Recommendation: HOLD **Estimated Fair Value: $60 – $80***

1. Reasons for the Recommendation

Reason #1

Key acquisitions and a strong capital position will allow JPMorgan the ability to continue to pursue growth and gain market share domestically. JPMorgan is believed, under interpretation of the new Basel III capital standards, to be in excess of the amount of the tier 1 common ratio. JPMorgan currently has a ratio of 7.6%, which management believes will be enough for the additional surcharge supposedly to be required for "global systemically important banks" (GSIBs), this allows for great financial flexibility.. JPMorgan has been able to take advantage of an industry plagued with difficulties. In 2008 at the peak of the financial crisis, JPMorgan was able to further increase its market share and size by acquiring Bear Stearns in September 2008. JPMorgan also further strengthened its market share in their Retail Financial Services business, which makes up over 30% of their revenue with the acquisition of Washington Mutual Bank's banking operations. JPMorgan recently acquired a commodities trading firm RBS-Sempra Commodities LLP for $1.6 billion. The acquisitions stated above have and are believed to continue to create meaningful revenue opportunities, strong client inflows, cost synergies that are of major significance, and continued growth in investment and credit card products.

Reason #2

JPMorgan's presence in over 60 countries and their continued ability to acquire new market share globally. Management has continued to seek significant opportunities globally that are presented in countries that are rapidly growing and are need of a strong bank in order to facilitate and support continued growth. JPMorgan recently acquired a majority stake in a Brazilian hedge fund, which is one of the emerging market countries poised for high growth. Management believes this acquisition will continue to grow its ever-expanding presence in one of the world's fastest growing economies. JPMorgan has also continued to grow its asset management line of business, which is located throughout Asia.

Reason #3

Business diversification and a very strong earnings power is the essence of what allows JPMorgan to thrive and will continue to allow them to manage new regulatory headwinds and global uncertainty. Although JPMorgan's strong capital position seems to be the major differentiator amongst its competition, their diversified operations allow them to weather the storms of economic turmoil and global uncertainty. JPMorgan ranks in the top three in every line of business and is able to take advantage of scale and volumes due to being the largest bank in the United States. Although many of its business lines, specifically the lines involved in more traditional banking have seen difficult times, it has been able to leverage itself through its stronger performing business segments in order to maintain and gain market share, setting itself up for strong growth during the recovery. JPMorgan has continued to grow deposits as well, which helps them mitigate the risk of a strong increase in interest rates if inflation were to get out of control when things do turn around down the road.

Reason #4

A strong management team, which includes one of the most respected and influential people in America, Jamie Dimon assures the bank is in great hands. JPMorgan's management has shown to not only be able to remain profitable and stable in what may be the worst years the industry has faced through the financial crisis of 2008 but it has set itself up in such a way through key acquisition and strategic moves to allow for increased shareholder value for many years to come. JPMorgan also has the leading yield among its competitors (3.0%) and plans to increase its dividend and share repurchases when regulators permit.

Multiples Analysis

Using multiples analysis for JPMorgan in comparison to its industry and S&P 500, I find the stock is undervalued to the S&P 500 and compared to the industry. JPMorgan is trading at a much lower P/E ratio compared to its main competitors of about 2.17 less than the industry median but has a lower projected growth rate than its competitors, but not by enough to warrant the P/E value. JPMorgan has a forward P/E ratio that is lower by 0.47 than the industry median. JPMorgan is trading at a higher P/B ratio than the industry, which is about .10 above its main competitors compared with the median of the industry. The key reason I believe that JPMorgan is trading undervalued in the industry and as well as many categories compared to the S&P 500 is due to its exposure and the uncertainty of the European financial crisis. JPMorgan's current net exposure is about 15 billion in this region. JPMorgan is currently trading at its lowest levels based on P/E to the S&P 500 for the last 10 years at about half of what the S&P 500 is trading. JPMorgan is currently trading at a 60% discount from being fairly priced according to the P/B ratio whereas it typically only trades at about a 50% discount from trading 1-to-1 with the P/B of the S&P 500.

2. Company Analysis

Strengths

JPMorgan has continued to position itself away from its main competitors Citigroup and Wells Fargo by creating one of the strongest investment banking operations both domestically and globally, which will give the company a solid foundation for future growth. JPMorgan further strengthened their business through the acquisition of Bear Stearns in May of 2008 during the financial crisis. What separates JPMorgan from having to compete with the likes of Goldman Sachs and Morgan Stanley is the fact they are much larger and diversified with other business segments such as commercial banking, credit card services, and retail financial services that allow them to have a much more stable and diversified company. This not only helps to have different sources of revenue generating businesses that other concentrated investment banking companies such as Goldman Sachs and Morgan Stanley fail to have, but it gives them a much larger access to greater amounts of capital so they don't need to take as much risk through leveraging themselves to such a great extent in which Goldman Sachs and Morgan Stanley must in order to stay competitive. JPMorgan's investment bank is currently number one in global investment banking fees, debt, equity and equity-related, global long-term debt, and global loan syndication. Another strength is its management. The CEO, Jamie Dimon, may be one of the most beloved and admired bankers. His leadership may be one of the most important advantages as he infuses a confidence in the company along with outstanding strategic decisions. JPMorgan's reputation is among the leaders in the industry and shouldn't be overlooked. They have been able to capitalize on the unfortunate financial crisis of 2008 to show why they are one of the leading banks in which consumers, institutions (governmental and private), etc. should look to store their money. This has allowed JPMorgan to continue to gain market share from its weaker competitors. A strong credit rating, enormous balance sheet, and its outstanding capital position continue to help create a great reputation and thus competitive advantage for JPMorgan.

Weaknesses

Declining market share in the Financial Sector in both the United States and Europe must be addressed for the long-term success of JPMorgan. Citigroup is in more than 100 different countries and many for extended periods of time (100+ years) whereas JPMorgan Chase is almost in only half (60 countries). High Non-Performing Loans continues to be an issue for JPMorgan with over 16.5 billion. JPMorgan Chase's current weakness is in their Retail Financial Services and Card Services business lines, which continue to struggle since the financial crisis of 2008. Weak economic conditions and housing price declines will continue to wreak havoc on these lines of business for the foreseeable future, especially if

the United States economy were to enter into a double dip recession. The other major weakness is the implementation of the Volker Rule, which would essentially affect JPMorgan the most among its peers since it is one of the world's largest hedge funds and private equity managers. Revenues and earnings would be reduced, but management believes to an insignificant degree as many of the changes have already been made since the rule was believed to implemented. Investment banking comprises of 25% of revenues generated by JPMorgan, which is the second largest portion of JPMorgan's revenue behind Retail Financial Services.

Opportunities
JPMorgan Chase plans to aggressively expand in California and Florida by opening over 2,000 branches within the next 5 years. Recently Jamie Dimon said that they might reduce the size and speed of expansion due to continued uncertainty and poor economic conditions. Emerging markets needs to be an emphasis for JPMorgan Chase to continue to grow with the likes of one of its major competitors Citigroup. International expansion will still prove to be of the greatest opportunities that are available to JPMorgan Chase, especially considering its leading industry capital position.

Threats
The European financial crisis, if it materializes, leaves 15 billion net exposures for JPMorgan, which is believed to be manageable and at worst case scenario cause 2 to 3 billion in losses. The contagion, though, could wreak havoc on capital markets around the globe and create systemic risk that may further affect them. Economic instability and weakness is obviously something that JPMorgan including its competitors are facing and may continue to face amid speculation and a possible reality of a double dip recession. Banks are highly dependent for success on the health and prosperity of the economy. Increased and elevated regulatory restrictions, which would possibly cause them to have to change certain business models, thus reducing revenues, increase in costs and possibly adversely affect their business operations. Litigation and lawsuits are among the greatest threats in the industry and although they are not experiencing it to the same degree of its competitors such as Bank of America, JPMorgan will continue run the risks of lawsuits and Mortgage put back due to improper loan documentation, among other possibilities, that were a result of the housing bubble. Government intervention poses substantial risks.

3. Industry Analysis

The Financial Sector of the S&P 500 includes banks, credit card companies, mortgage companies, Insurance companies, investment firms, stock brokerage firms, and other publicly traded financial businesses. Financials Sector makes up 13.74% (as of September 09, 2011 by adjusted market cap) of the 10-sector breakdown provided by S&P 500 GICS sector classification. The Financial Sector is the 2nd largest sector in this classification. A total of 81 Financial Companies make up this sector out of the total 500 companies that make up the entire S&P 500.

JPMorgan is in the "Other Diversified Financial Services" sub-Industry, which makes up 19.79% of the entire Financial Sector. The Financial Sector is broken into 20 sub-industries', which include Asset Management, Consumer Finance, Diversified REITs, Diversified Banks, Industrial REITs, Insurance Brokers, Investment Banking & Brokerage, among others. The "Other Diversified Financial Services" do business in a diverse range of financial services and/or with some interest in a wide range of financial services including banking, insurance and capital markets. The businesses that make up this sector do not have a dominant business line. The "Other Diversified Financial Services" sub-Industry has had a (-33.5% YTD) return, which is the 2nd worst YTD besides that of (-37.1%) return, which belongs to the sub-industry "Investment Banking & Brokerage". The 5-year Beta calculated by S&P 500 for the "Other Diversified Financial Services" is 1.7 and has a 5-year standard deviation of 42.7, which is among the top

5 highest within the Financial Sector. All in all, these particular sub-industries are characterized by a high-beta and high standard deviation, which translates to increased risk and volatility to investors, especially in an uncertain market like we have seen so far this year.

The sub-industry has been consolidating since the implementation of the Gramm-Leach-Bliley act or popularly known as the Citigroup Act which was passed in 2000-2001, 2 years after the merger of Citicorp and Travelers Group. The Glass-Steagall Act, which was passed in 1933, prevented the main areas that comprise of Insurance, Commercial Banking, and Investment Banking to be consolidated into one company or corporation. Many corporations had found loopholes around this particular legislation but after it passed, consolidation increased as a way of survival in the financial sector.

The overall volume of mergers and acquisition is down substantially since 2007 mainly due to increased regulation, which has insisted that banks and financial companies raise capital levels. With that in mind the number of large mergers and acquisitions that took place after the financial crisis definitely changed this sub industry. Bank of America, which is now the second largest bank in the industry in terms of assets, acquired Merrill Lynch, an Investment bank as well as the largest mortgage lender during the sub-prime crisis Countrywide. JPMorgan acquired Bank One a few years after the Graham Leach Bliley act was passed and then went on to acquire Bear Stearns and Washington Mutual in 2008 at the peak of the financial crisis. Wells Fargo nearly doubled its size during the financial crisis by acquiring Wachovia, which catapulted it to the 4th largest bank in the United States. The size of the merger's and acquisitions during the last three years was like nothing the industry had ever seen as many firms were on the edge of failure and a possible entire collapse of the financial sector was closer than what many people wanted to believe or are aware of to this day. Many of the acquisitions and mergers were out of necessity to keep the financial system afloat.

Revenues show a true picture of how hurt the "Other Diversified Financial Services" sub industry is since the financial crisis and new regulations that have been implemented. Revenue has continued to stay depressed since post financial crisis for a number of reasons. The main reason is loan growth, which is the main source of revenue for "Other Diversified Financial Services". The reason for some of the recovery is due to the stimulus that was done by the Federal Reserve (monetary policy) such as Quantitative Easing 1 & 2 (QE1, QE2), lower interest rates, along with government support (fiscal policy) such as first time home buyer incentive among others, which showed to be short lived for this particular industry. The recent monetary policy operation twist could enhance the revenue but overall is likely to hurt their margins. With that in mind, unless the economy was to change overnight the slightly increased volume would not make up for the additional loss of margin (flattening of the yield curve) that would further hurt this industry. Interest rates are at historical lows and I believe that a further reduction in rates is unlikely to help spur loan creation, specifically mortgage origination or refinancing in the industry as many of the borrowers who qualified under tighter credit conditions or were not under water on their mortgage have already done so. The industry is unlikely to experience increased volumes in loan growth and non-interest income, which is the other major source of revenue for this industry. A principal concern is the recovery of the housing market, which throughout history has always preceded an economic recovery. Major headwinds facing the industry are increased tightening of credit standards, increased regulation (Dodd-Frank Act), increased regulatory capital standards (Basel III), high unemployment (9.1%), litigation/lawsuits and the housing market.

The Market is mature in the United States and because of that, banks that are better positioned globally will have much faster growth than their competitors in the long run. JPMorgan is one of the best-positioned firms globally being in over 60 countries and many emerging markets such as Brazil, Russia, India, China and South Africa. These emerging markets among other growing countries are where banks could see the largest growth in years to come.

Appendix: ***Methodology**

The estimated fair value was calculated using the Discounted Cash Flow (DCF) model, specifically the Dividend Discount Model (DDM). The dividend discount model was modified to use share repurchases in order to give a more accurate valuation. I used three scenarios that were based on three different main assumptions. The estimated growth rates in the scenarios were based foundationally on using return on equity and the modified payout ratio. The estimated growth rates were then adjusted according to my scenario assumptions. Scenario one was based on the fact that new regulation was implemented (Dodd Frank) and banks were able to effectively change their business models, which I assumed, would make a nominal growth rate of 3.5% for 3 years as JPMorgan adjusts accordingly and then are able to grow at 6.5% for the next 3 years after that and then tapers off to a stable nominal growth rate of 5% for the foreseeable future the estimated fair value was $67. Scenario two was based on the fact that regulation was completely implemented and JPMorgan is not able to effectively change their banking model, which I assumed, would make a nominal growth rate of 3.5% for 3 years as JPMorgan adjusts accordingly and then are only able to grow at 5% for the foreseeable future, the estimated fair value was $63. Scenario three is based on that new regulation (Dodd-Frank) is not fully implemented, possibly completely thrown out in order to enhance economic growth or even prevent a possible recession. The first year was at a nominal rate of 3.5% and 6% for the foreseeable future, which is very conservative, estimated fair value was $78. The growth rate estimates and assumptions all take into consideration the economy and thus reflect the lower growth rate initially. The higher valuation compared to the current price I believe is due to the uncertainty and black clouds that overhang the industry. Specifically the economy and European financial crisis, which I believe the stock has discounted most of the downside risks.

Appendix: Multiples

Firms	P/E (ttm)	Forward P/E	PEG ratio (5 yr expected)	P/B	P/S ttm	EV/EBITDA	EV/Sales	growth	ROE	Profit Margin	Operating Margin
Bank of America	N/A	6.4	-9.42	0.31	0.87	N/A	2.7	14.67%	-0.78%	-2.37%	1.08%
Citigroup	8.14	6.87	0.65	0.5	1.35	N/A	-1.06	11.66%	6.66%	17.36%	22.19%
JPM	7.27	6.92	0.82	0.75	1.4	N/A	-0.28	9.13%	11.28%	21.49%	39.92%
Wells Fargo	9.44	7.87	0.71	1.05	1.8	N/A	2.09	12.89%	11.74%	20.83%	35.65%
Goldman Sachs	16.14	7.85	1.8	0.77	1.69	N/A	-8.72	9.70%	N/A	18.52%	29.45%
Morgan Stanley	10.96	7.85	1.16	0.55	0.93	N/A	-5.69	9.28%	N/A	14.96%	29.97%
Average	10.39	7.29	1.03	0.655	1.34	N/A	-1.8267	11.22%	7.23%	15.13%	26.38%
Median	9.44	7.39	0.77	0.65	1.375	N/A	-0.67	10.68%	8.97%	17.94%	29.71%

Sources: Google Finance and Yahoo! Finance

**growth rates are average growth rates from analysts covering the stock. The growth rate used in the DCF are based on fundamental growth rates.*

JPM											
S&P 500											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	ttm
Price/Earnings											
JPM	45.7	30	11.3	25.2	16.7	12.6	10	37.6	18.6	10.7	6.7
S&P 500	23.2	19.7	21.1	19.2	17.2	16.8	16.5	10.9	18.6	15.5	13.8
Price/Book											
JPM	1.8	1.2	1.7	1.3	1.3	1.4	1.2	0.9	1	1	0.8
S&P 500	3.3	2.5	3.1	3.1	2.9	2.9	2.7	1.7	2.2	2.2	2
Price/Sales											
JPM	2.5	1.6	2.3	2.6	2.6	2.8	2.1	1.7	1.6	1.6	1.3
S&P 500	1.5	1.3	1.6	1.6	1.5	1.6	1.5	0.9	1.2	1.3	1.2
Price/Cash Flow											
JPM	-23.8	-1.9	5.2	-5.1	-5.8	-3.5	-1.4	4.9	1.3	-45	14.6
S&P 500	12.4	9.9	11.9	11.6	10.8	11.1	11.6	6.8	9.1	9.3	8.8

Source: Morningstar, Inc.