquired; **both XTO and Encore were acquired for a 25% premium**.

Capture near-term rallies: Callable structures on S&P 500, Russell 2000, and EAFE / EuroStoxx 50 (Aug. 3)

- Opportunity for clients who wanted to buy equities with downside protection and an **early knock-out feature**
- Globally, we traded $1.7bln in these callable structures since the launch in August. After only two months, **$200mln was called early with a 10% return**

Emerging Markets & USD diversification: Basket of 10 developed market stocks with EM exposure, 18-month Market Plus & JPM Emerging Markets Fund (Oct. 12)

- In October, we identified **10 large multinational corporations** that could benefit from their growing emerging markets exposure. We favored 5 companies tied to **capital spending** and 5 companies tied to **consumer consumption.**
- Clients gained EM exposure **without needing** to put cash into EM equities that had run ahead of developed markets in 2009
- Since the launch in October, the **basket is up 4%** which is 1% vs. S&P 500. Also, since October the recommended **JPM Emerging Markets Fund** provided 118bps of outperformance vs. MSCI Emerging Markets (-1.42% vs. -2.60%).

Fixed Income

View: As with equities, fixed income markets saw 2009 in two parts – through early March and after. Indeed, the last nine months saw spreads and prices return close to pre-crisis levels across fixed income instruments. High-grade and high-yield credit spreads compressed by 125bps and 1,000bps, respectively, with demand easily outstripping supply. U.S. Treasury yields reached historic lows in mid-December 2008 - since then, yields trended higher (10-year yields rose 123bps), but not as much as expected given 2009's huge issuance. 2009 was also a transformational year for emerging markets, where sovereign debt performed well, largely shedding its image as one of the most volatile asset classes (28% YTD returns). Central banks largely kept policy rates extraordinarily low in 2009 – the exceptions were Israel, Australia and Norway, where relatively stronger domestic economies and inflation outlooks led the start of tightening cycles.

Top 2009 Fixed Income Opportunities

10-year CMS and Libor Rising Rate Notes (initiated May)

- The success of this trade was our ability to take advantage of the short window of attractive pricing for longer-term rising rate protection. Since then, high-grade credit spreads have tightened significantly and the swap curves has steepened (2s-10s curve is 70bps steeper since we first launched this idea in May)
- $353mln notional globally invested in the notes

GECC Credit Linked Step Up Notes (initiated April)

- GECC credit-linked notes provided yield enhancement in FI portfolios; indeed, clients picked up on average 300bps over GECC cash bonds throughout 2009. Since April, GECC credit spreads have compressed significantly (600bps tighter).
- $425mln notional globally invested in the notes

California RANs Syndicate Deal (August)

- Market dislocations created due to the large size of this municipal deal and temporary credit concerns during California's budget negotiations allowed for short-term CA notes at 50bps over comparable GO notes. The bonds are now trading 25bps tighter.
- $600mln notional invested in the deal

JPM International Currency Income Fund (Nov. 11)

- Since its launch, the ICI fund is down -1.0% (through Dec. 18). The fund reflects PBIT's view that USD (broadly) will likely face continued headwinds in both the short and long term and provides an intuitive, conservative way to get a USD hedge in portfolios. Duration capped at 2 years; 75% AAA and 90% HG

JPM Strategic Income Opportunities/Income Opportunity

- YTD through Dec. 18, SIOF (onshore) is up +18.7%, while Income Opportunities (offshore) is up +16.3%. The funds have benefited from a steady allocation to HY (now roughly 30% after peaking at 50%), as well as ~10% exposure to non-agency mortgages. This strong performance was achieved with volatility of only 5.5, reinforcing the fund's absolute return orientation and focus on capital preservation.

FX & Commodities

View: "Commodities up, dollar down" effectively sums up 2009. As commodities bottomed early in Q1, commodity currencies, including the Brazilian real, Australian dollar and Norwegian krone also started to rise versus the dollar. Then as equities turned in March and risk appetite began to return, and especially with U.S. yields exceptionally low, USD-funded "carry trades" broadly became increasingly popular. We focused on long FX positions where underlying fundamentals were strong and/or yields were attractive. In commodities, we focused mainly on supply constrained materials, such as oil, gold, platinum, copper and agriculture. As the year wore on and positions got more crowded, we also shifted exposures to make sure we had notable downside protection in the event of profit-taking (in particular with gold and oil positions).

Investment Opportunity Highlights from 2009

Long WTI Oil below $40/bbl (initiated Jan. 26)

- 18-month CCI WTI BREN (15% buffer, 40% max return)
- 18-month S&P GSCI WTI BREN (15% buffer, 50% max return)
- 13-month WTI Capped Market Plus Note (30% barrier, 10% coupon, 38% max return)
- 12-month S&P GSCI WTI Participating QRN (15% buffer, 11% p.a. coupon, 28% max return)

Long Gold with buffered downside (initiated Feb. 27)

- 2-year Gold SARN (20% buffer, 12% p.a. coupon, first strike 10% in-the-money)
- 1-year Gold BREN (15% buffer, 29% maximum return)
- 6-month Gold Coupon Note (13% barrier, 5% coupon, 10% cap)
- 1y Gold Optimal Entry REN (30-day entry, 18% max return)
- 6m Gold Reverse Convertible (10% barrier, 10% p.a. coupon)

Long Diversified Commodities with buffer (April 6)

- 2y DJ-UBSF3 Commodity BREN (15% buffer, 25% max return)
- 2y S&P GSCI Agriculture BREN (20% buffer, 39% max return)
- 1y Manufacturing Metals BREN (10% buffer, 22% max return)
- 1y Copper Qtrly Review Note (15% barrier, 24% p.a. coupon)

USD Diversification with Principal Protection (May 4)

- 2-year 98% PP BRIC Basket (15% cap, 36% max return)
- 2-year 95% PP BANC Basket (15% cap, 24% max return)
- 2-year 95% PP Best of the Globe (performance weighted)
- 2-year 95% PP Asian KIS Basket (95% pp, 15% max return)
- 18m USD Diversification BREN (10% buffer, 14% max return)

Tactical FX/Commodity Opportunities (throughout year)

- 2y Bearish Japanese yen BREN (10% buffer, 20% max return)
- 1-yr Bullish Mexican Peso BREN (10% buffer, 25% max return)
- 1-yr AUD/JPY QRN (15% buffer, ATM strike, 14% p.a. coupon)
- 3m AUD/JPY Reverse Convertible (5% barrier, 12% p.a. coupon)
- Sell short-term puts on foreign currencies and gold to monetize volatility

Alternatives

View: Improving liquidity and fundamentals allowed hedge funds to generate strong returns throughout 2009, while private equity activity, which was non-existent in the first half of the year, started to pick up towards year-end. Hedge funds are on pace to have their best year since 2003, with the HFRI Fund Weighted Composite Index up 18.8% YTD. Managers employed a number of approaches in an attempt to profit from the excesses of 2006-07, such as buying distressed debt, providing DIP financing, and investing in whole loans. In private equity, 2006-07 vintage funds proactively addressed forward maturities, reducing re-financing risk near term.

2009 Highlights

CMBS & RMBS: Blackstone RE CMBS Fund. AAA senior CMBS traded down to historic lows in early 2009 as a result of global de-leveraging. Senior CMBS offered an attractive opportunity to receive equity-like returns with downside protection even as real estate prices declined. The PB created a bespoke fund with Blackstone, the largest global user of CMBS. The PB raised $450mln (+15% YTD).

JPM/Blackrock RMBS. In October, we created a fund to invest in non-agency RMBS to take advantage of historic dislocations and attractive pricing. Using very conservative loss and default assumptions, the fund is about 50% invested with 27% in Alt A and 23% in Prime securities with an average FICO score of 722.

Private Equity Secondaries: JPM Secondaries. We identified an opportunity to capitalize on distressed sellers of private equity at significant discounts to NAV. The fund is targeting LBO and venture capital funds where it has a specific information advantage. Since April inception, the fund has invested over 19%; portfolio has been marked up at 1.6x invested capital.

Leveraged Loans: JPM Leveraged Loans. We created this fund to take advantage of the dislocation in the loan market due to forced selling and the lack of liquidity. The fund was designed to capture the opportunity in higher credit quality names with over 90% of the fund invested in names rated B or higher. 14.4% YTD.

Debtor-in-possession financing: Sankaty DIP. Increased bankruptcy filings combined with a scarcity of capital for DIP financing to companies in bankruptcy created an attractive backdrop to make DIP loans. The PB created a bespoke fund with Sankaty, one of the world's pre-eminent credit managers, to take advantage of this market dislocation. The PB raised $625mln and has invested 14% at projected IRR's of 12-15% (net).

Convertible bonds: Highbridge (HCOF). This fund was created to take advantage of a tactical opportunity in convertible securities resulting from 2008's historic dislocation in the global convertible bond market. The fund returned all capital in July, generating 20.2% net since inception (annualized 31.7% net).

Opportunity *Calls* Contributors

Jessica Chudy, Fixed Income	212-464-2373
Arman Salavitabar, FX/Commodities	212-464-2195
Karen Donnelly, Equities	212-464-0334
Sanoma Contractor, Due Diligence	212-464-2991
Kirk Lucadamo, Due Diligence	212-464-2309
Edward Landreth, Alternatives	212-464-0306
David Regan	44-207-777-1521
Sarah Armstrong	212-464-1698

Equities

High conviction "bear market" managers

Onshore *(*also available offshore)*
• American Century Equity Income
• JPM Equity Income*
• JPM Mid Cap Value
• JPM LCC Target, TA US Eq, TA Disc Eq (Bao)
• JPM International Value

Offshore
• JPM Global Dividend
• Schroder US Small/Mid Cap
• Eaton Vance US Large Cap Value
• Cazenove Pan Europe
• Aberdeen Asia Pacific ex-Japan
• Prusik Asia

High conviction "recovery" managers:

Onshore *(*also available offshore)*
•JPM Large Cap Value Plus
• JPM Large Cap Core Plus*
• JPM Intrepid Value
• JPM Growth Advantage
• JPM Asia Equity*

Offshore
• DWS Global Agribusiness
• JPM America Micro Cap
• Threadneedle Asia
• JPM US Select
• JPM Global Natural Resources
• GAM Star All Cap Equity (Manning & Napier)
• Investec American (Thornburg)
• Schroder European Special Situation

Equity Structures:

• S&P 500 Market Plus Note
• S&P 500 BREN
• Asia Basket BREN
• EAFE BREN

Single Stocks:

• Black and Blue Chip stocks
• U.S. Opportunistic Stock Ideas
• Exploration & Production Stocks
• Exchanges & Execution Broker Stocks

Commodities

• 13-month WTI Capped Market Plus
• 1-year Copper Quarterly Review Note
• 1-year Manufacturing Metals BREN
• 2-year GSCI Ag BREN
• 2-year DJUBS F3 BREN
• 6-month Gold Coupon Note
• Sell 6-month gold puts
• 1-year Gold Optimal-Entry REN
•Natural Gas Reverse Convert

Foreign Exchange

•95% PP BANC Note
• 18-month USD Diversification Note
• 2-year Asian currency basket (BREN and Step-Up)
• 2-year Asian KIS note
• 95% PP Best of Globe Basket
• 2-year bearish JPY BREN
• Delta-1 De-Pegging Basket
• Sell 3-month puts on high vol FX
• 12-month long CNY vs USD NDF
• 1-year CHF/NOK put spread
• USD/MXN dual-currency deposit

Fixed Income

• JPM Fixed to Floating Rate Note
• JPM Fixed to Floating Rate Note on 3mL
•5-year GECC-linked Rising Rate Note on 10y CMS
•JPM Income Opportunities / Strategic Income Opportunities
• JPM Tax Aware Real Return (TARR)

Alternative Investments

Hedge Funds:

Diversified
• Blackstone Partners
• Corbin Pinehust Partners
•GAP Hedge Fund Pod
•Highbridge Capital
• JPM Multi-Strategy funds
• Och Ziff

Relative Value / Credit, cont'd
•Golden Tree Credit Opps
•Golden Tree Partners
•Gracie Credit Opps
• Highbridge Stat. Opps
• Highbridge Stat Arb Lite
• Two Sigma

Event Driven / Distressed
• Altima Global Special Situations
• Apollo SVF (Strategic Value Fund)
• Avenue
• Halcyon Partners
• Pershing Square

Global Macro / Opportunistic
• Bridgewater**
• Highbridge Quant Commodities
• Winton Futures Fund

Long/Short
• Balyasny (Atlas Global)
• Caduceus Capital (healthcare)
• Chilton Diversified
• Chilton Natural Resources
• Coatue (technology)
• Highbridge Asia
• Highbridge Long/Short
• K2 Advisors (L/S fund of funds)
• Malta (Financials)
• Marshall Wace*
•Renaissance
•Shumway
• Zweig DiMenna***

Real Assets:

• JPM Infrastructure Inv. (OECD)

Private Equity:

• Blackstone Capital Partners VI
•Apollo European Principal Finance
• Caduceus Private Inv. IV

**Currently available for IM accounts on the Olympic trading platform only.*
***Open for IM accounts only (Bridgewater)*
****Currently available for Bear Stearns client only.*

For all of the products discussed in the attached document, please ensure that you have reviewed the offering materials, termsheets or prospectus. You must be aware of all risks associated with these investments prior to making any client recommendations. For Risks to all investments please see the following links

Equities - http://intranetportal.jpmorganchase.com/portal/site/pbweb?_nfpb=true&_pageLabel=ept_secondary_nav_1_channel_p_a&u=31408&mid=31408

Equity Structures - http://intranetportal.jpmorganchase.com/portal/site/pbweb?_nfpb=true&_pageLabel=ept_body_1&u=31415&mid=31415

Alternative Investments - http://intranetportal.jpmorganchase.com/portal/site/alternativesonline

Morgan Plus Due Diligence - http://intranetportal.jpmorganchase.com/portal/site/pbweb?_nfpb=true&_pageLabel=ept_body_1&u=31437&mid=31437

FX & Commodities - http://intranetportal.jpmorganchase.com/portal/site/pbweb?_nfpb=true&_pageLabel=ept_body_1&u=31429&mid=31429

Fixed Income - http://intranetportal.jpmorganchase.com/portal/site/pbweb?_nfpb=true&_pageLabel=ept_body_1&u=31405&mid=31405

Past performance is no guarantee of future results.