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Jeffrey

As volatility has continued into the fall, I just wanted to let you know what we view as our top trading ideas right now. We still believe that despite short dated volatility, markets are overly pessimistic on the longer term prospects for certain riskier assets. I think we need to go back into the dividend trade over the next 4 weeks.

As a result, we are thinking about our current trade ideas in three buckets:

- Short term trading to take advantage of the elevated volatility over the next few months
- Long term investing focusing on structural growth themes or dislocations we believe will correct in the next 12-18 months
- Protection and low-correlation trades to mitigate portfolio risk

Long Risk Trade Ideas:

Add selectively to High Yield:

- High yield has sold off 7-10% over the last month and yields are now back above 8%.
- Look to either buy high yield out right, for example CIT 2017s yielding 7%, or extend duration on existing holdings out to 5-7yrs.
- Risks: increase in defaults, economic recession, liquidity

EuroStoxx 50 Dividend Swaps:

- 2013 Dividend Swaps have fallen 25% to 88 Euros in the last 3months.
- JPMorgan's view is that the EuroStoxx 50 dividends will end up being 136.
- Zeroing out Bank and insurance dividends and cutting all other sector dividends by 20% would lower dividends to 83 according to our analyses. We feel this is a realistic stress test to demonstrate the potential downside if Europe deteriorates further.
- Risks: liquidity, change in index constituents, European double dip driving further dividend cuts

Tactical Trading:

- Intraday/Intraweek stock trading ranges have doubled in the last 2months on the average S&P stock.
- Buying high conviction quality stocks on weakness and selling them for short term gains should be part of a trading program.

Protection/Low Beta Investments:

Short EURUSD:

- Hedges against continued European stress
- Support for EUR eroding as China's declining trade balance creates less need for currency sterilization
- Has broken through key 1.40 support level

Buy EUR Put/Gold Call worst off option:

- Add Gold calls to the above trade in an integrated worst of option that creates a less expensive form of protection than owning euro puts and gold calls outright.

Buy Indonesia Default protection

- To protect against potential emerging risks in Asia, look to add to Indonesia CDS even at current levels around 190bps.

Brent Puts:

- Add short Brent positions to protect against a global recession
- Since oil's peak at the beginning of May this year, WTI has declined over 20% but Brent has declined by only half that amount (10%).
- Should the global economy roll over, Brent will also suffer from demand weakness and could close the gap with WTI

Long Dated Munis

- 10-20yr munis that have yields between 4-5%
- Focus on essential services
- Munis have lagged fixed income rally broadly- lots of supply this month depressing prices.

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