

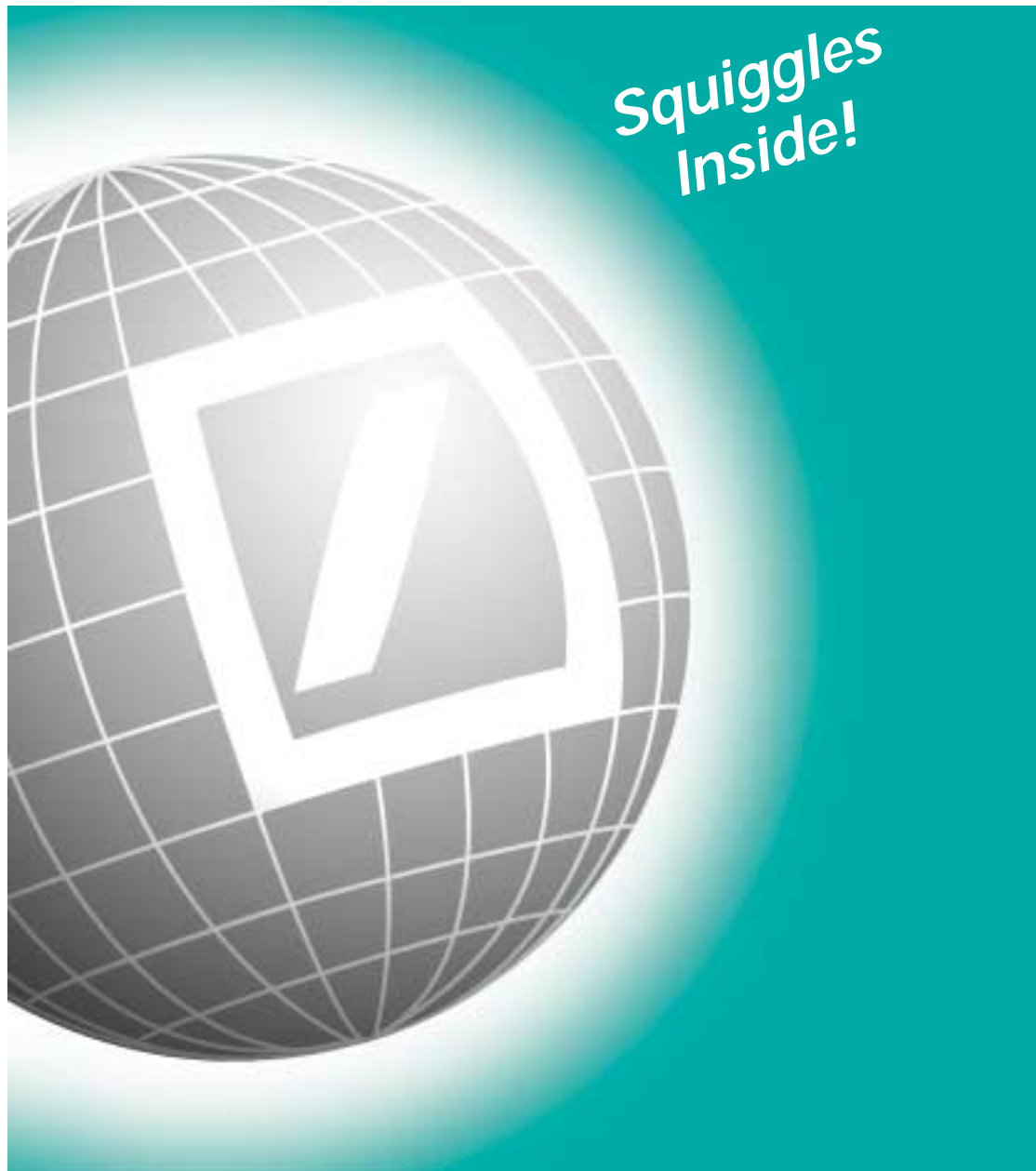
Deutsche Banc Alex. Brown

Global
Strategy

January 2002

Earnings Month

Squiggles
Inside!



Dr. Edward Yardeni
Chief Investment Strategist
(+1) 212 469 5715
edward.yardeni@db.com

Joseph Abbott
Senior Equity Strategist
(+1) 212 469 5078
joseph.abbott@db.com

Amalia F. Quintana
Strategy Analyst
(+1) 212 469 5713
mali.quintana@db.com

- Introduction -

Squiggles & Forward Earnings. By definition, a company's stock price is equal to its earnings (E) multiplied by the market's valuation of those earnings, i.e., the price-to-earnings ratio (P/E). Based on our research, the best measure of E is 12-month forward consensus expected earnings. Therefore, the right way to measure the P/E is to divide the stock price by its forward earnings. The market looks forward, not backward. Analyses based on trailing earnings are irrelevant, in our opinion.

It is relatively easy to calculate 12-month forward earnings. They are simply a time-weighted average of the current and next year's consensus of Wall Street's industry analysts. Therefore, forward earnings are identical to the current year's consensus forecast at the start of the current year and converge toward the coming year's expectations, which of course are a moving target.

In the following exhibits (covering all of the S&P 500 eleven sectors and several selected industries), we display 24 months of data ("the Squiggles") for each year showing what analysts on average predicted would be that year's actual earnings results. The data are used to compile 12-month forward earnings and forward P/Es for the overall index, the sectors, and the industries. Then, the P/Es are compared to analysts' consensus expectations for long-term earnings growth.

Exhibit 1 shows the data for the S&P 500 since 1990. Analysts have a tendency to start with overly optimistic forecasts for earnings and to revise them downward as they approach the actual results. They also have a tendency to expect that next year's results will exceed this year's, a reasonable assumption usually. This is why, despite the downward revisions for the current year, forward expectations tend to rise and to be reasonably good forecasts of actual results as shown in Exhibit 1.

The Squiggles Product Line. *Earnings Month* is a complete set of Earnings Squiggles™ for every S&P 500 sector and selected industries along with their forward P/Es and long term earnings growth. It is posted and updated on the Stock Lab page of my web site.¹ In our *Earnings Week* publication, we conduct a detailed Earnings Squiggle analysis of one of the eleven S&P 500 sectors and several industries within the chosen sector. This weekly publication is also posted on the Stock Lab page along with an indexed archive of previous industries covered

Ed Yardeni

¹ <http://www.yardeni.com/stocklab.asp#earnings>

- Briefly -

- **S&P 500:** S&P 500 forward consensus expected earnings was \$52.26 in Dec, up for the third time in the last 15 months. Analysts currently expect 2002 earnings (including goodwill amortization) to be \$52.96, or 15.8% above 2001. We expect \$52-with and \$57-without goodwill amortization.
- **Basic Materials:** In Dec, the 12-month forward earnings estimate rose for the third time in the past 15 months. 2001 and 2002 estimates also rose in Dec. Analysts expect 2002 earnings to rebound a whopping 42.3%, but remain below 2000 level. Basic Materials P/E tends to rise when earnings plunge, and to fall as earnings rebound. Current P/E is high on absolute and relative basis.
- **Capital Goods:** During Dec, 2001 and consensus forward expectations rose, but 2002 earnings fell for the sixth straight month. Analysts expect 2002 earnings to rise 8.6% to a record level, but at the slowest pace of the eleven S&P sectors. P/E rose to 20.9 in Dec. It remains below 2000 record 25 reading. Long-term earnings growth forecast remains high at 15.1%.
- **Communications Services:** Forward consensus expected earnings estimate stabilized in Dec. Analysts expect 12.7% rebound in 2002 versus 2001, but to a level well below 1999 peak. Forward P/E was stable at 21.8 in Dec while consensus expectations for long-term growth fell to 11.7%, the lowest reading since March 1998. Relative P/E back down to 1.0.
- **Consumer Cyclical:** Consensus 12-month forward expected earnings rose in Dec for the first time in four months. The consensus forecast for 2001 is down 45.3% since the beginning of 2000. An 18.2% rebound is expected this year, but only back to levels of 1998. Forward P/E reached a high of 24.7 in Dec, while long-term earnings growth expectations stabilized at 15.0%.
- **Consumer Staples:** All three earnings periods fell sharply in Dec. 2002 expected to be up 14.2% from 2001 to a new record level. Forward P/E of 22.7 is well above 13.2% long-term consensus earnings growth. P/E has been trending down since mid-1998. Not a cheap sector.
- **Energy:** In Dec, forward earnings expectations fell for the sixth straight month. 2002 earnings are expected to be 24.5% below 2001. LTEG fell to 9.6%.
- **Financials:** Consensus 2002 and forward earnings rose in Dec after Banking and Insurance estimates adjusted to exclude goodwill amortization. Forward P/E has fluctuated in a volatile fashion around 15 since 1997. Long-term earnings growth expected to be 13.1%. Sector sells at a 35% discount to market's P/E.
- **Health Care:** Although consensus forward earnings fell in Dec for the first time in seven months, Health Care remains on solid uptrend. This is a very steady earnings growing sector. Health Care stocks' forward P/Es relatively high at 24.7 during Dec, well above 15.8% long-term expected earnings growth.
- **Technology:** Where's the bottom? 2002 estimate fell at a slower pace in Dec. Consensus forward estimate rose in Dec for the first time in seven months. Analysts expect 2002 earnings to rebound 18.7%, but only back to 1995 level. Tech's forward P/E of 42.9 is near 2000's record peak of 47. P/E is too high, especially as long-term growth fell to 18.7% in Dec. Prior to 1998, sector's P/E was almost the same as the market.
- **Transportation:** Forward earnings forecast at lowest level for Transportation since 1990 as all three earnings periods stabilized in Dec. Forward P/E volatile for Transportation. It is also up sharply recently due to expected losses in the Airline industry.
- **Utilities:** Forward earnings estimate for Utilities down for the fourth time in the past 24 months. 2002 currently exceeds 2001 by 9.1%. Forward P/E of 10.9 is above long-term expected earnings growth of 10.0%. Sector sells at a significant discount to the market.

- 2002/2001 Earnings Growth -

Table 1: Consensus Expected Earnings Growth 2002/2001 vs. 2002 P/E (December 2001)

Sector/Industry	Growth	P/E	Sector/Industry	Growth	P/E
S&P 500	13.1	21.9	Consumer Staples (continued)	13.1	22.8
Basic Materials	42.3	23.1	Tobacco	10.9	10.6
Metals Mining	-/+	93.2	Beverages (Alcoholic)	10.8	20.2
Iron & Steel	-/+	29.1	Household Products (Non-Durables)	10.8	22.1
Paper & Forest Products	75.7	33.1	Restaurants	10.5	17.8
Agricultural Products	57.9	18.2	Foods	8.0	18.0
Chemicals	42.3	23.7	Specialty Printing	1.2	17.4
Chemicals (Specialty)	34.8	20.5	Entertainment	-3.1	84.1
Aluminum	32.1	18.2	Energy	-24.5	18.1
Construction (Cement & Aggregates)	20.8	17.2	Oil & Gas (Drilling & Equipment)	14.2	21.9
Gold & Precious Metals Mining	17.4	29.8	Oil (International)	-19.3	18.6
Containers & Packaging (Paper)	11.4	18.5	Oil (Refining & Marketing)	-24.8	9.8
Chemicals-Diversified	3.6	14.1	Oil (Domestic)	-37.9	12.9
Capital Goods	8.6	21.3	Oil & Gas (Exploration & Production)	-58.1	22.7
Trucks & Parts	76.6	41.9	Finance	26.1	14.2
Waste Management	46.7	16.8	Insurance (Property Casualty)	233.5	14.3
Engineering & Construction	36.6	14.9	Insurance Brokers	32.8	18.0
Machinery (Diversified)	35.6	17.7	Banks (Money Center)	32.0	11.3
Containers (Metal & Glass)	23.2	15.3	Banks (Major Regional)	27.6	13.5
Manufacturing (Diversified)	17.3	21.4	Insurance (Multi-Line)	27.0	19.2
Electrical Equipment	6.2	25.9	Investment Banking/Brokerage	21.1	17.3
Office Equipment & Supplies	5.6	16.1	Financial (Diversified)	19.5	14.8
Aerospace/Defense	0.1	14.9	Consumer Finance	13.6	13.3
Manufacturing (Specialized)	-4.4	24.0	Savings & Loans	9.7	8.7
Communication Services	12.7	21.8	Insurance (Life/Health)	8.6	12.4
Telecommunication (Cellular/Wireless)	-/+	na	Investment Management	2.1	17.5
Telephone	6.8	16.9	Health Care	13.1	24.7
Telecommunications (Long Distance)	1.3	24.8	Health Care (Specialized Services)	89.9	23.8
Consumer Cyclical	18.2	24.5	Health Care (Managed Care)	47.0	20.8
Autos	77.5	32.2	Health Care (Long Term Care)	33.3	13.4
Retail (Specialty Apparel)	48.1	20.6	Biotechnology	18.6	42.8
Consumer (Jewelry, Novelties & Gifts)	36.0	9.6	Health Care (Hospital Management)	17.2	17.3
Retail (Department Stores)	26.5	21.1	Health Care (Medical Products & Supplies)	16.2	28.5
Retail (Specialty)	26.0	23.6	Health Care (Drugs-Generic & Other)	16.0	23.9
Building Materials	22.5	17.7	Health Care (Diversified)	13.8	27.8
Leisure Time (Products)	20.6	25.4	Health Care (Major Pharmaceuticals)	13.2	23.1
Auto Parts & Equipment	18.6	21.8	Technology	12.6	45.8
Services (Advertising & Marketing)	18.1	27.1	Communications Equipment	-/+	na
Retail (Building Supplies)	17.9	31.6	Photography/Imaging	133.3	16.5
Services (Commercial & Consumer)	17.9	18.2	Services (Data Processing)	20.7	31.3
Retail (Computers & Electronics)	17.3	23.4	Electronics (Defense)	18.0	18.4
Retail (Discounters)	16.5	20.6	Electronics (Component Distributors)	13.4	18.9
Hardware & Tools	16.4	14.8	Services (Computer Systems)	13.1	24.2
Household Furnishings & Appliances	15.4	14.9	Computers (Software & Services)	7.4	32.3
Retail (General Merchandise)	14.9	28.2	Electronics (Semiconductors)	5.4	92.8
Publishing (Newspaper)	14.8	23.0	Computers (Hardware)	1.7	31.7
Gaming, Lottery & Parimutuel Companies	12.2	18.9	Computers (Networking)	-42.7	83.0
Footwear	11.9	19.3	Computers (Peripherals)	-57.0	247.1
Textiles (Apparel)	11.4	12.7	Equipment (Semiconductor)	-85.9	341.9
Publishing	9.2	24.2	Electronics (Instrumentation)	-94.6	1923.0
Homebuilding	6.3	7.9	Transportation	-/+	30.1
Lodging (Hotels)	-2.8	21.4	Airlines	-/+	na
Consumer Staples	14.2	22.8	Railroad	20.6	13.6
Broadcasting (Television, Radio & Cable)	-/+	na	Air Freight	20.5	19.0
Housewares	23.2	16.7	Trucking	3.3	14.1
Distributors (Food & Health)	20.5	22.4	Utilities	9.1	10.9
Beverages (Non-Alcoholic)	14.9	26.8	Power Producers (Independent)	19.3	8.2
Retail-Drug	13.3	26.7	Natural Gas	9.8	11.5
Retail-Food Chains	12.4	13.5	Electric Companies	8.3	10.9
Personal Care	12.2	27.2			

-/+ = Industry expected to return to profitability in 2002, -/+ = industry expected to report a smaller loss in 2002

Source: Thomson Financial

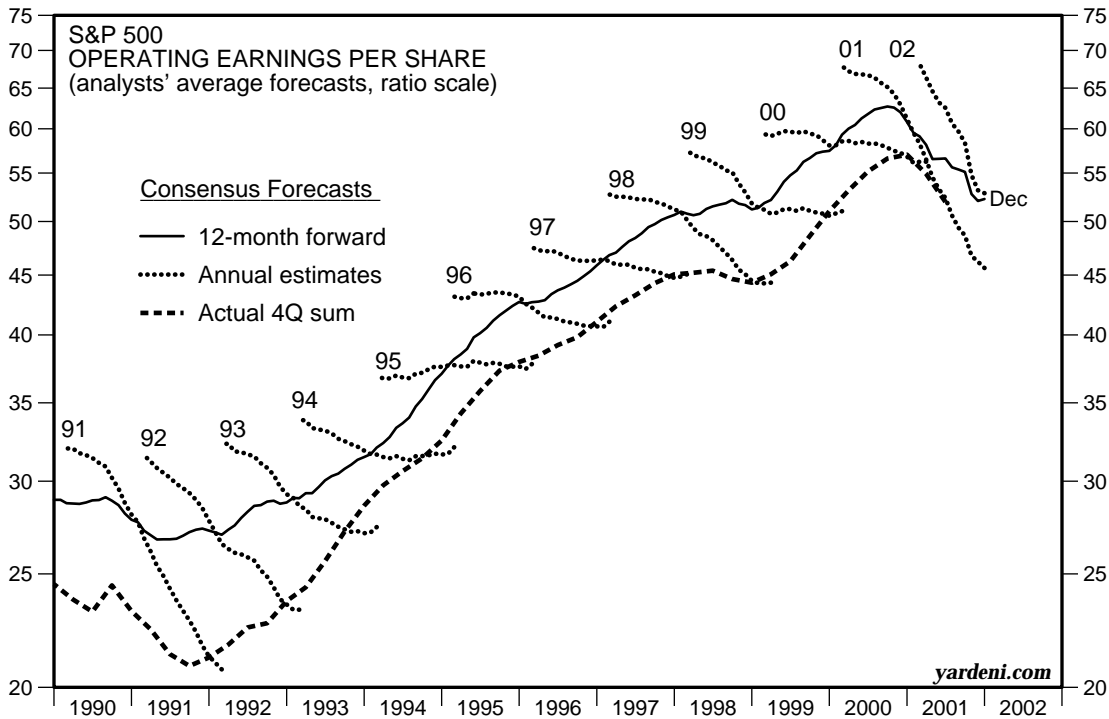
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S&P 500 Sectors & Selected Industries

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Exploration & Production	35	Relative Earnings	66-71

- S&P 500 -

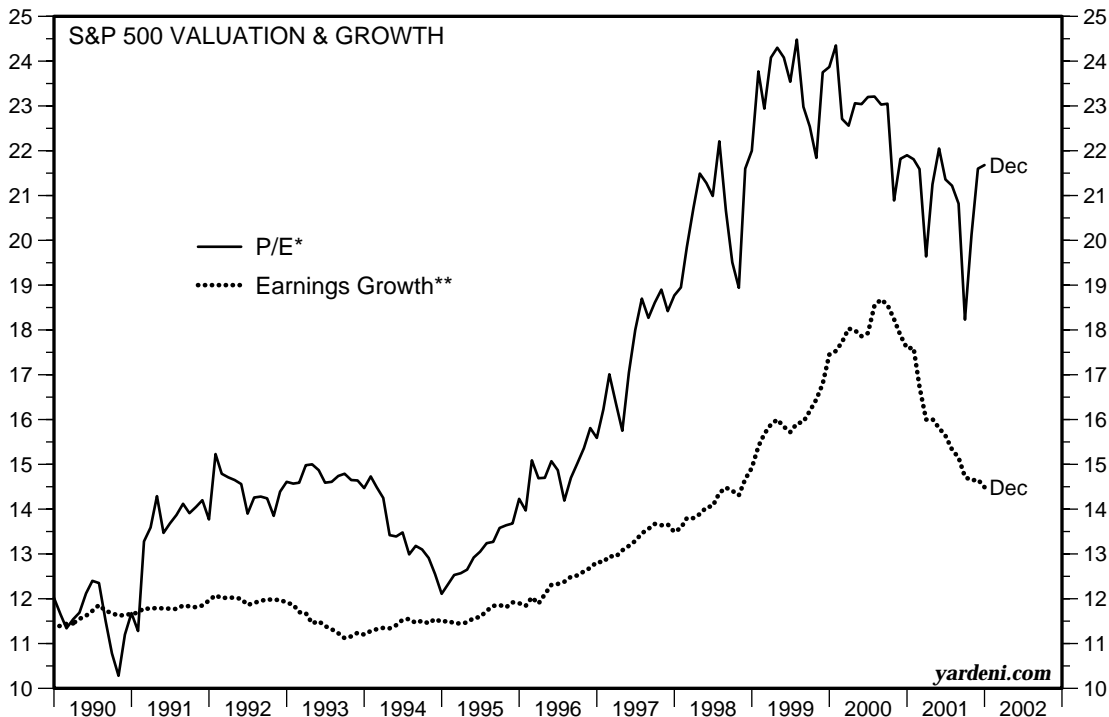
#1



Source: Earnings Squiggles at yardeni.com™

S&P 500 forward consensus expected earnings was \$52.26 in Dec, up for the third time in the last 15 months. Analysts currently expect 2002 earnings (including goodwill amortization) to be \$52.96, or 15.8% above 2001. We expect \$52-with and \$57-without goodwill amortization.

#2



* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

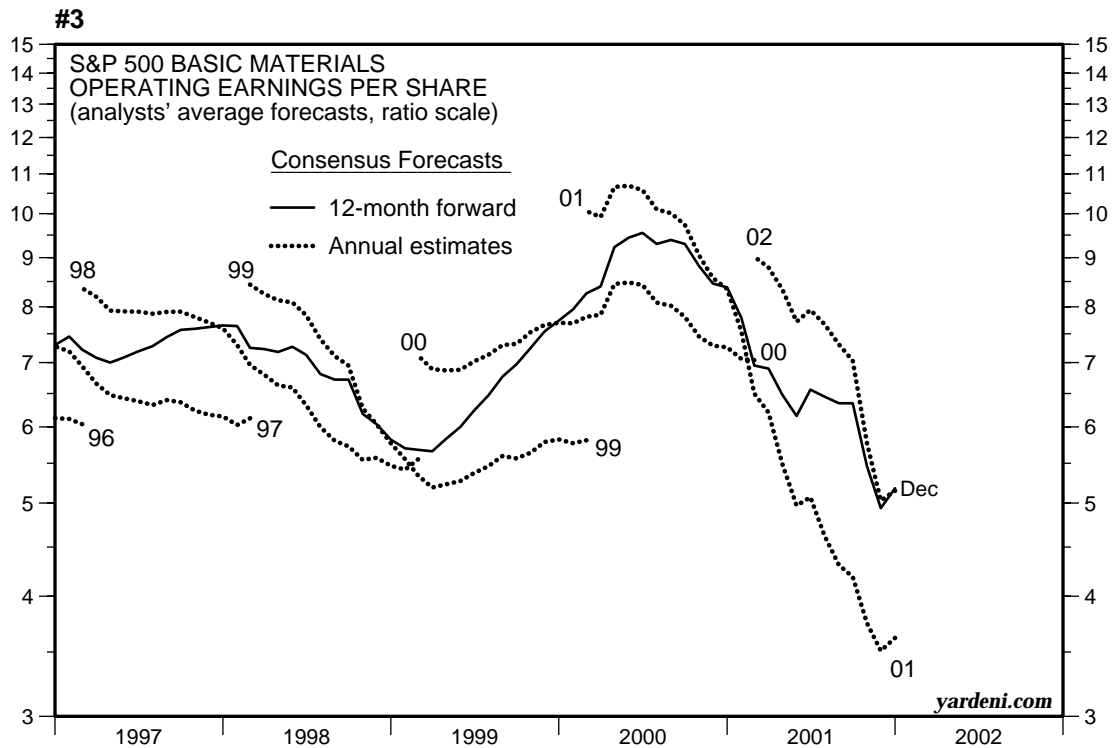
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

S&P 500 forward P/E was 22 in Dec, up slightly from 21.6 in Nov, but down from record level of 24.5 during July 1999. Long-term consensus earnings growth rate has fallen to 14.5% in recent months, well below Aug 2000 record peak of 18.7%. It is still unrealistically high.

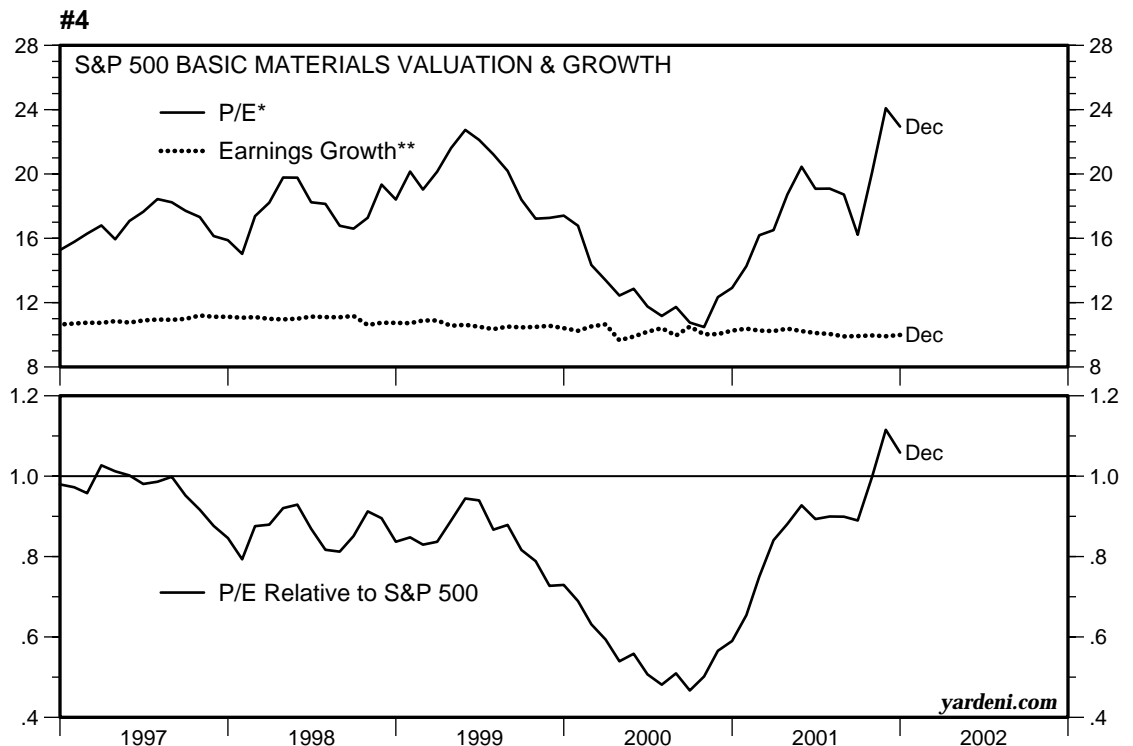
- Basic Materials -

In Dec, the 12-month forward earnings estimate rose for the third time in the past 15 months. 2001 and 2002 estimates also rose in Dec. Analysts expect 2002 earnings to rebound a whopping 42.3%, but remain below 2000 level.



Source: Earnings Squiggles at yardeni.com™

Early Cycle Dance: Basic Materials P/E tends to rise when earnings plunge, and to fall as earnings rebound. Current P/E is high on absolute and relative basis.



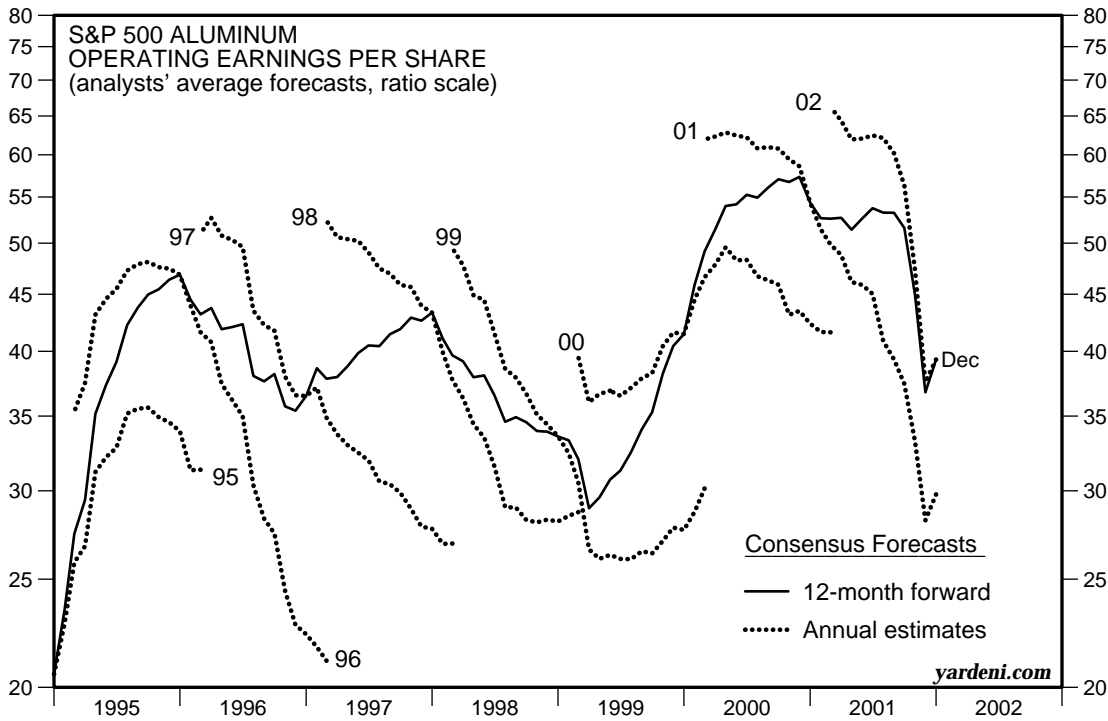
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

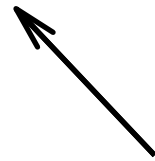
Source: Thomson Financial

- Basic Materials: Aluminum -

#5

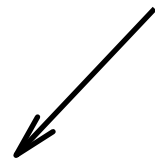
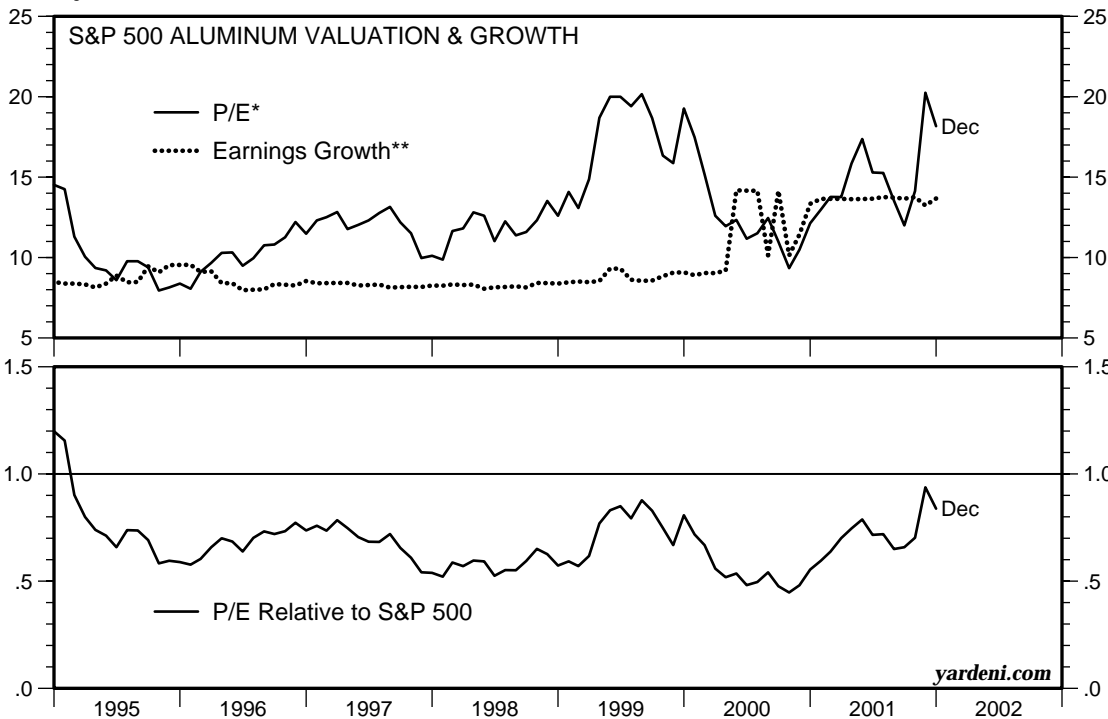


Source: Earnings Squiggles at yardeni.com™



2002 Aluminum earnings expected to exceed 2001 by 32.1%, but still remain below 2000. P/E likely to fall as earnings improve. LTEG of 13.7% remains near recent highs.

#6

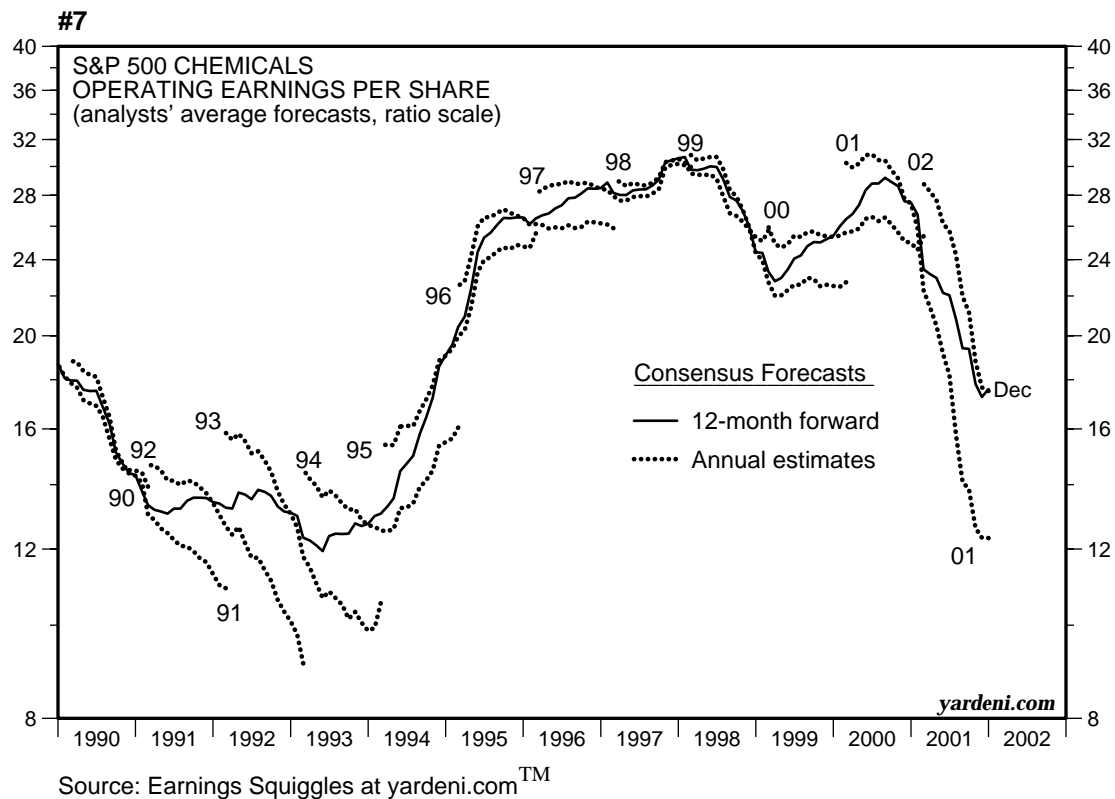


* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

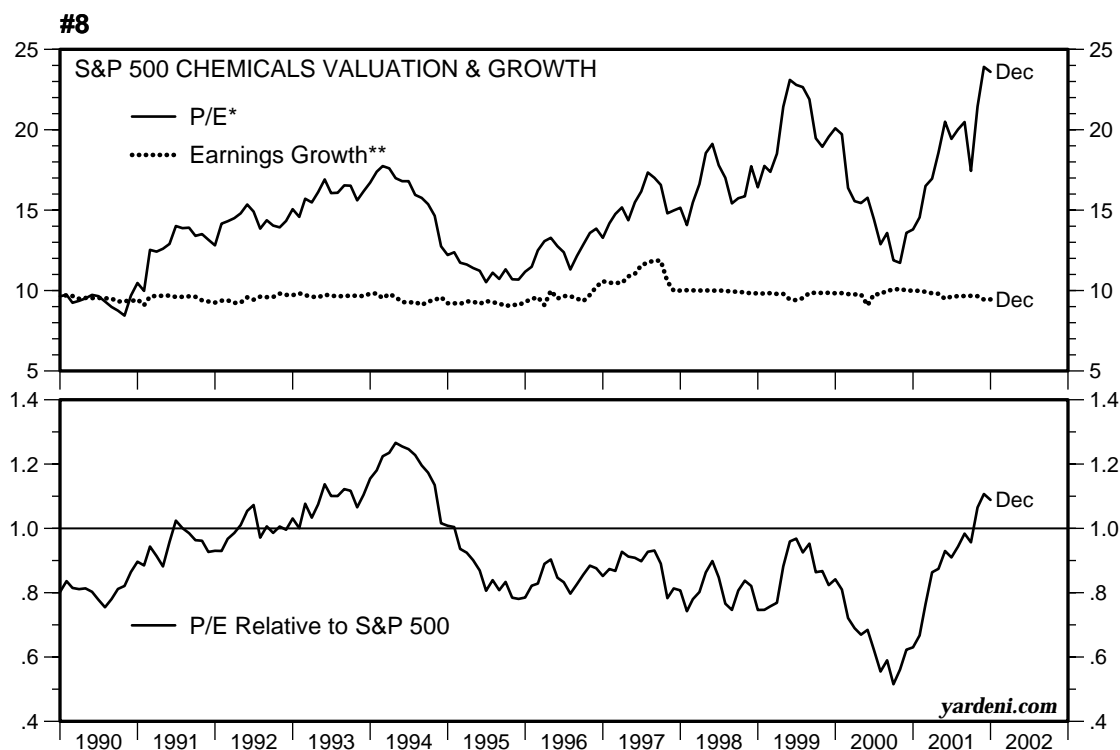
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Basic Materials: Chemicals -



Forward earnings rose for the first time in 16 months despite declines in the 2001 and 2002 estimates. In Dec, 2001 consensus earnings fell to lowest level since mid-1990s. Forward earnings near their lowest level since 1994. P/E tends to rise when earnings plunge and is currently very high on absolute and relative basis. In Dec, P/E on previous peak forward earnings was 13.5.



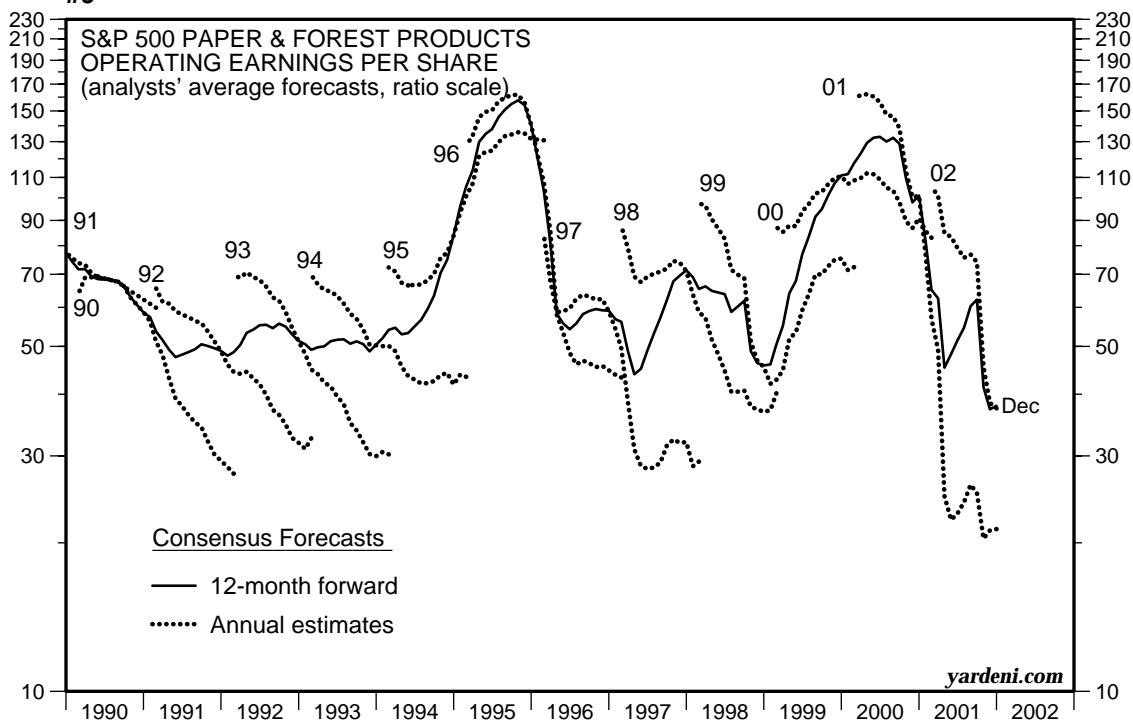
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

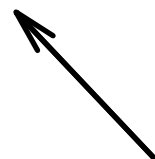
Source: Thomson Financial

- Basic Materials: Paper -

#9

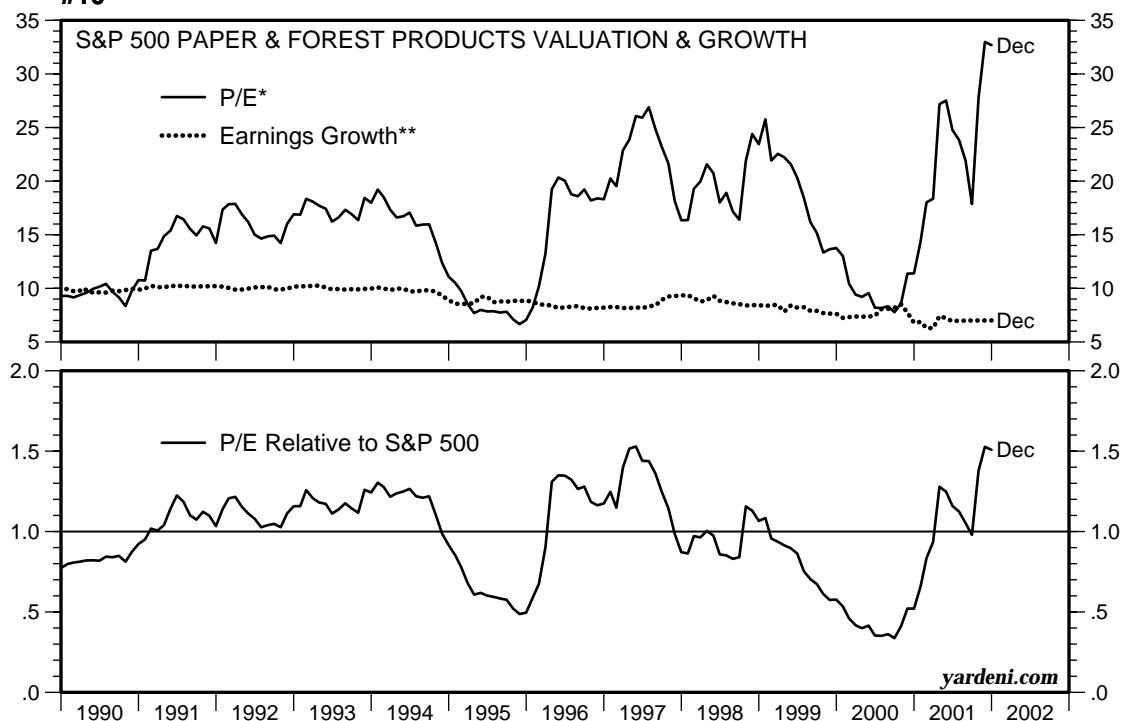


Source: Earnings Squiggles at yardeni.com™



Forward earnings rose for the third time in eight months. 2002 earnings expected to exceed 2001 by 75.7%, though this is only back to 1998 level. P/E usually falls as earnings recover, and is very high currently. In Dec, P/E based on previous peak forward earnings was 6.7.

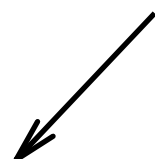
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* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

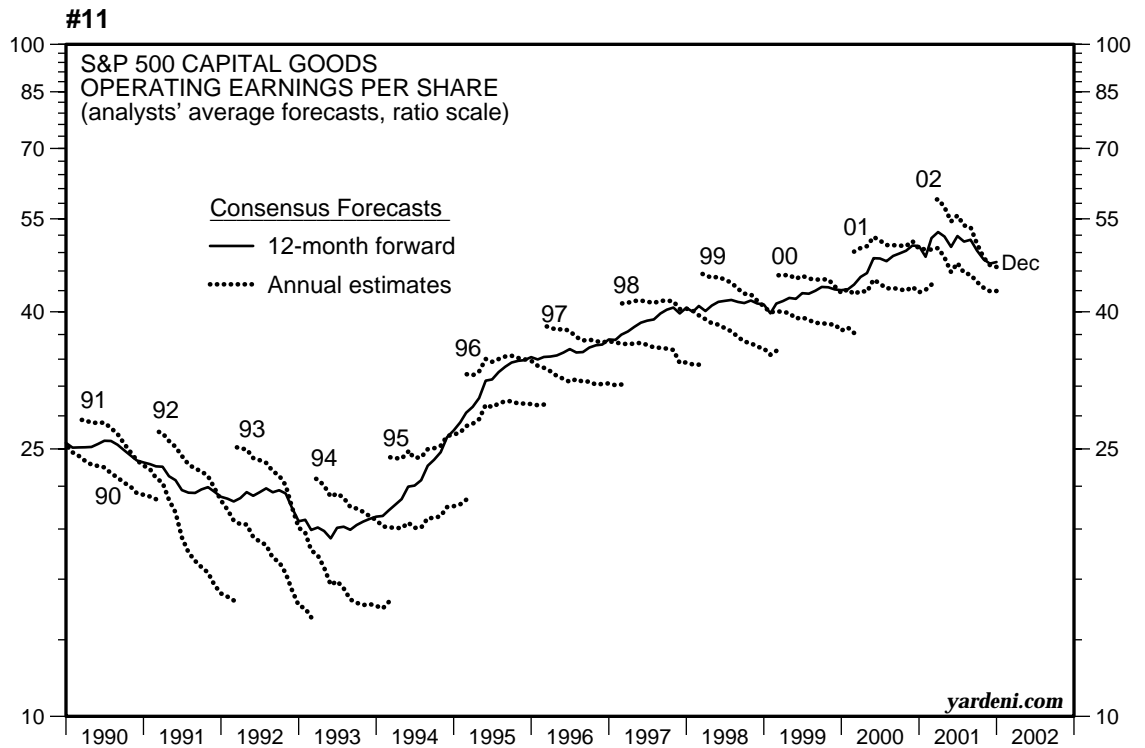
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial



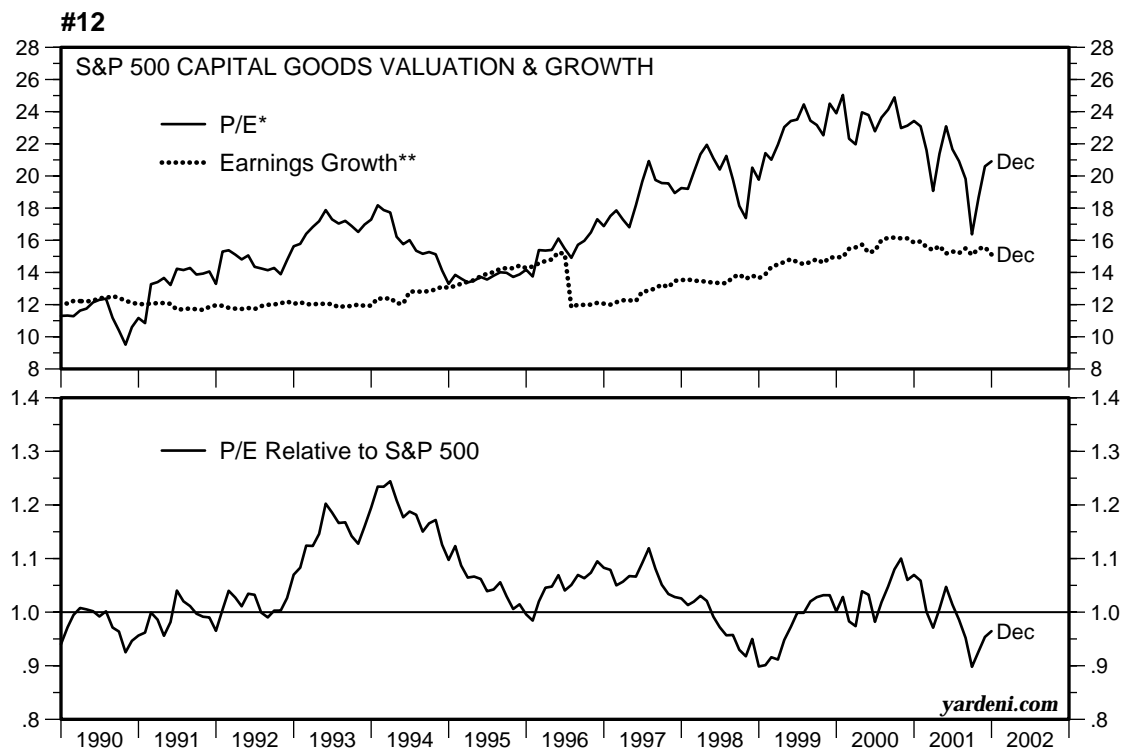
- Capital Goods -

During Dec, 2001 and consensus forward expectations rose, but 2002 earnings fell for the sixth straight month. Analysts expect 2002 earnings to rise 8.6% to a record level, but at the slowest pace of the eleven S&P sectors.



Source: Earnings Squiggles at yardeni.com™

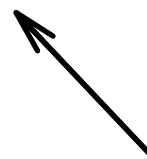
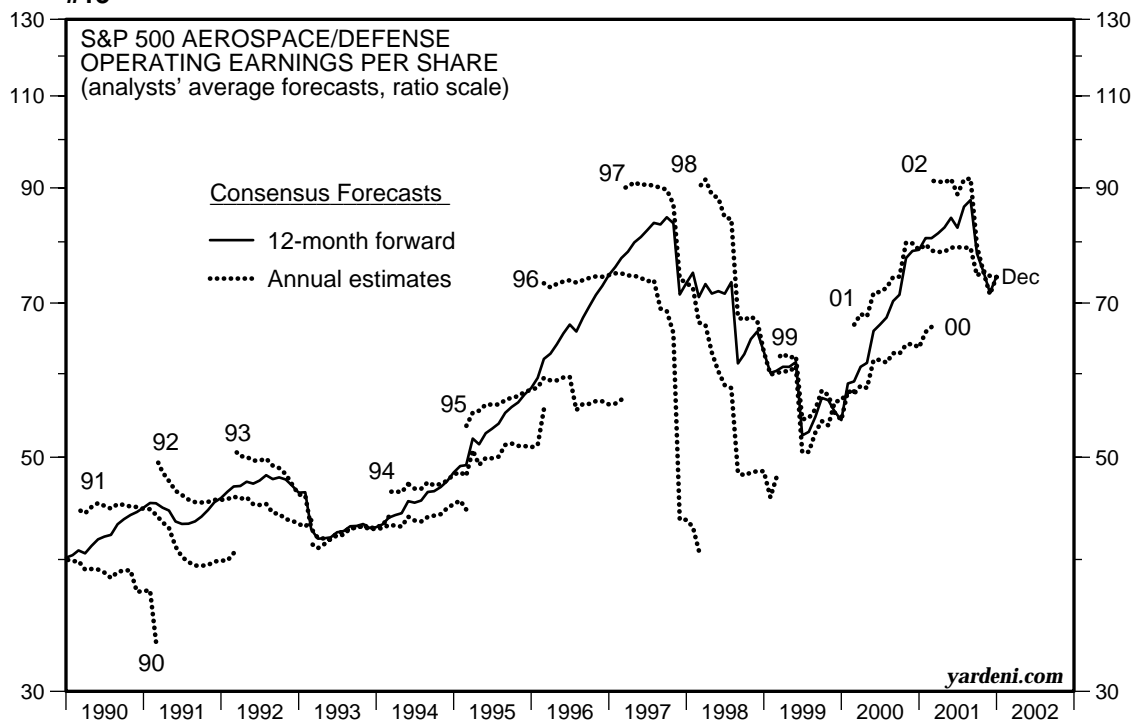
P/E rose to 20.9 in Dec. It remains below 2000 record 25 reading. Long-term earnings growth forecast remains high at 15.1%.



* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data. ** 5-year forward consensus expected earnings growth.
 Source: Thomson Financial

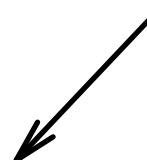
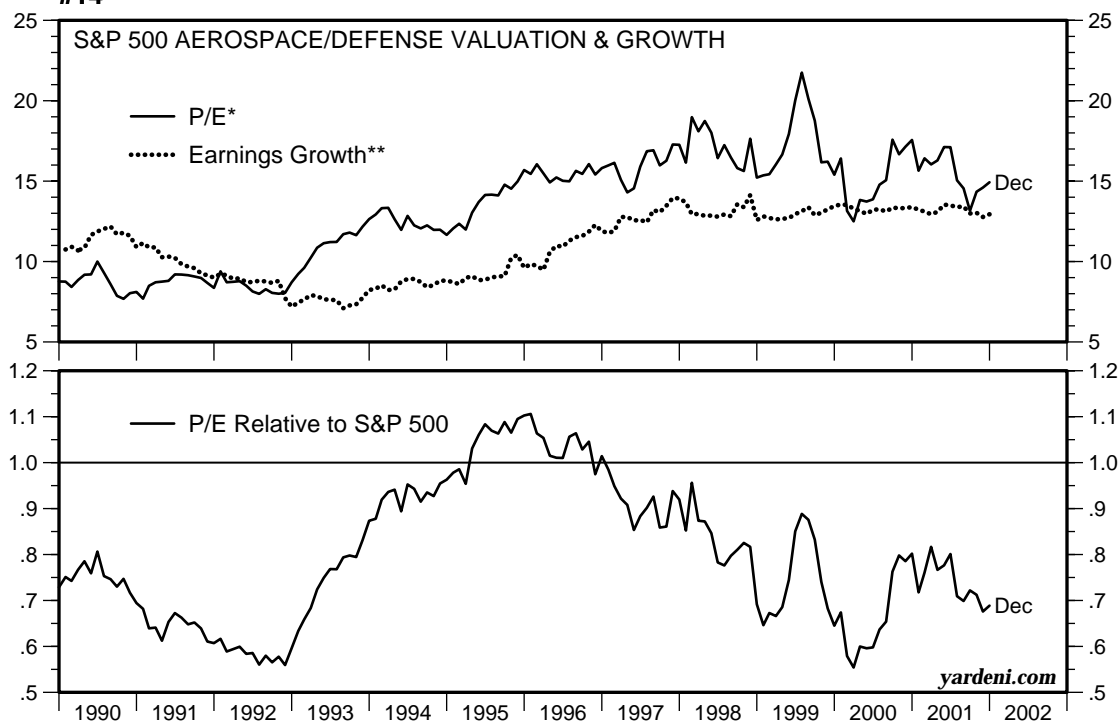
- Capital Goods: Aerospace/Defense -

#13



12-month forward consensus earnings estimate down sharply from the record high in Aug. P/E remains relatively low.

#14

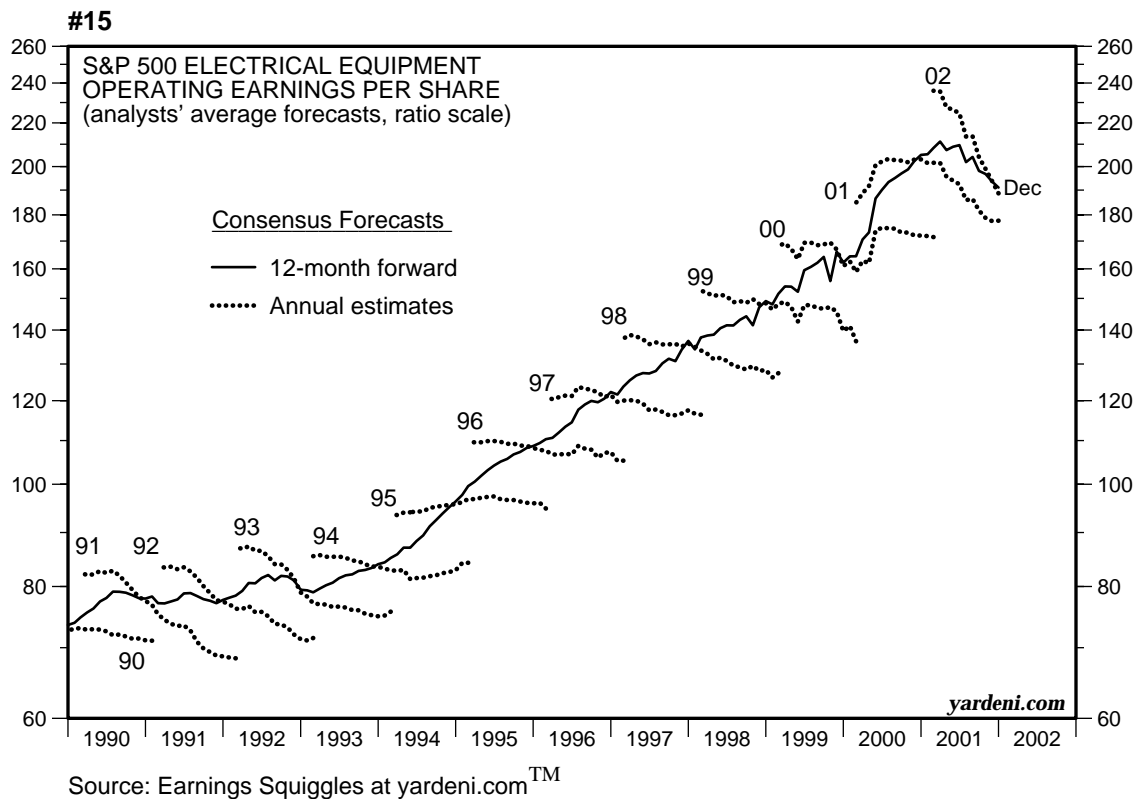


* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

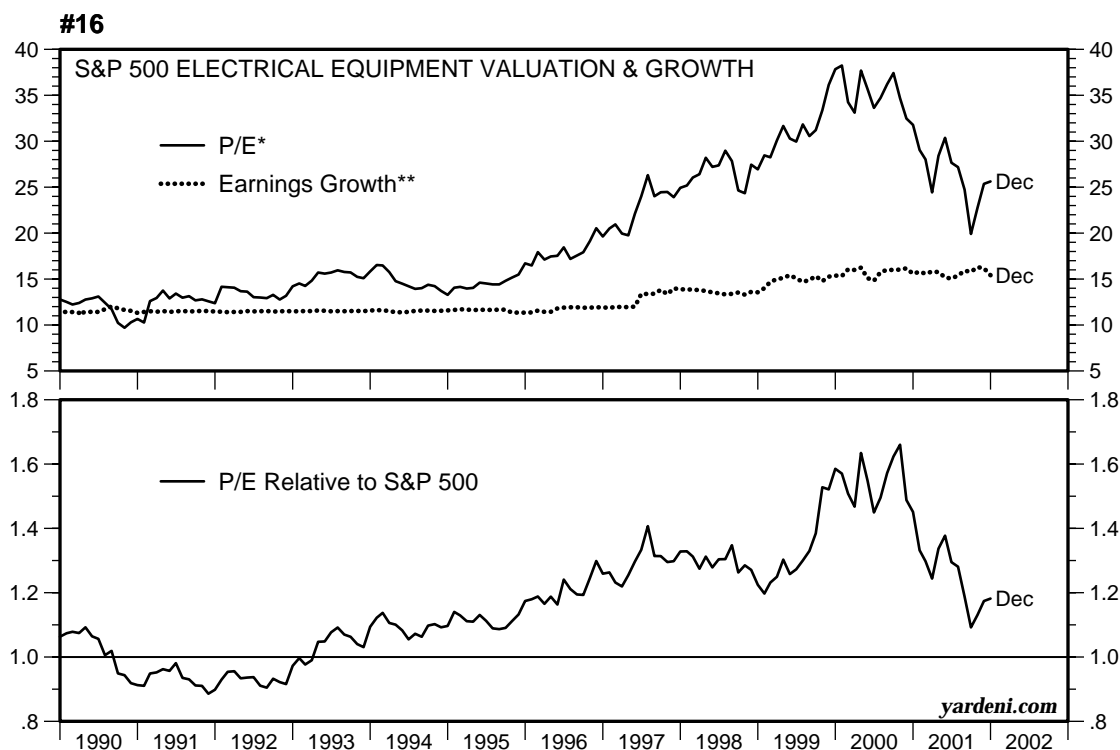
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Capital Goods: Electrical Equipment -



GE dominates this category. Forward earnings continued to deteriorate in Dec after peaking in Mar 2001. P/E of 25.6 is well below 2000 peak. 2002 earnings expected to be up 6.2%.



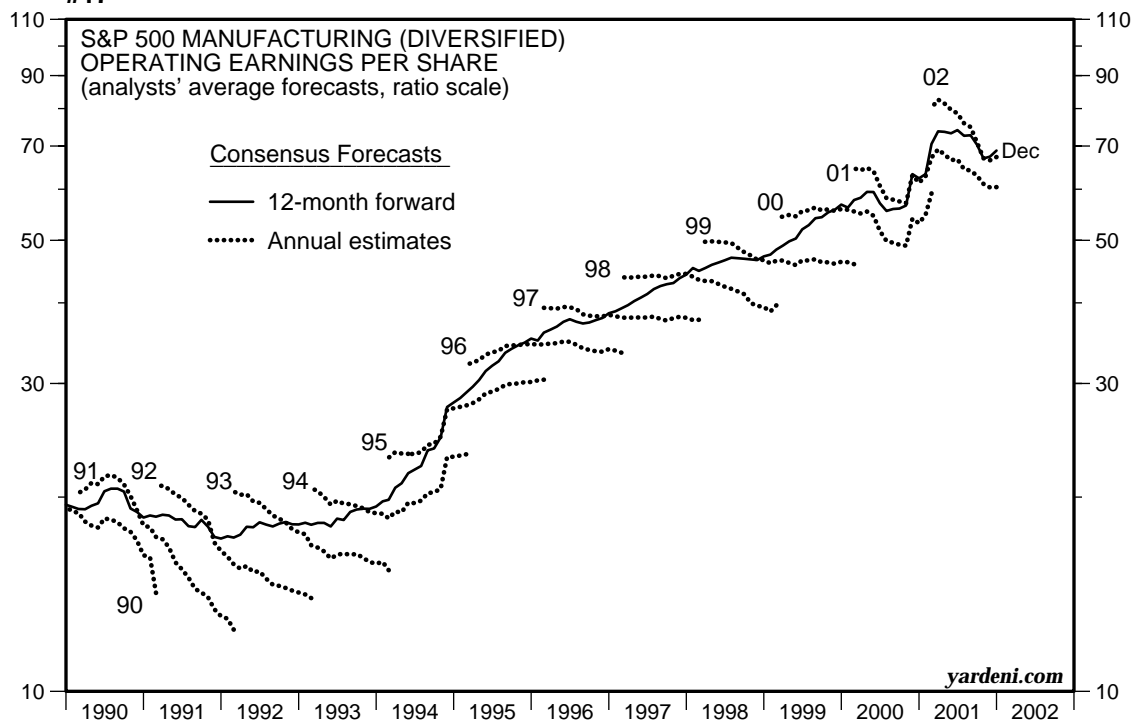
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

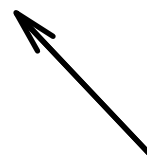
Source: Thomson Financial

- Capital Goods: Manufacturing -

#17

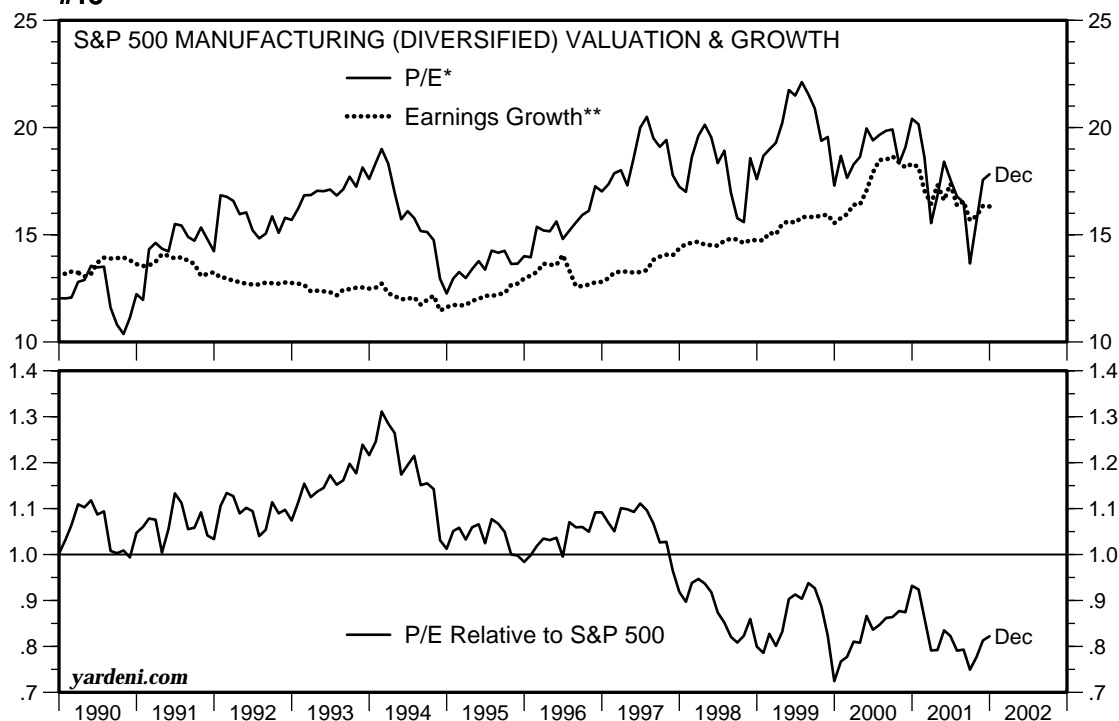


Source: Earnings Squiggles at yardeni.com™



All three earnings periods rose slightly in Dec. Although down in recent months, forward earnings in steady uptrend with a very reasonable P/E, especially relative to expected LTEG.

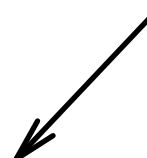
#18



* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

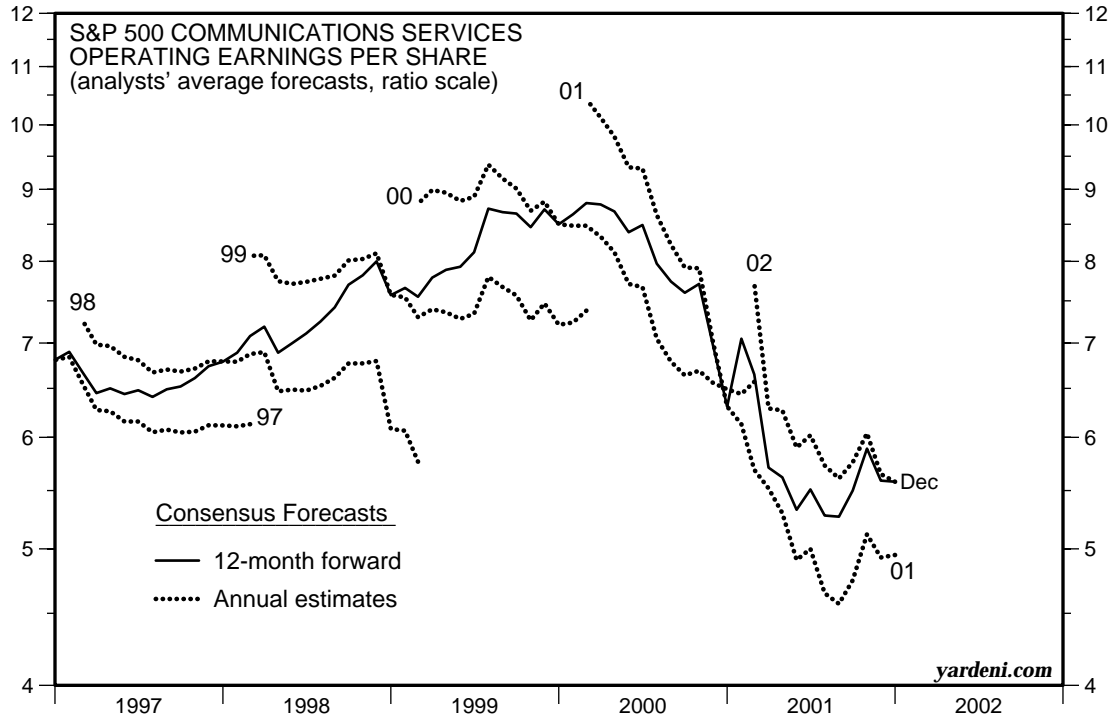
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial



- Communications Services -

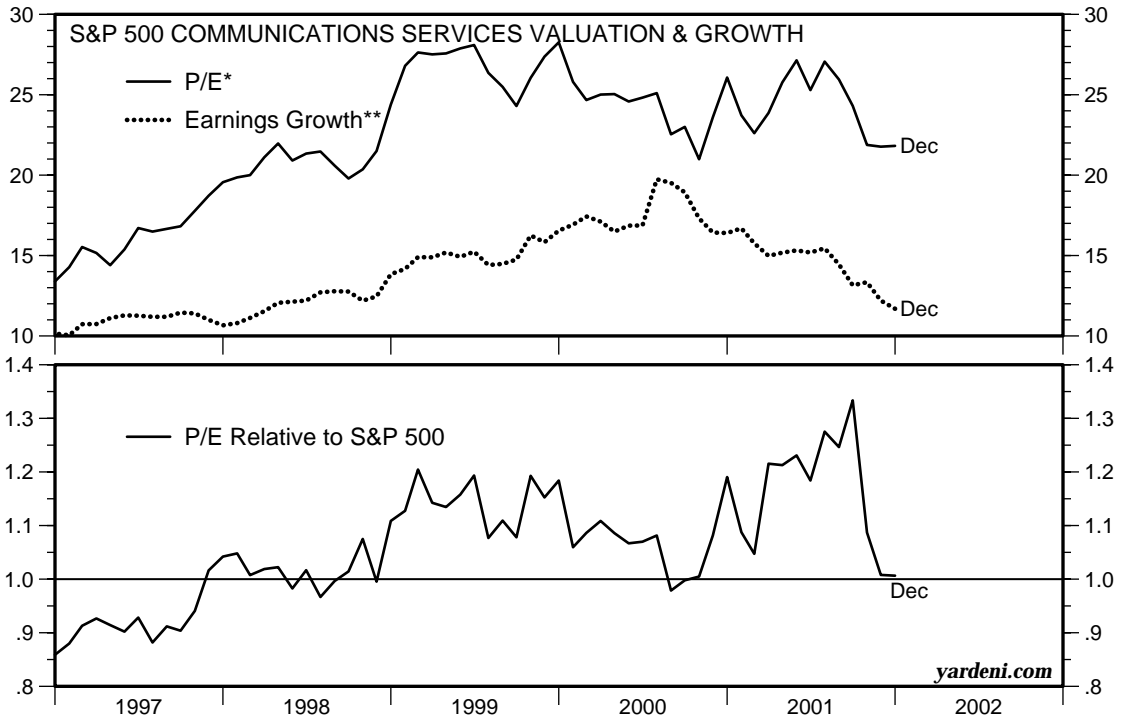
#19



Source: Earnings Squiggles at yardeni.com™

Forward consensus expected earnings estimate stabilized in Dec. Analysts expect 12.7% rebound in 2002 versus 2001, but to a level well below 1999 peak.

#20



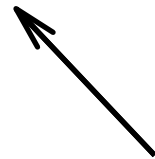
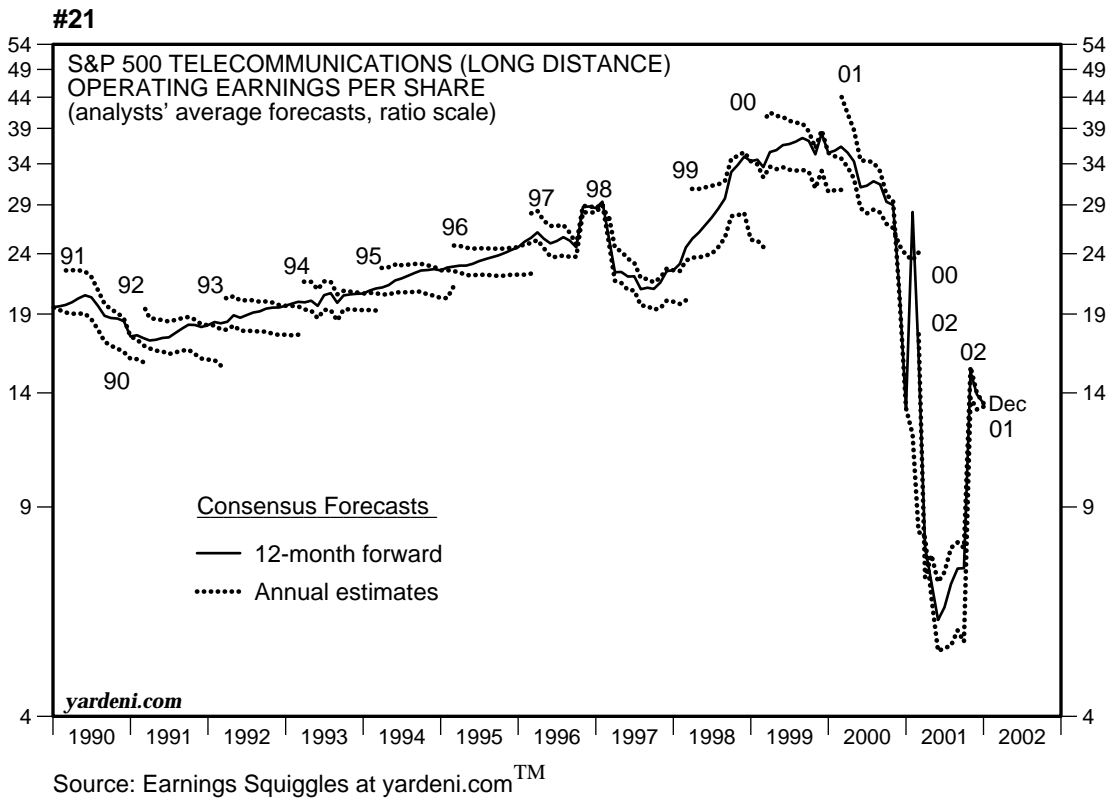
Forward P/E was stable at 21.8 in Dec while consensus expectations for long-term growth fell to 11.7%, the lowest reading since March 1998. Relative P/E back down to 1.0.

* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

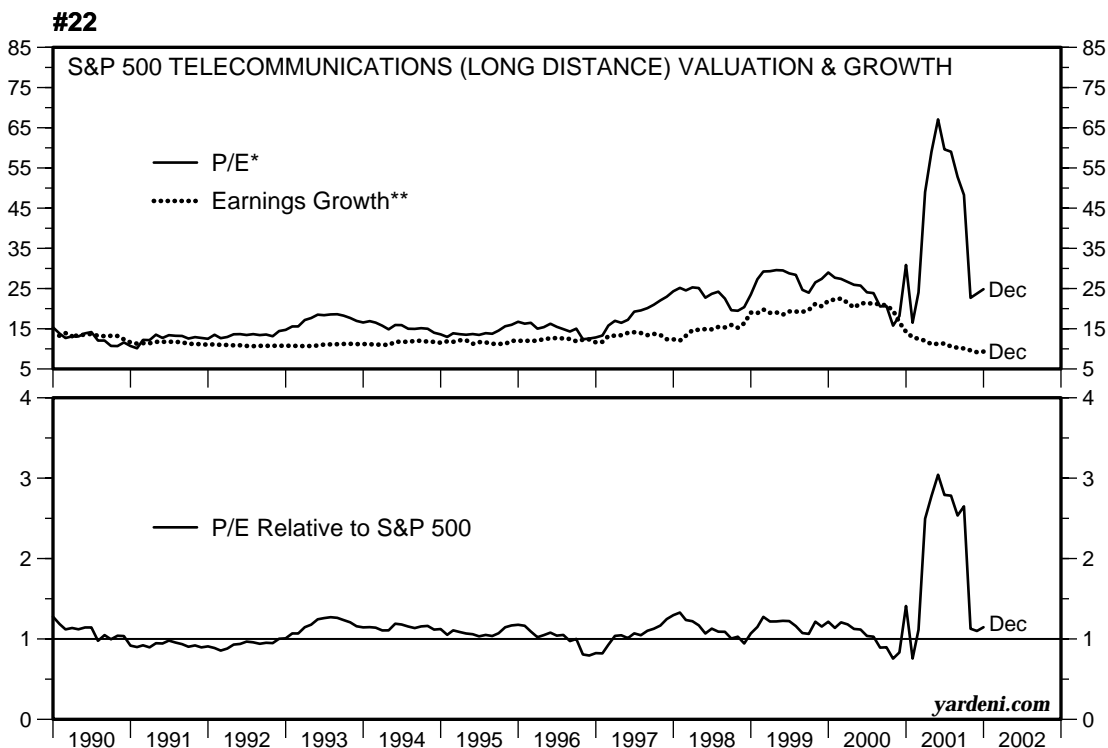
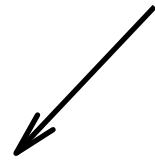
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Communications: Long Distance -



Long Distance 2002 and forward earnings expectations fell back in Dec, but remain above recent lows. P/E rose to 24.8 as long-term growth expectations stabilized at 9.3%, half of last year's level. Relative P/E back to almost 1.0, but PEG is still very high at 2.7.

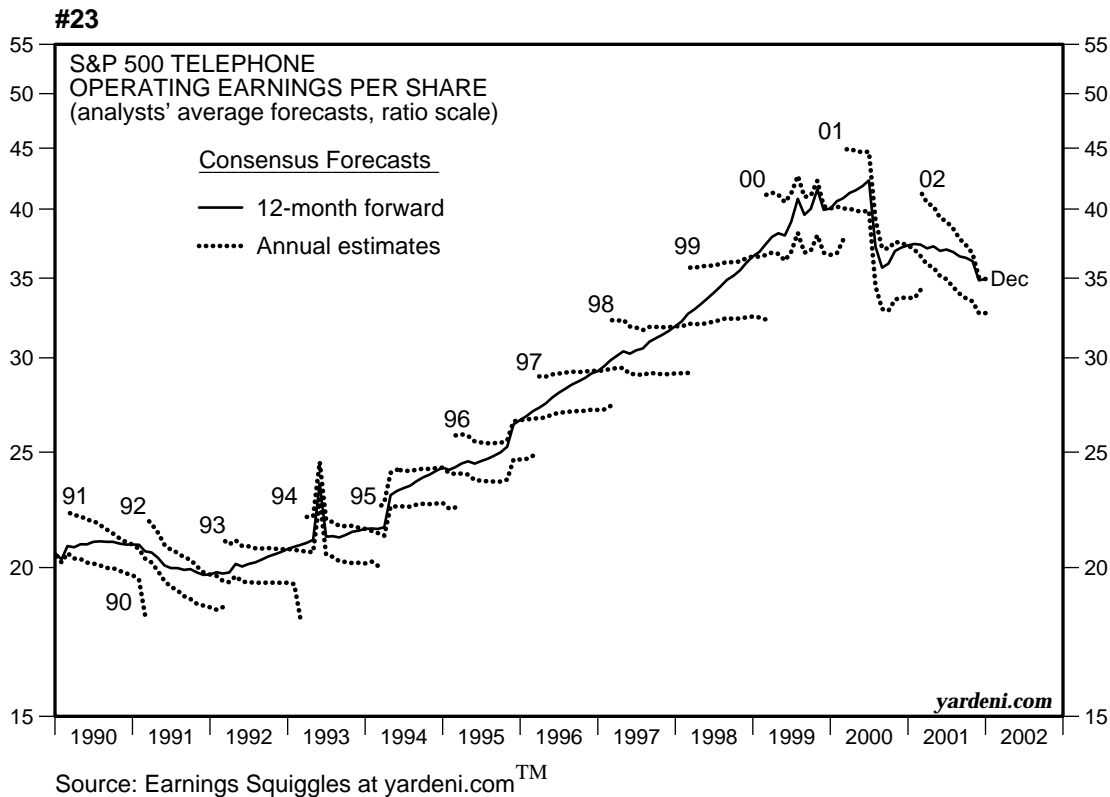


* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

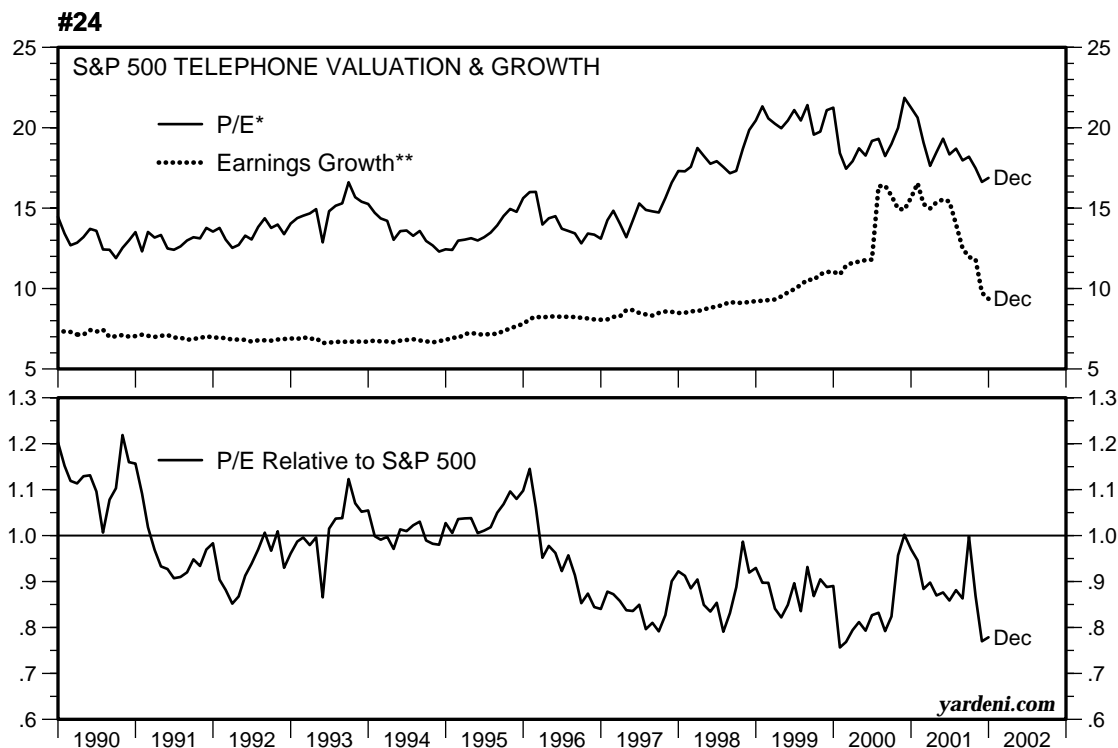
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Communications: Telephone -



Forward consensus earnings at lowest level since 1998. Expected long-term earnings growth dropped to 9.4% from over 15% last year.



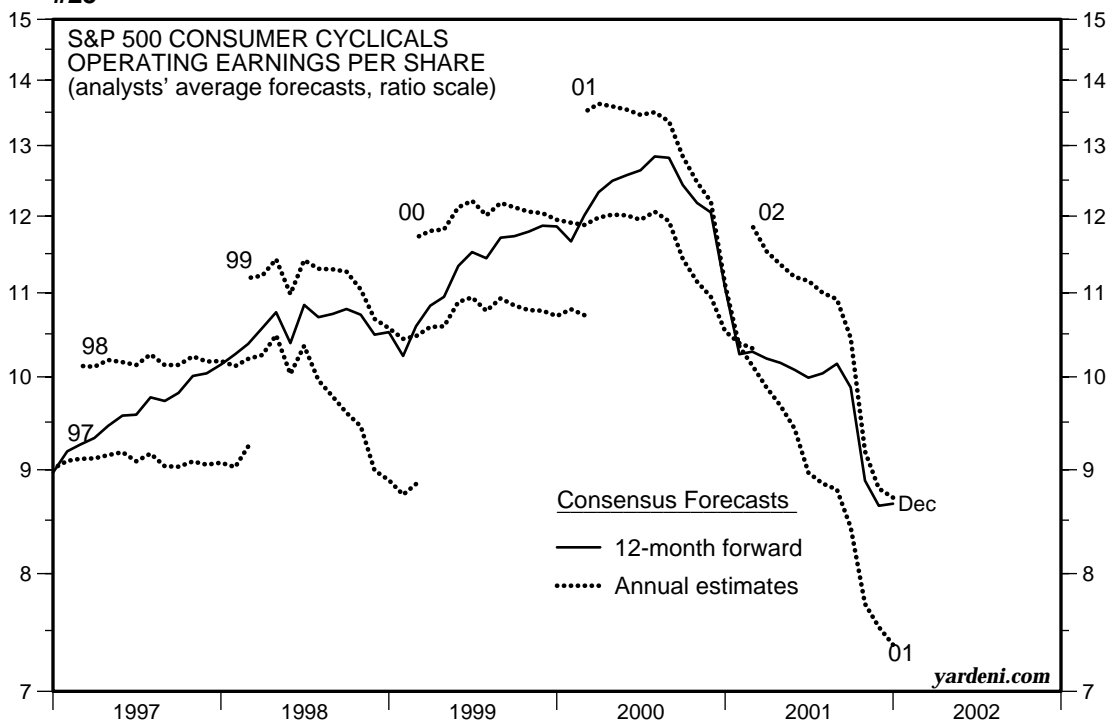
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Consumer Cyclicals -

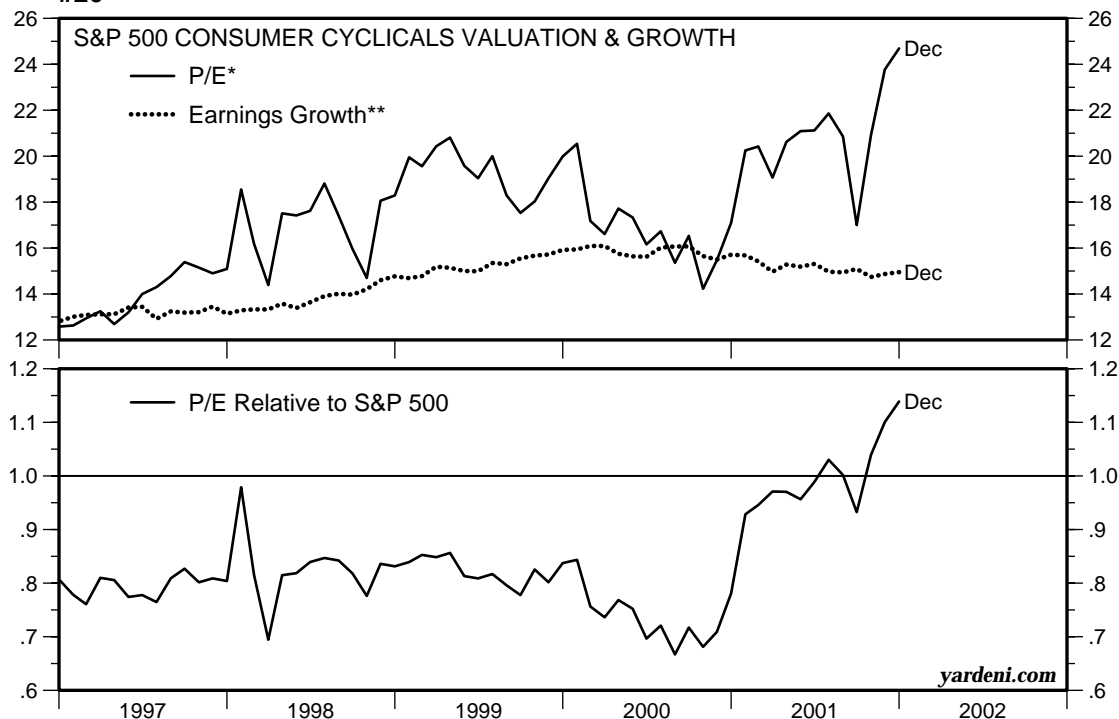
#25



Source: Earnings Squiggles at yardeni.com™

Consensus 12-month forward expected earnings rose in Dec for the first time in four months. The consensus forecast for 2001 is down 45.3% since the beginning of 2000. An 18.2% rebound is expected this year, but only back to levels of 1998.

#26



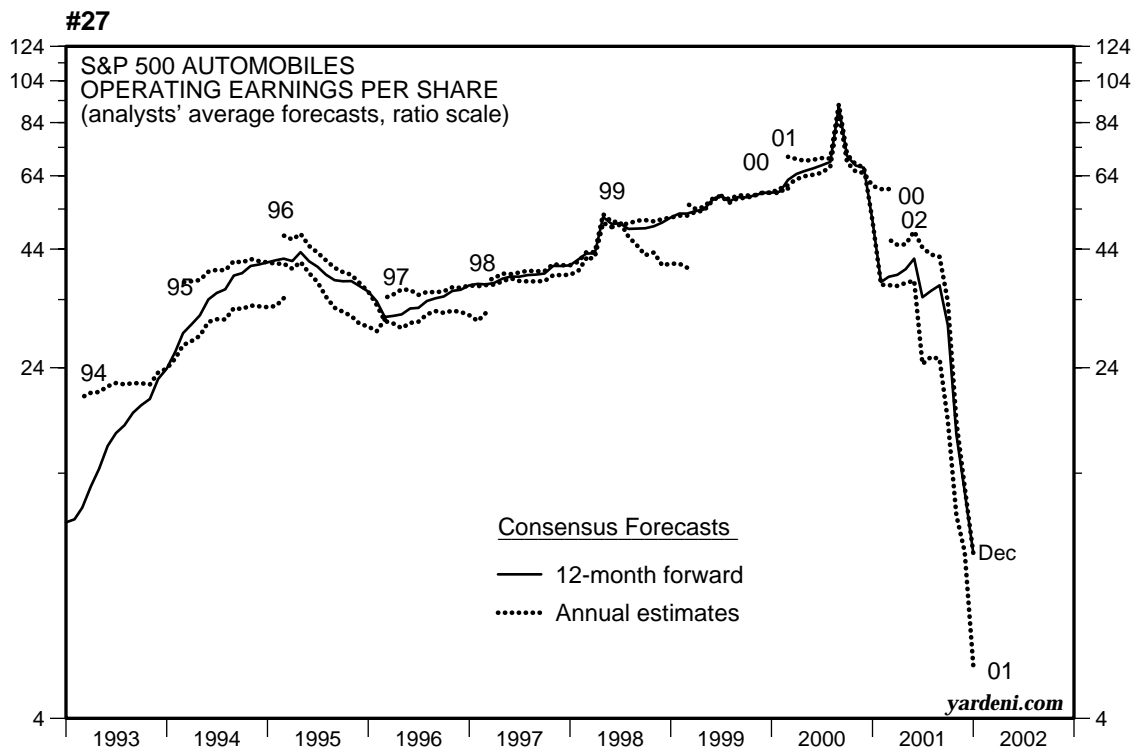
Forward P/E reached a high of 24.7 in Dec, while long-term earnings growth expectations stabilized at 15.0%.

* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

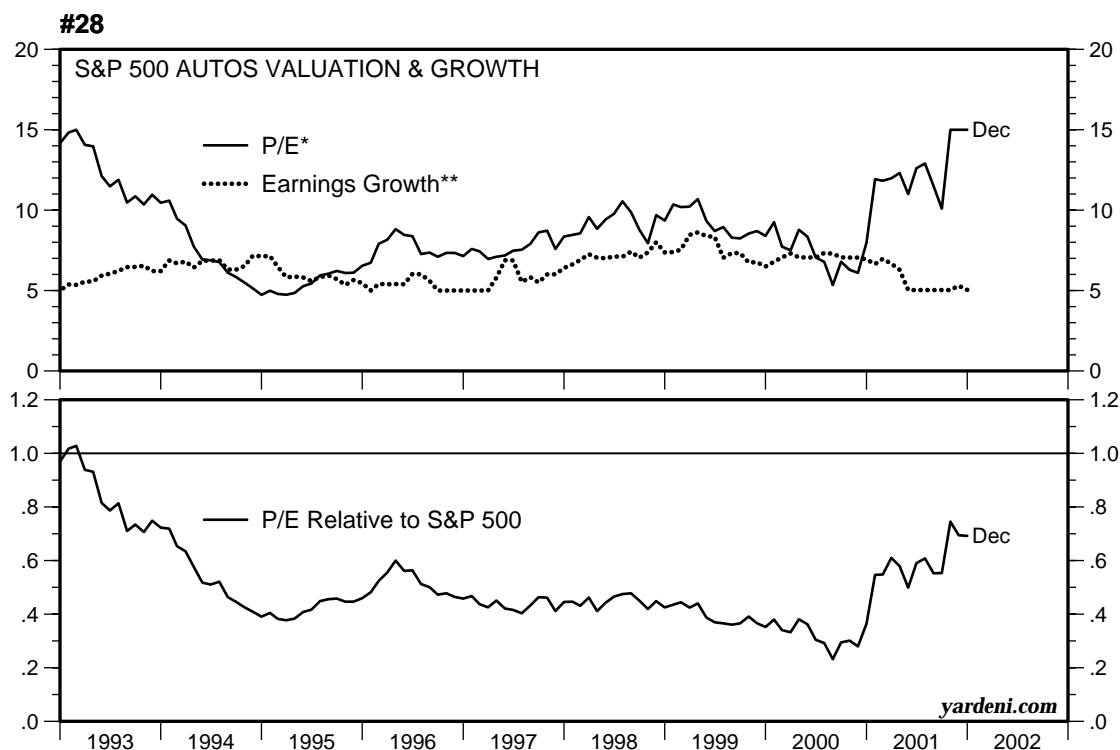
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Consumer Cyclical: Autos -



2001 earnings expectations are down 94.3% since Aug 2000. 2002 earnings expected to recover 77.5% from 2001, but to remain below 1993 level. Autos are relatively expensive as long-term expected earnings growth rate stabilizes at 5.0%. On the other hand, they are selling at only 3.3 times previous peak earnings.



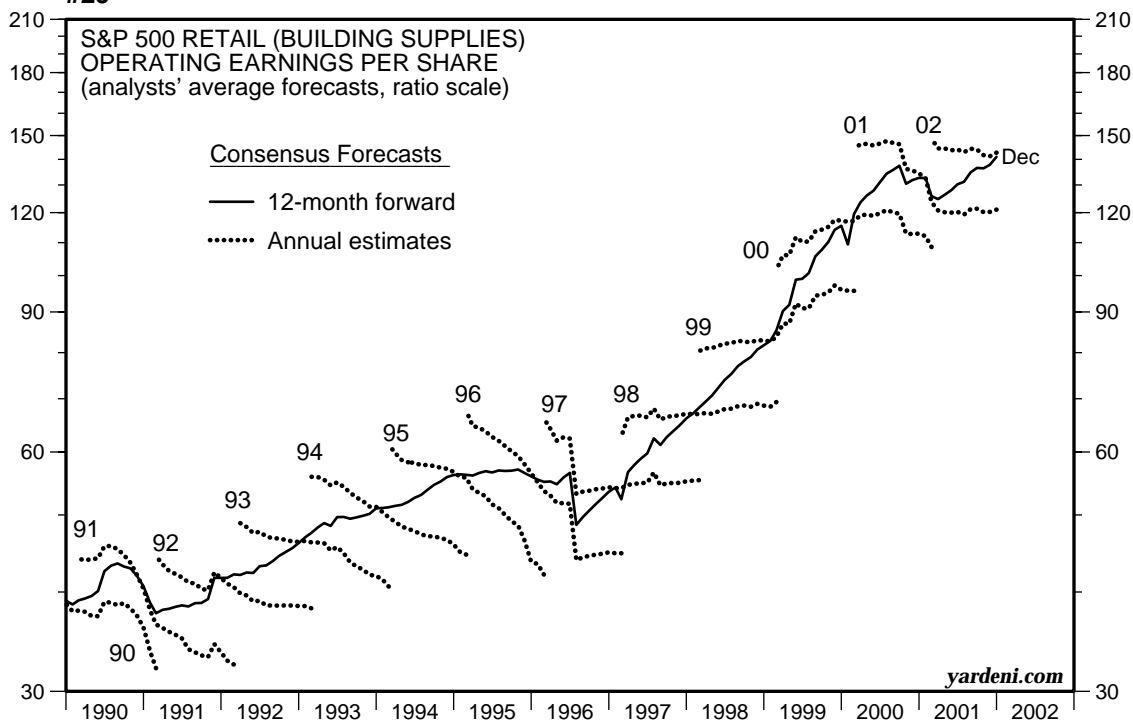
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Consumer Cyclical: Retail -

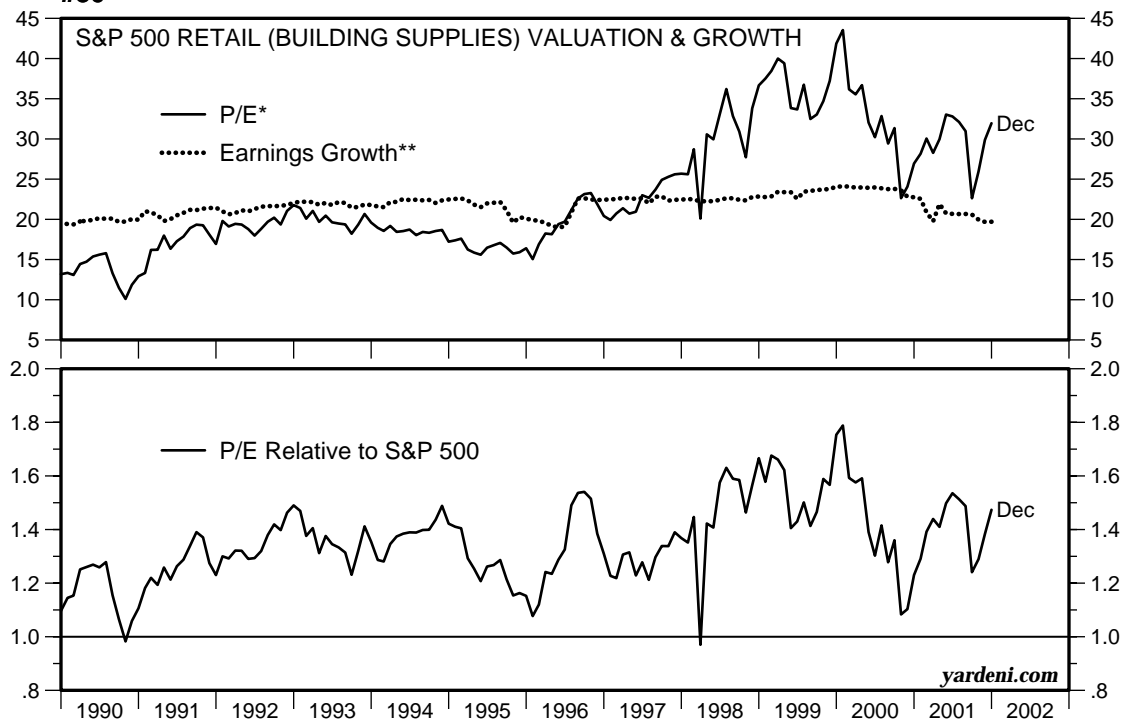
#29



Source: Earnings Squiggles at yardeni.com™

Building Supplies Retailers had a great earnings run during 1990s with a stumble in 1995/1996 and 2000/2001. All three consensus earnings estimates rose in Dec. P/E rose sharply to 32, while LTEG stabilized at lofty 19.7%.

#30

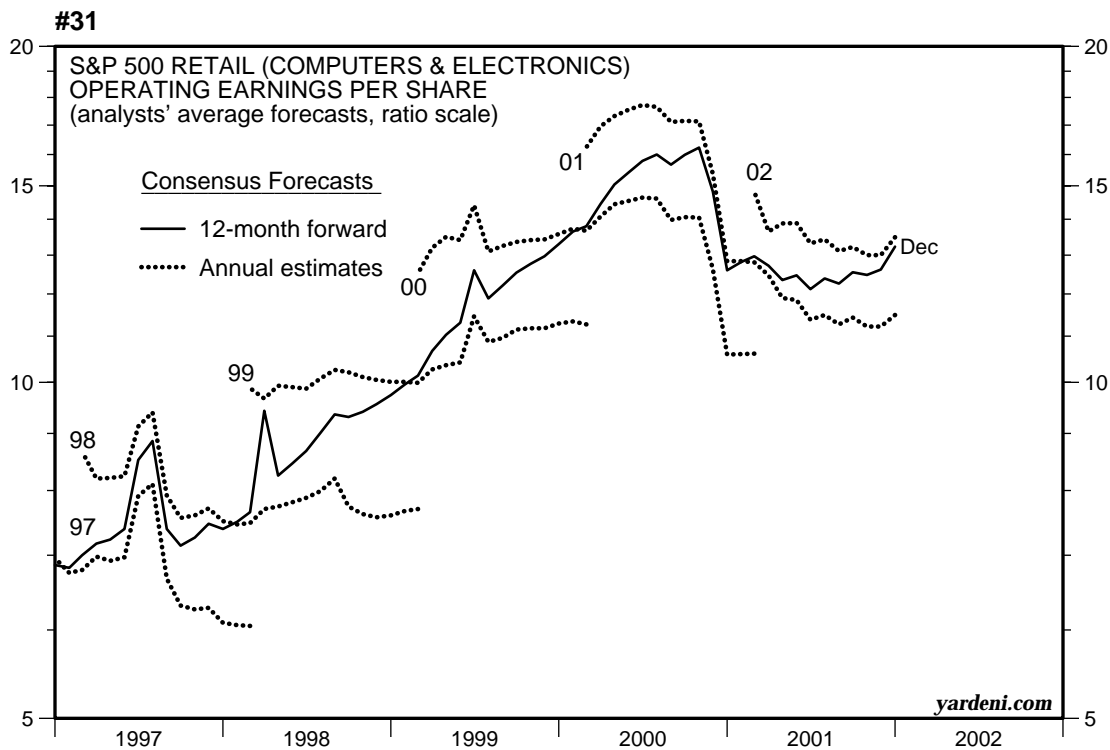


* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

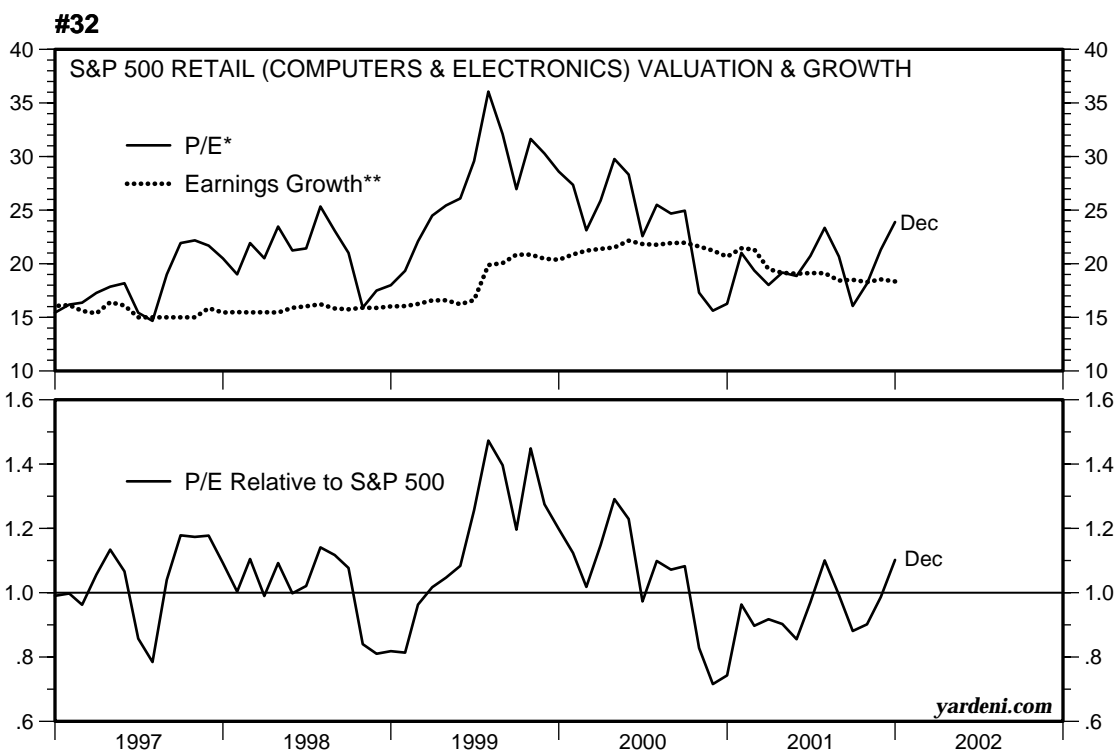
Source: Thomson Financial

- Consumer Cyclical: Retailers -



Source: Earnings Squiggles at yardeni.com™

For Computers & Electronics Retailers, all three earnings periods rose sharply in Dec. These retailers also enjoyed a great earnings run during 1990s and their P/Es soared. Consensus 2002 earnings expected to be 17.3% above 2001. LTEG stable around 18%.



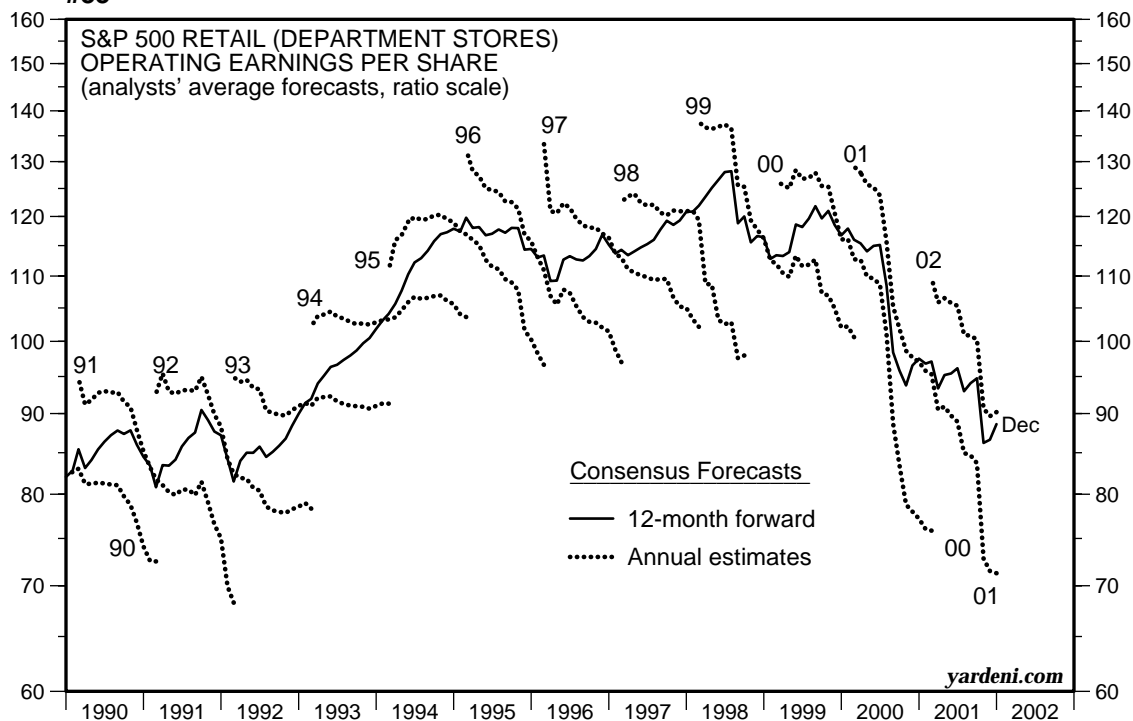
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

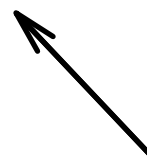
Source: Thomson Financial

- Consumer Cyclical: Retailers -

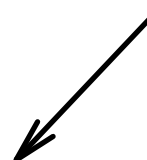
#33



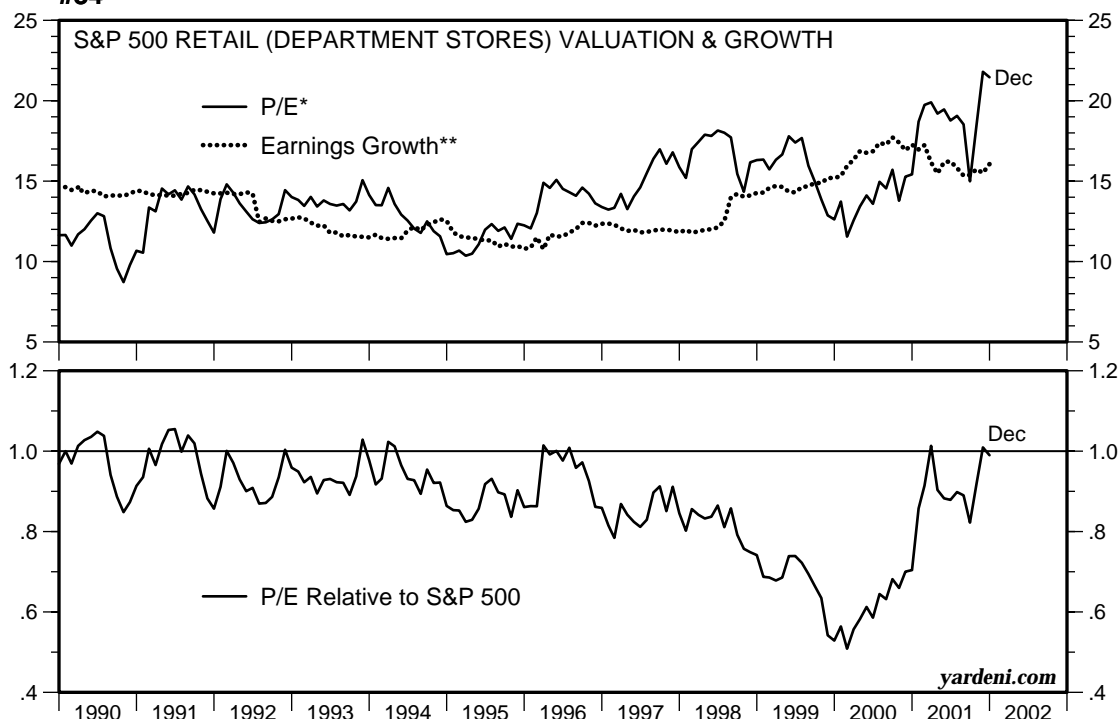
Source: Earnings Squiggles at yardeni.com™



For Department Stores, 2002 and consensus forward earnings expectations rose in Dec. 2001 fell to lowest level since early 1990s. 2002 expected to be up 26.5%, but only to 1993 level. P/E of 21.5 is near all-time high!



#34

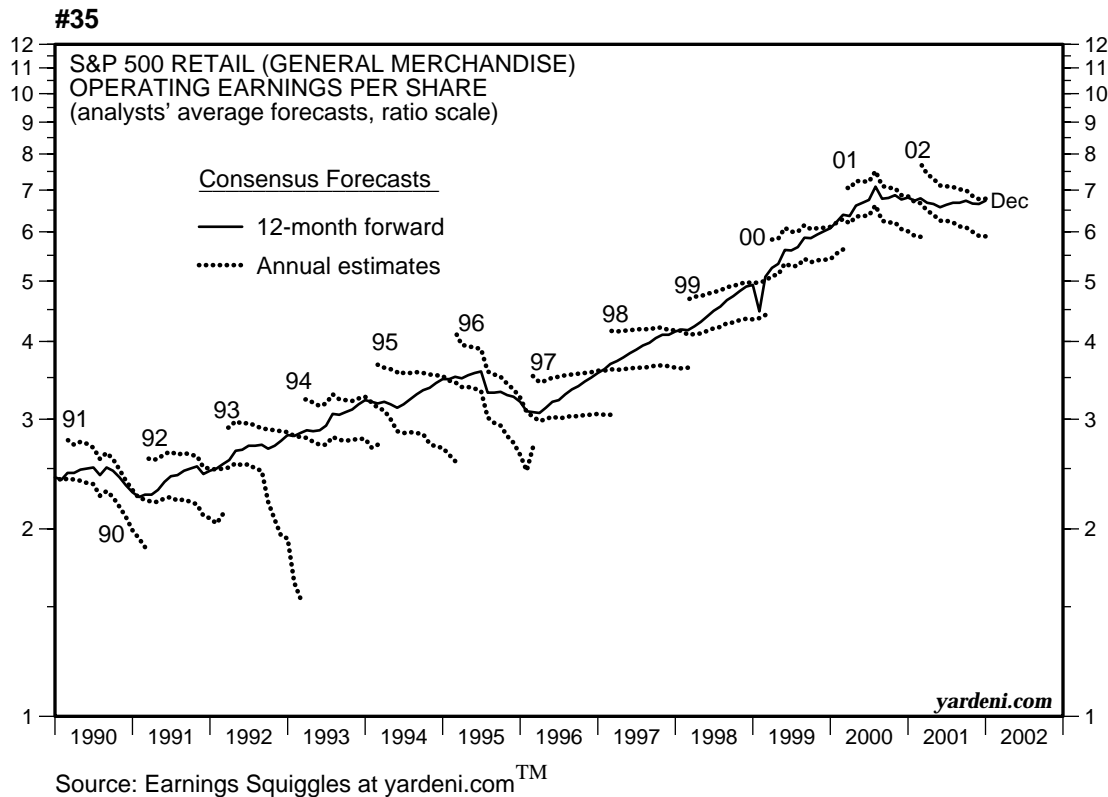


* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

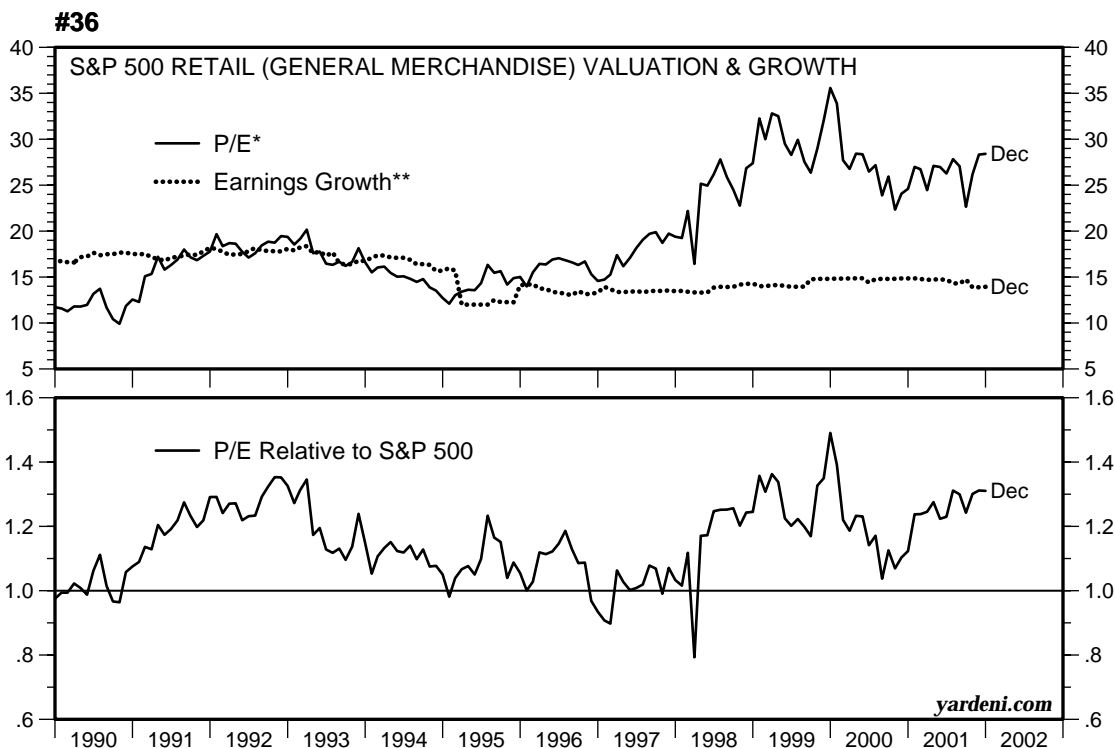
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Consumer Cyclicals: Retailers -



Consensus forward earnings estimate rose slightly in Dec as 2001 and 2002 estimates were relatively unchanged. After great earnings performance during second half of 1990s, the recent results have been unimpressive and the P/E isn't cheap.



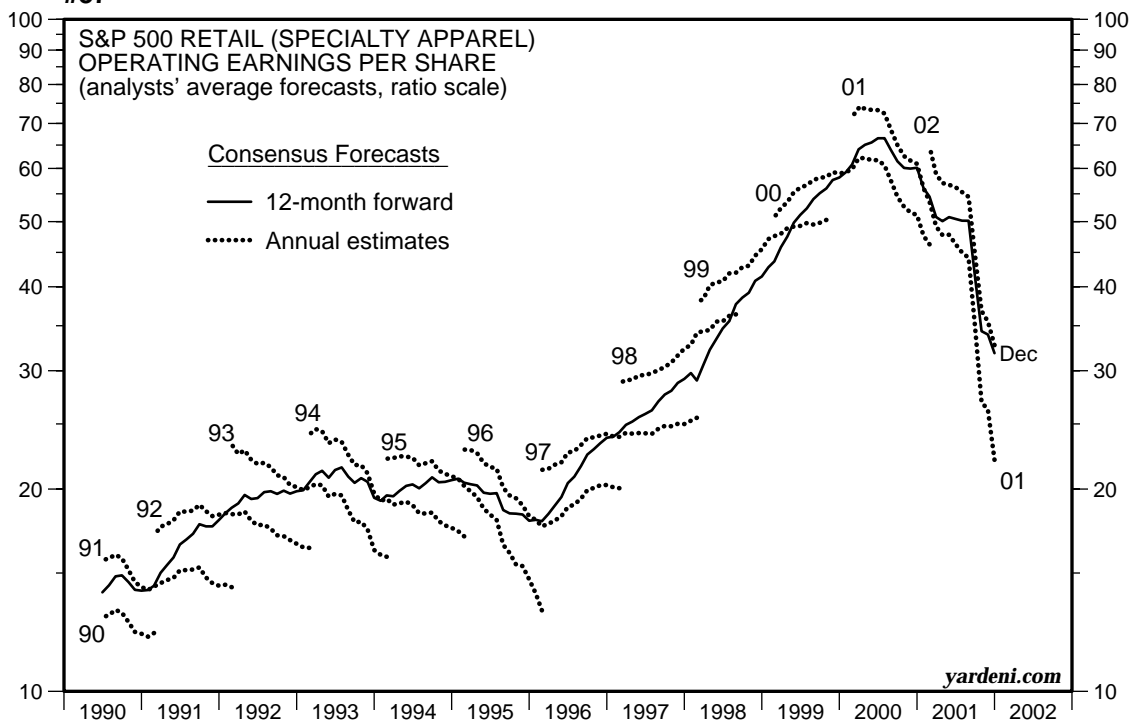
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Consumer Cyclical: Retailers -

#37

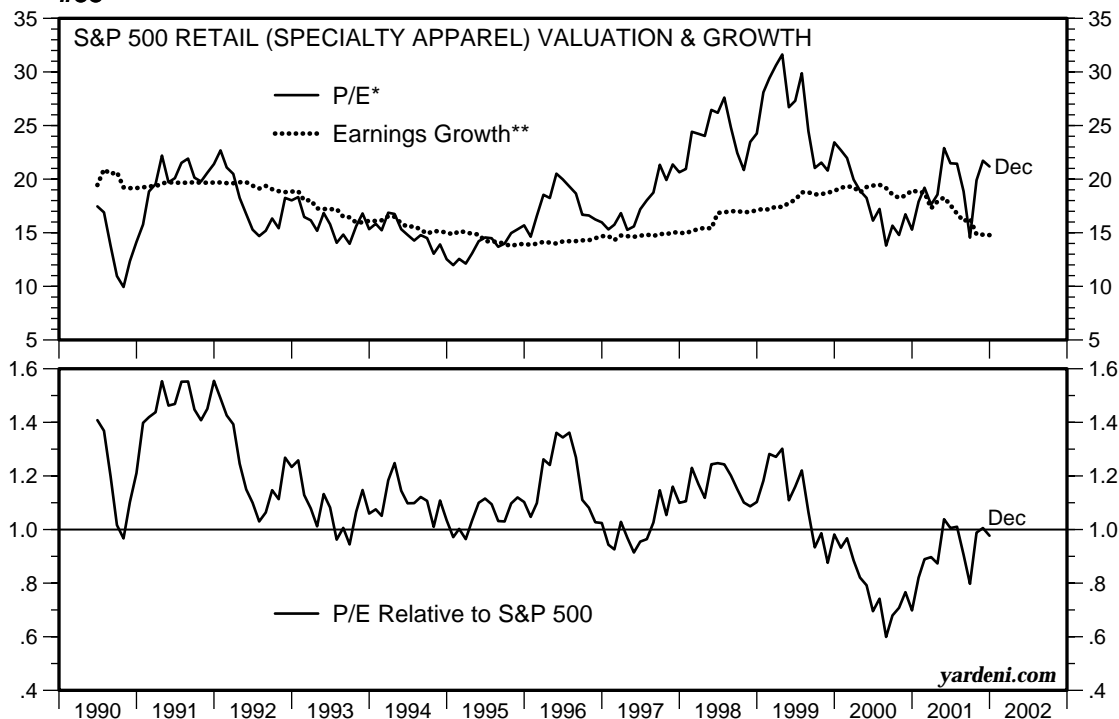


Source: Earnings Squiggles at yardeni.com™



Specialty Apparel earning's hot streak during second half of 1990s has turned cold. All three earnings periods declined sharply in Dec. LTEG of 14.8% is down from Jul 2000 peak of 19.5%.

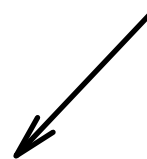
#38



* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

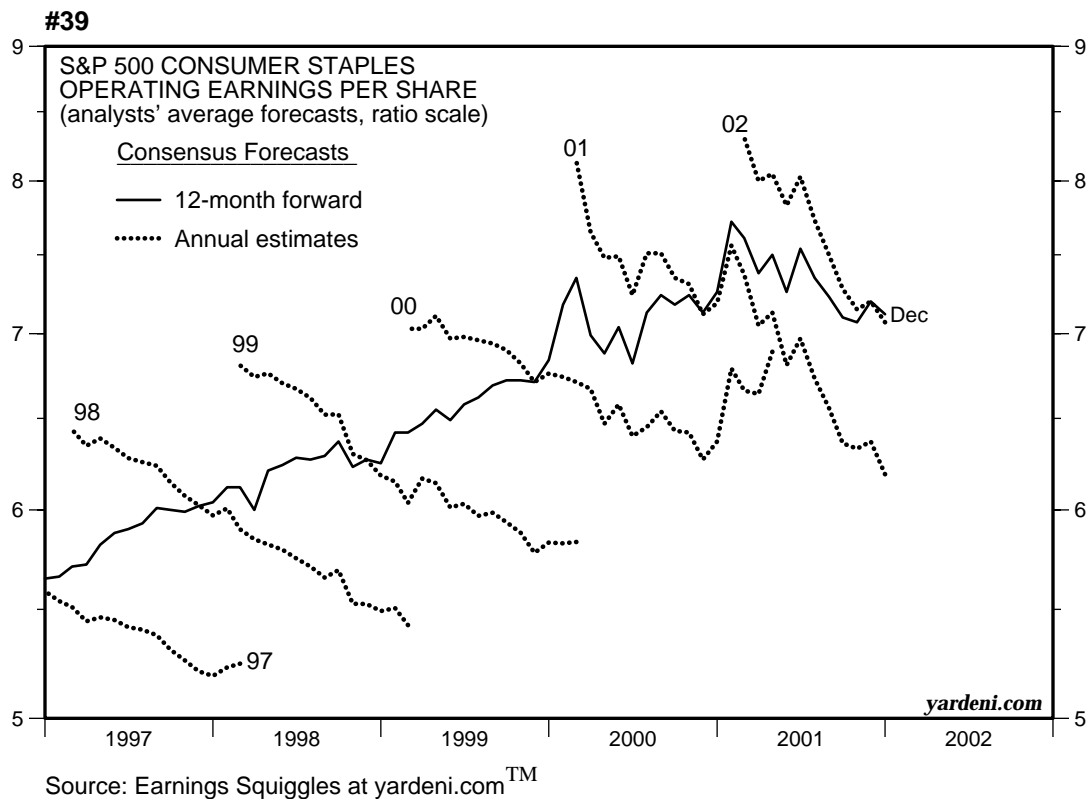
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

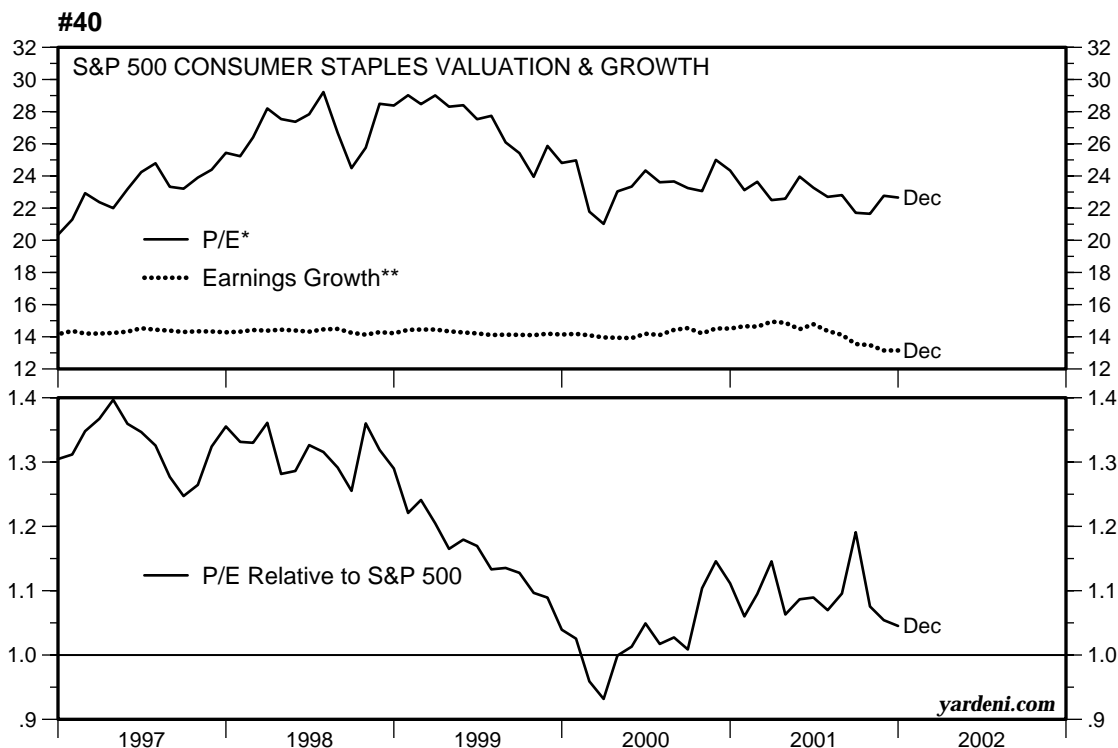


- Consumer Staples -

Staples Stalled: All three earnings periods fell sharply in Dec. 2002 expected to be up 14.2% from 2001 to a new record level.



Forward P/E of 22.7 is well above 13.2% long-term consensus earnings growth. P/E has been trending down since mid-1998. Not a cheap sector.



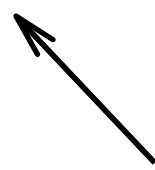
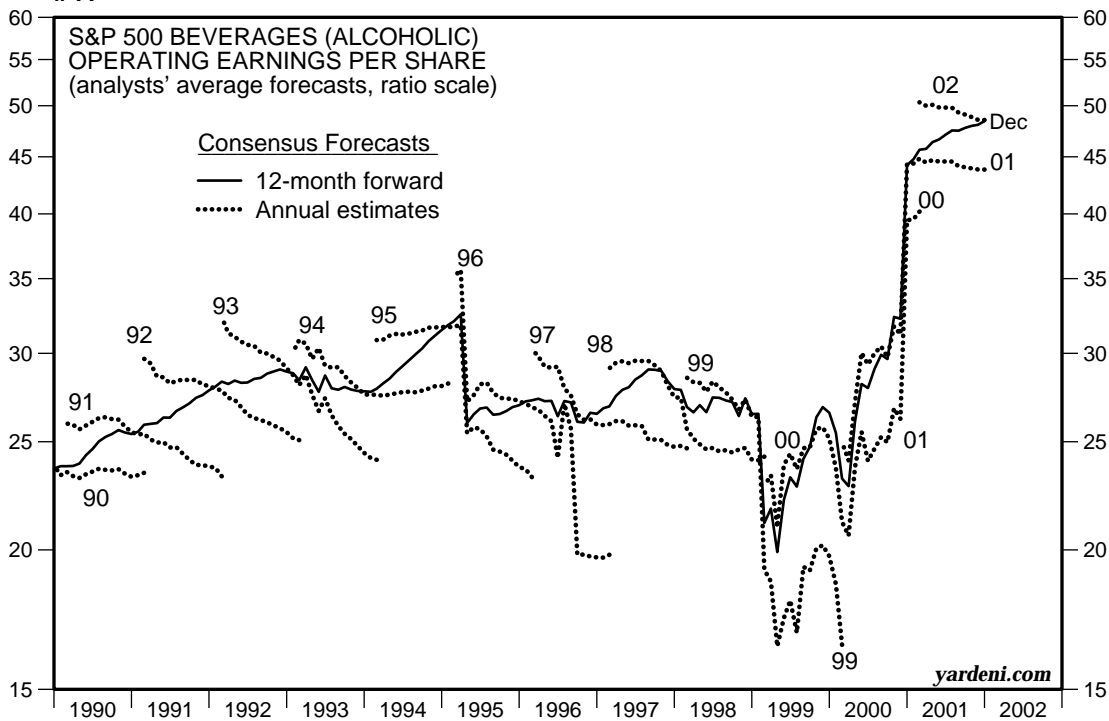
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

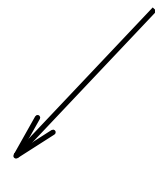
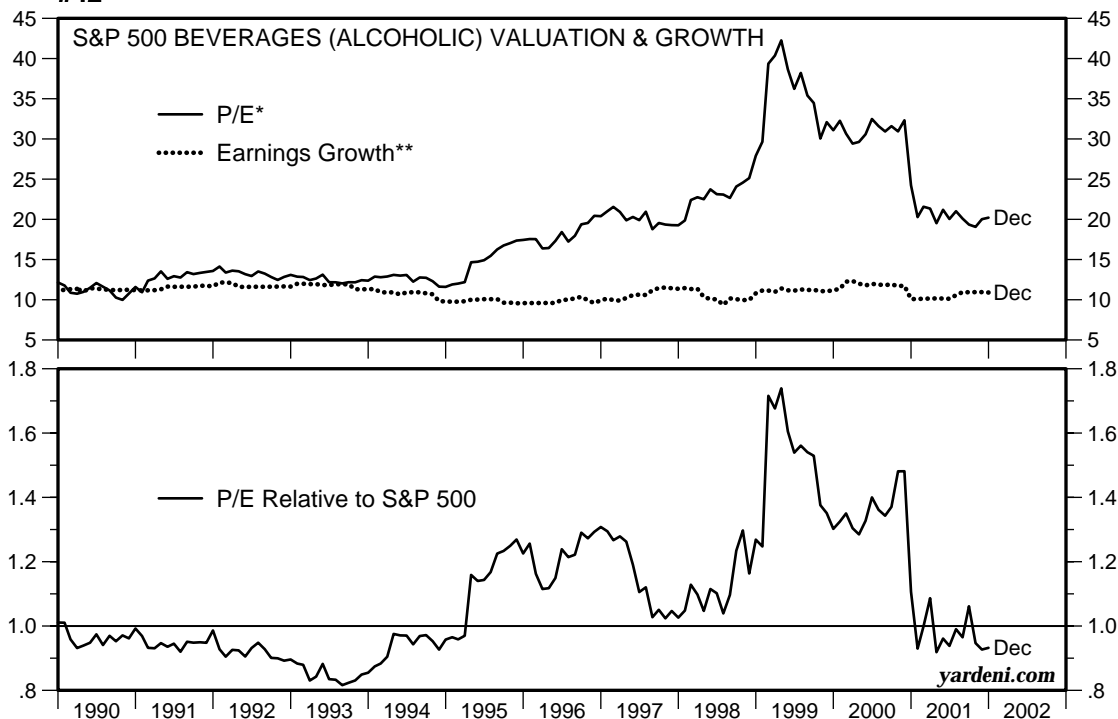
- Consumer Staples: Beverages -

#41



Consensus forward earnings estimate rose in Dec although 2001 and 2002 estimates fell slightly. P/E cut in half since 1999 peak as earnings soar after Seagram's removal from the index.

#42



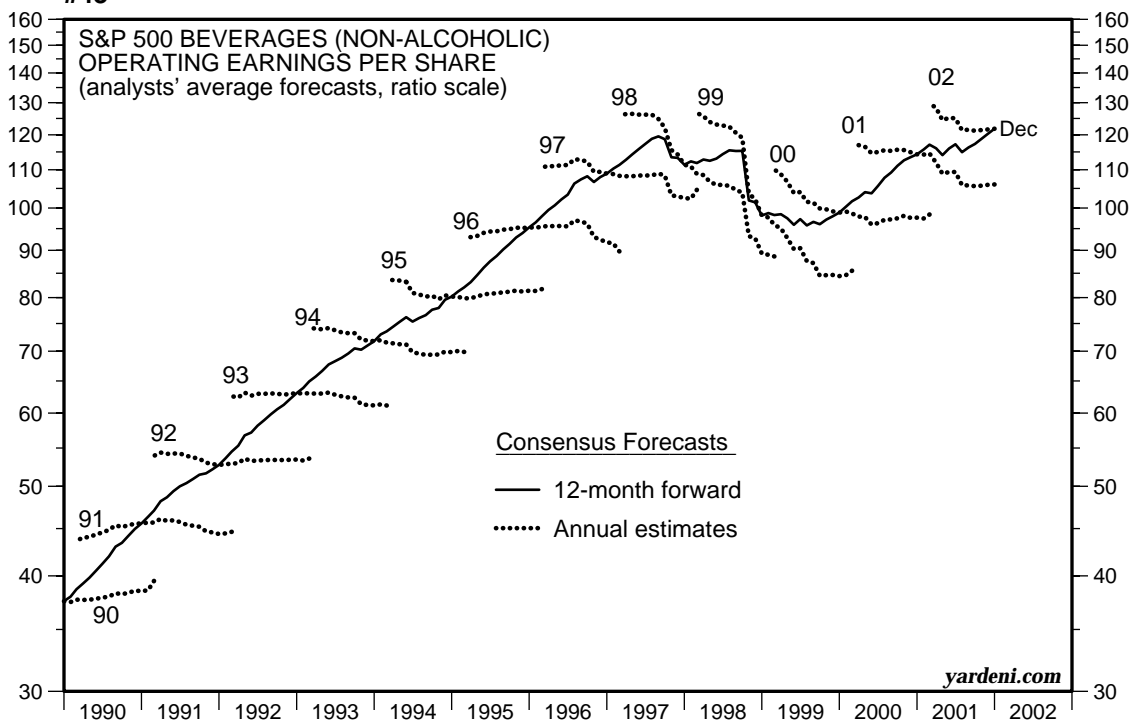
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Consumer Staples: Beverages -

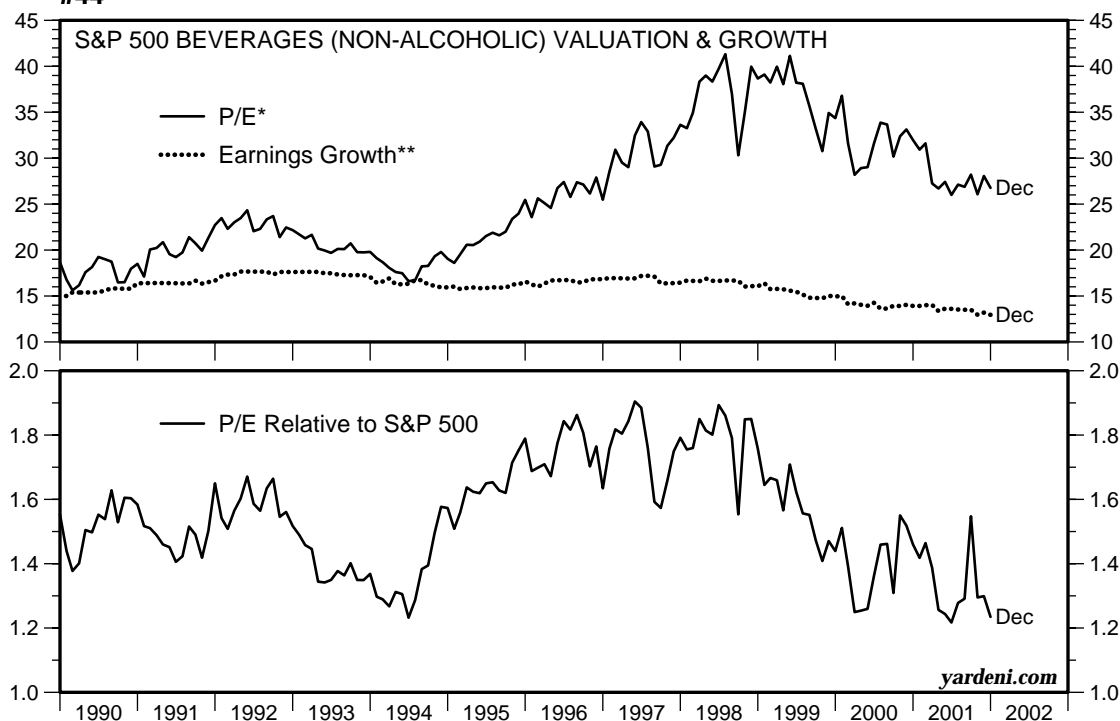
#43



Source: Earnings Squiggles at yardeni.com™

↑
All three earnings estimates edged higher in Dec. Consensus expects 14.9% increase in 2002 earnings to a new record high. P/E high, especially relative to LTEG, which is trending down.

#44



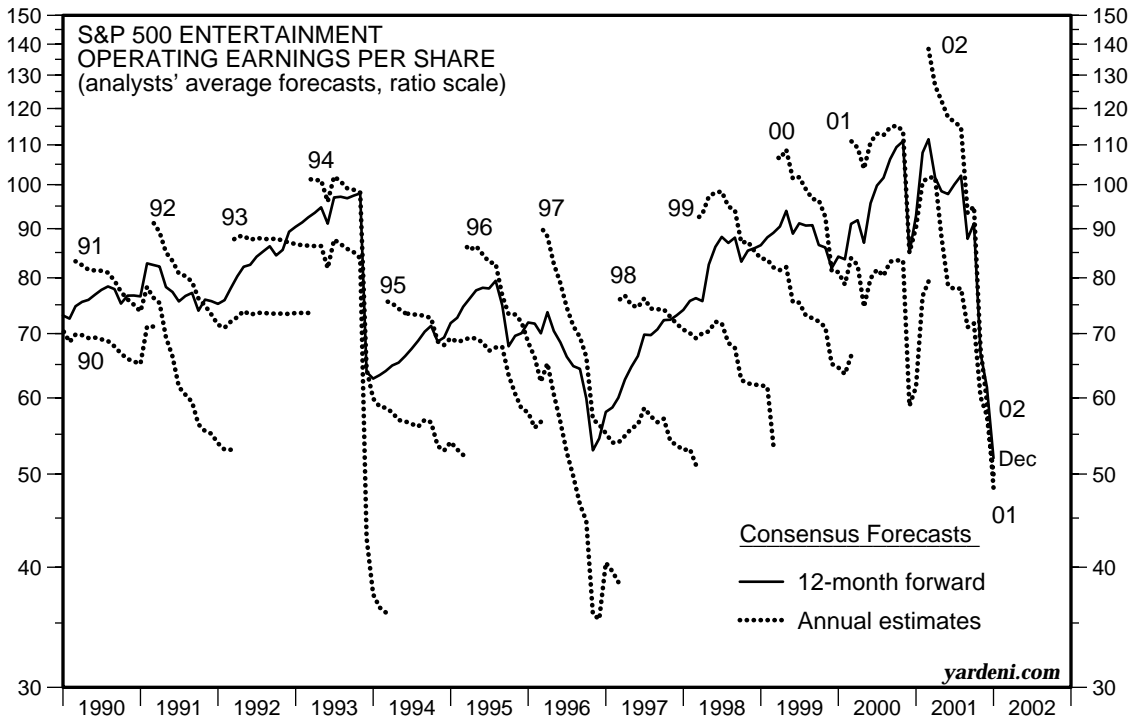
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

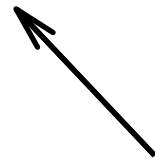
Source: Thomson Financial

- Consumer Staples: Entertainment -

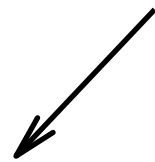
#45



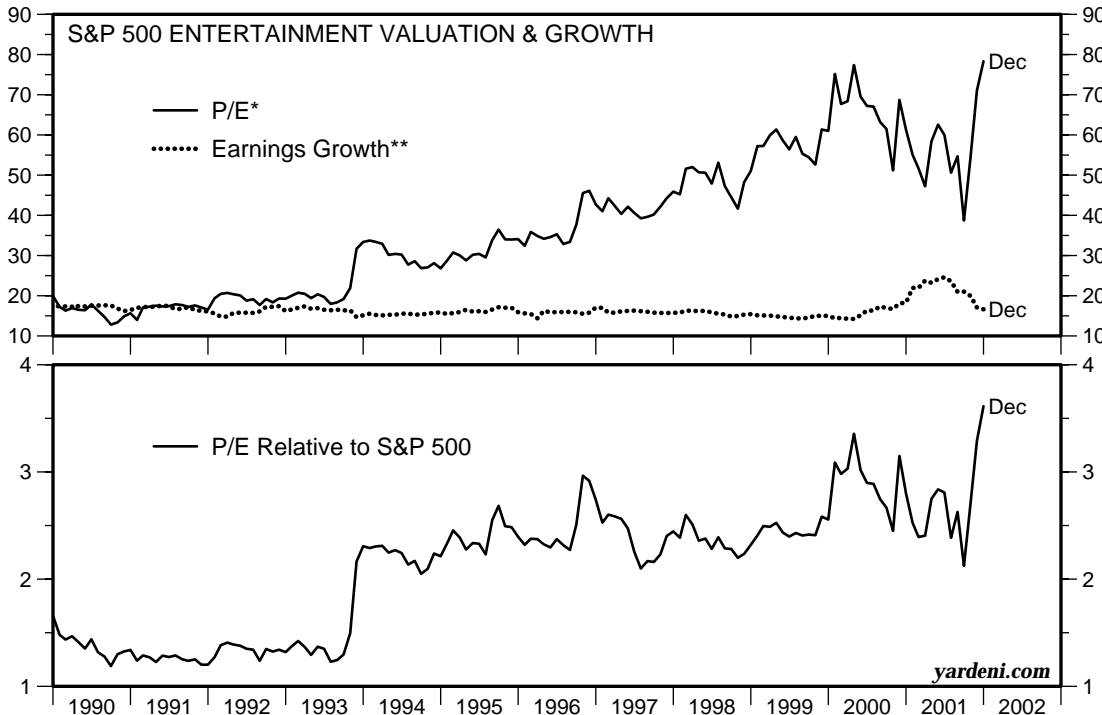
Source: Earnings Squiggles at yardeni.com™



That's Entertainment: Earnings are very volatile. All three earnings periods showed sharply lower expectations in Dec. Long-term earnings growth expectations down to 16.6% as P/E soars to an all-time high of 78.3.



#46

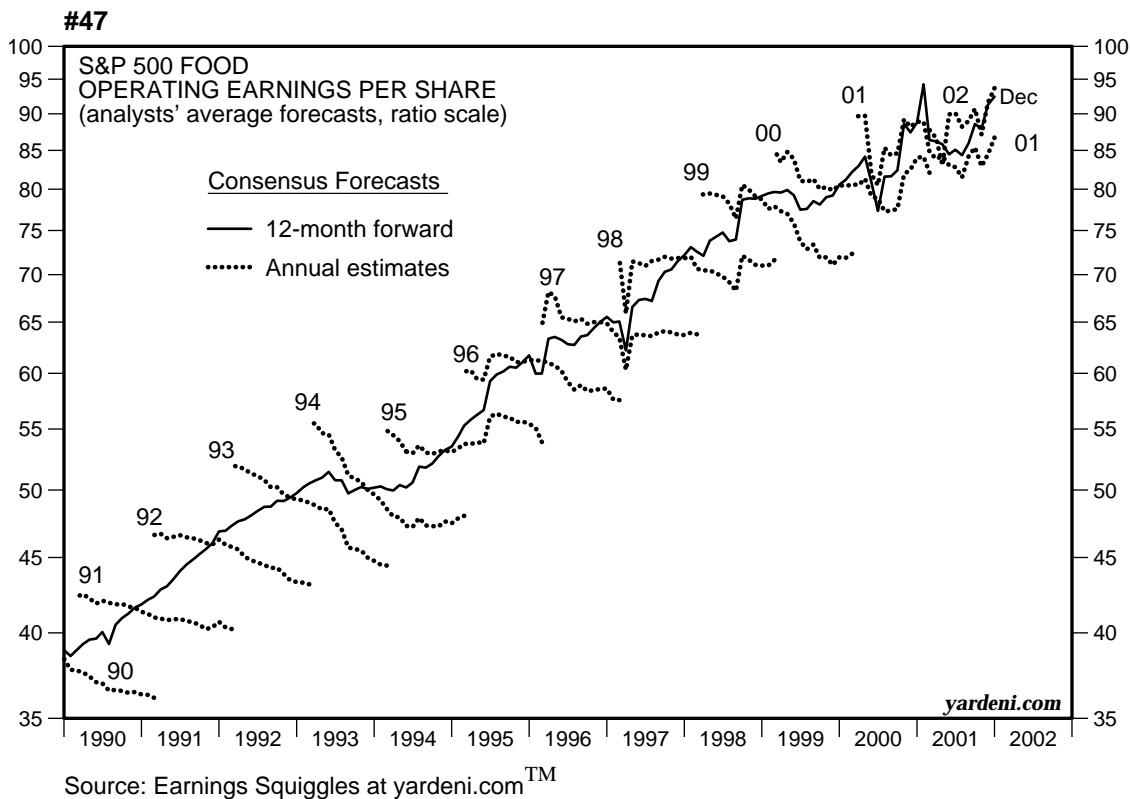


* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

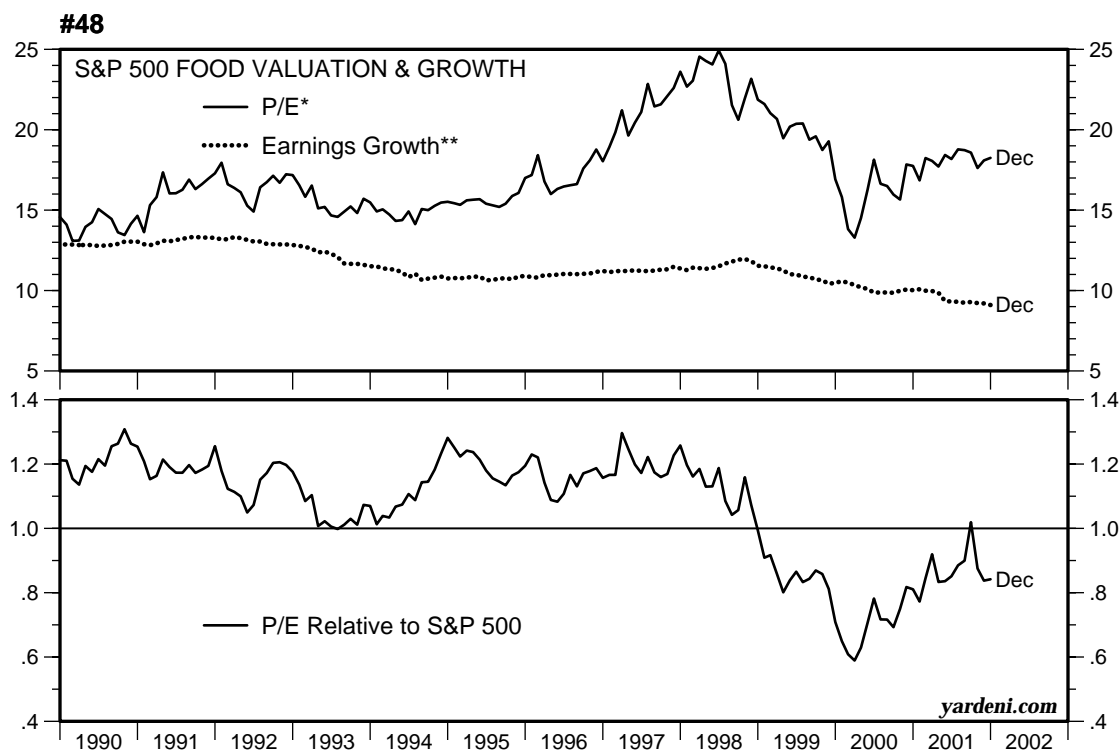
Source: Thomson Financial

- Consumer Staples: Foods -



Food for thought:
Analysts are raising
2002 earnings
estimate.

Long-term earnings
growth expectations
down to 9.1%, but
P/E rebounding
from 2000 low.



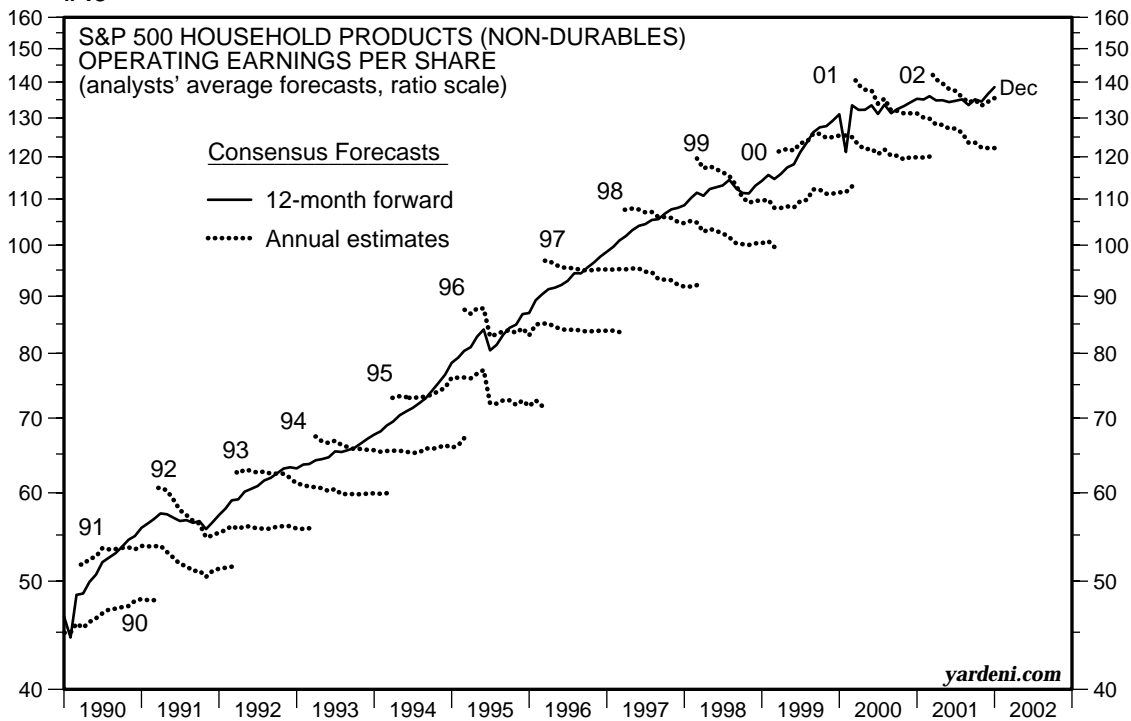
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

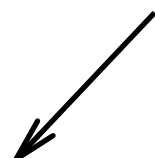
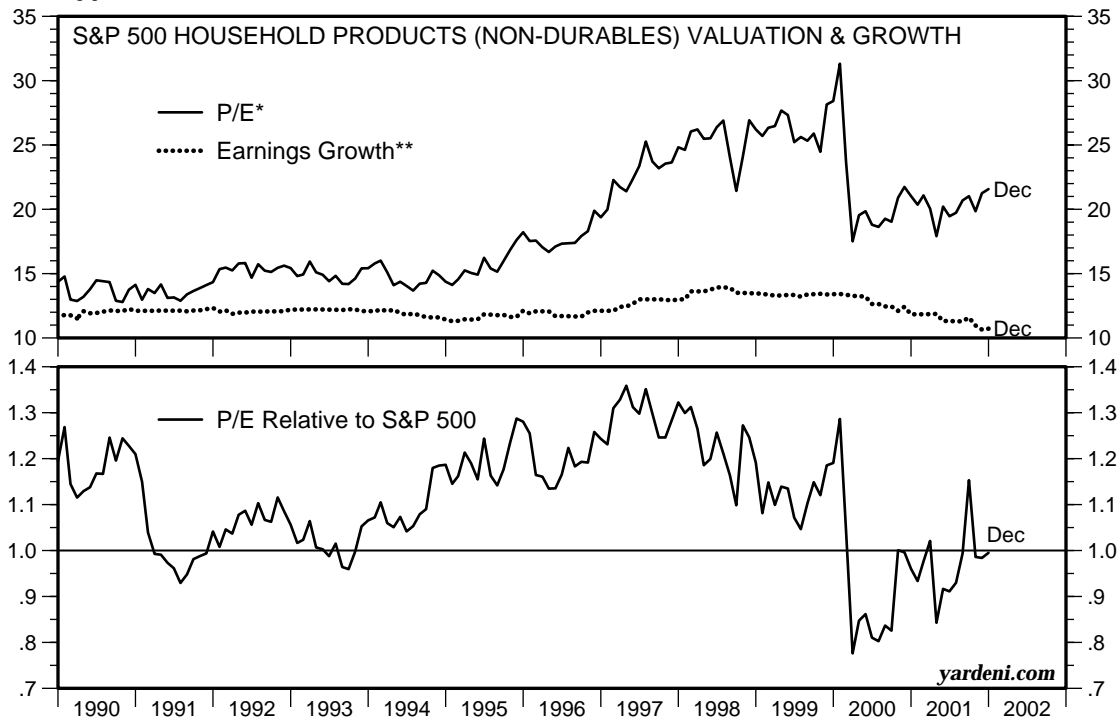
- Consumer Staples: Products -

#49



Forward earnings increased slightly in Dec, but remain in flat trend since early 2000. P/E rose to 21.6 while long-term earnings growth stabilizes at 10.7%, the lowest reading since 1989.

#50

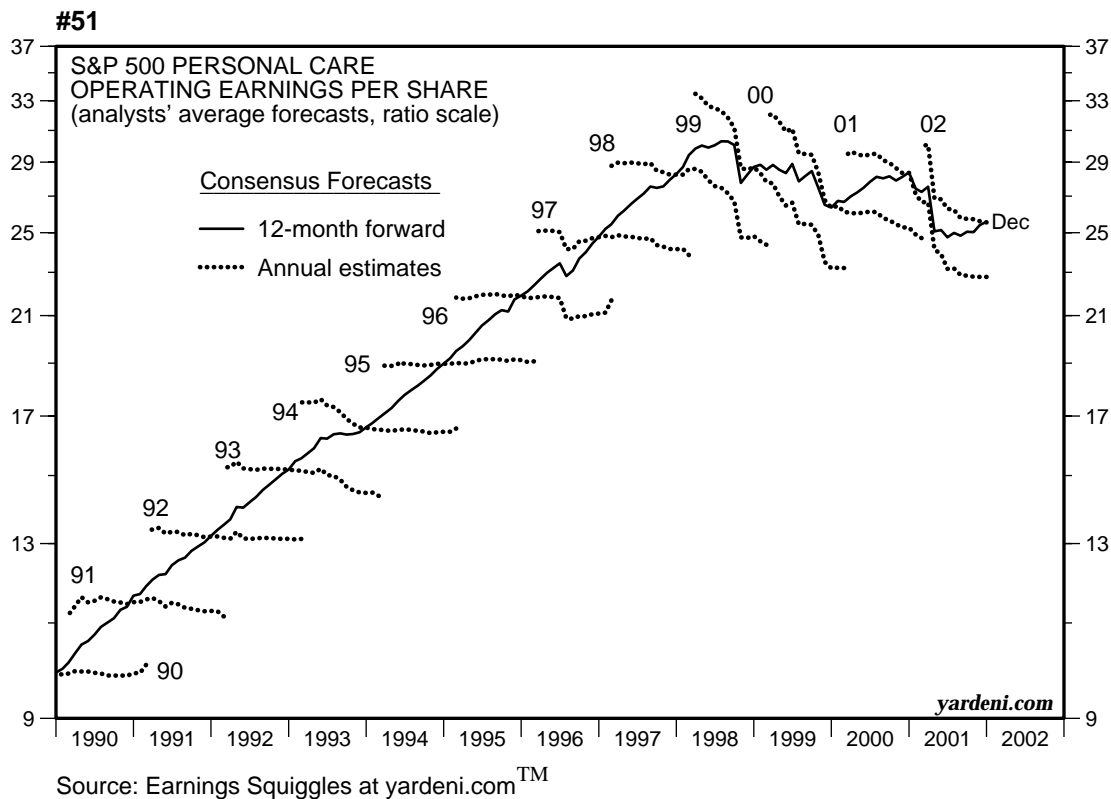


* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

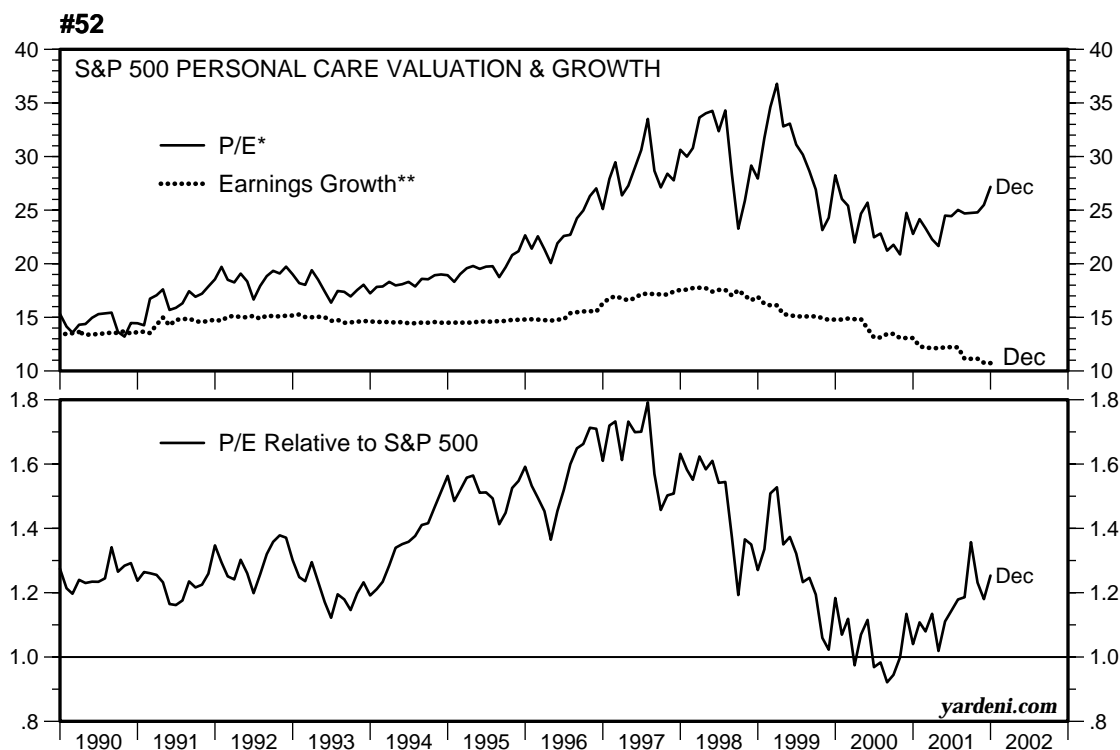
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Consumer Staples: Personal Care -



All three earnings periods were steady in Dec. P/E rose to 27.2 as LTEG dropped to 10.7%, the lowest since 1987.



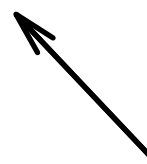
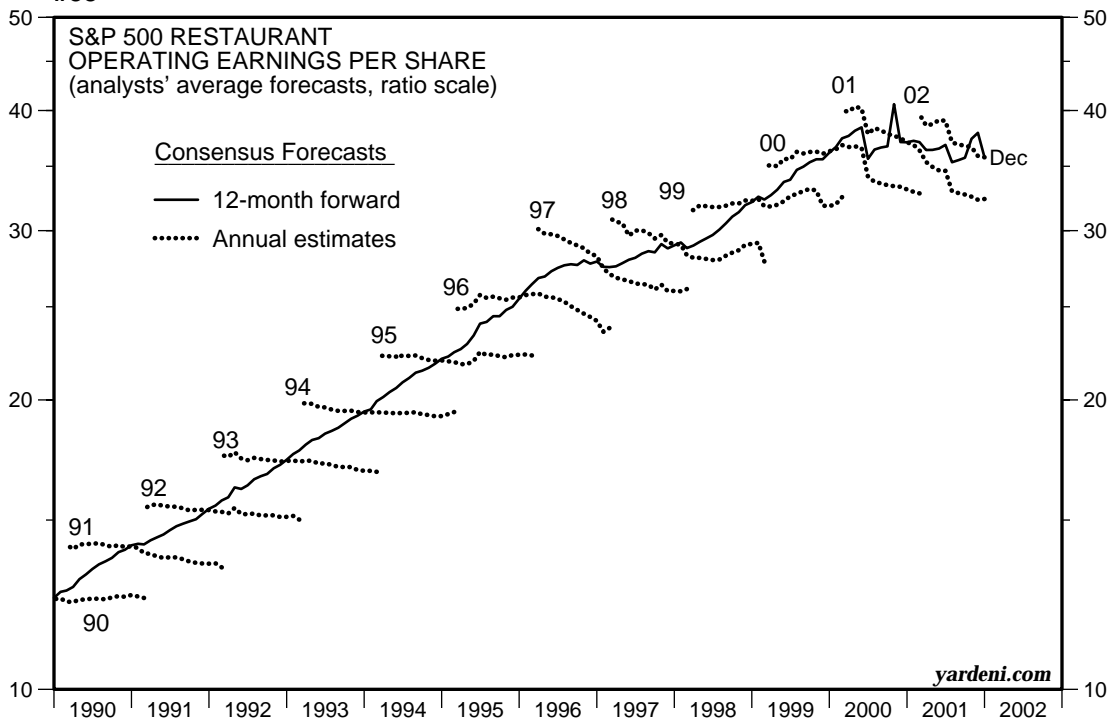
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

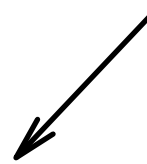
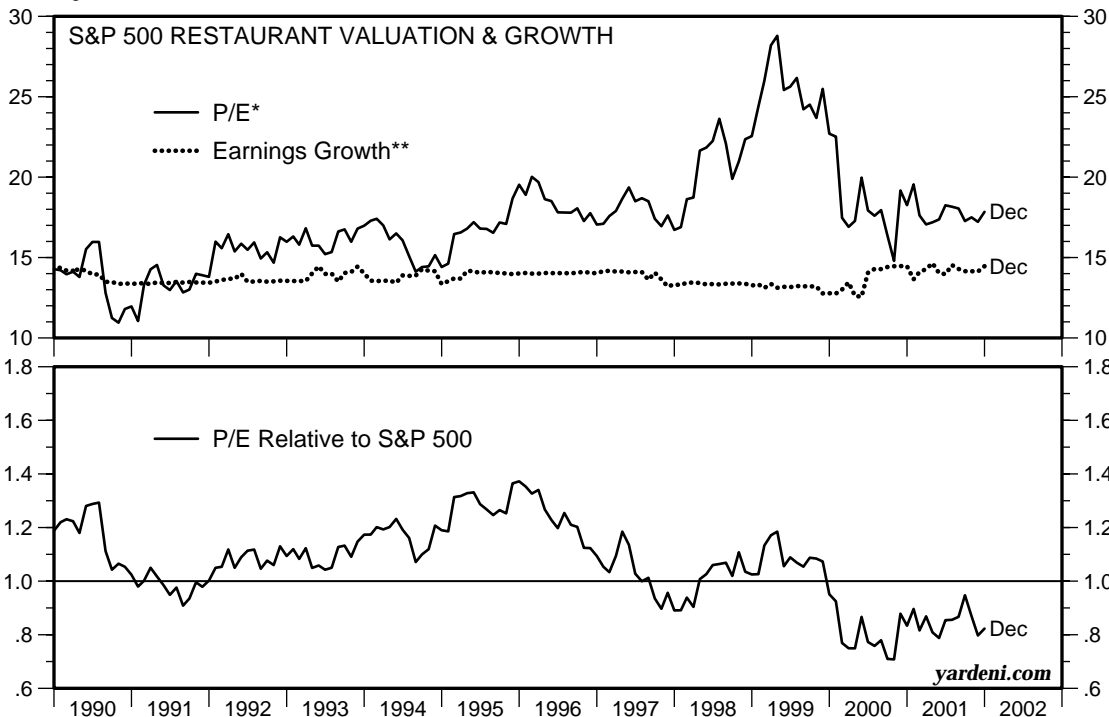
- Consumer Staples: Restaurants -

#53



Restaurants earnings were sizzling during 1990s, with P/E jumping close to 30 in 1999. Both earnings and P/E have been cooling ever since.

#54

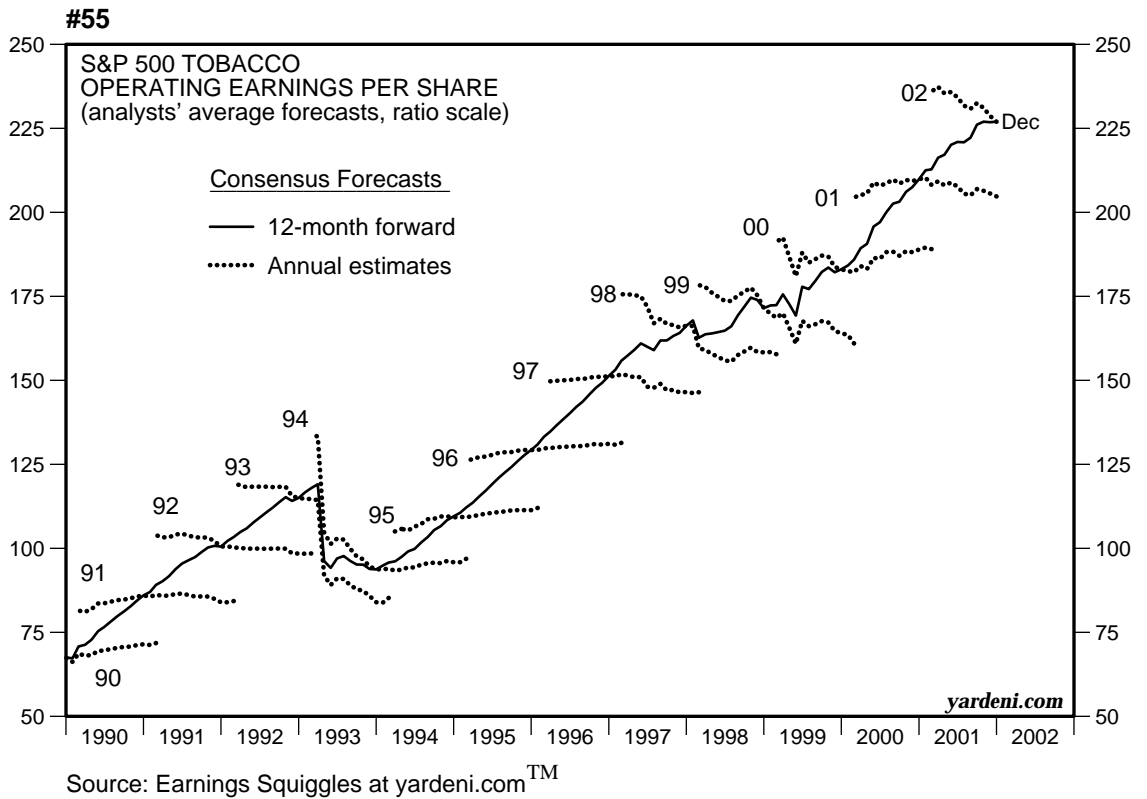


* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

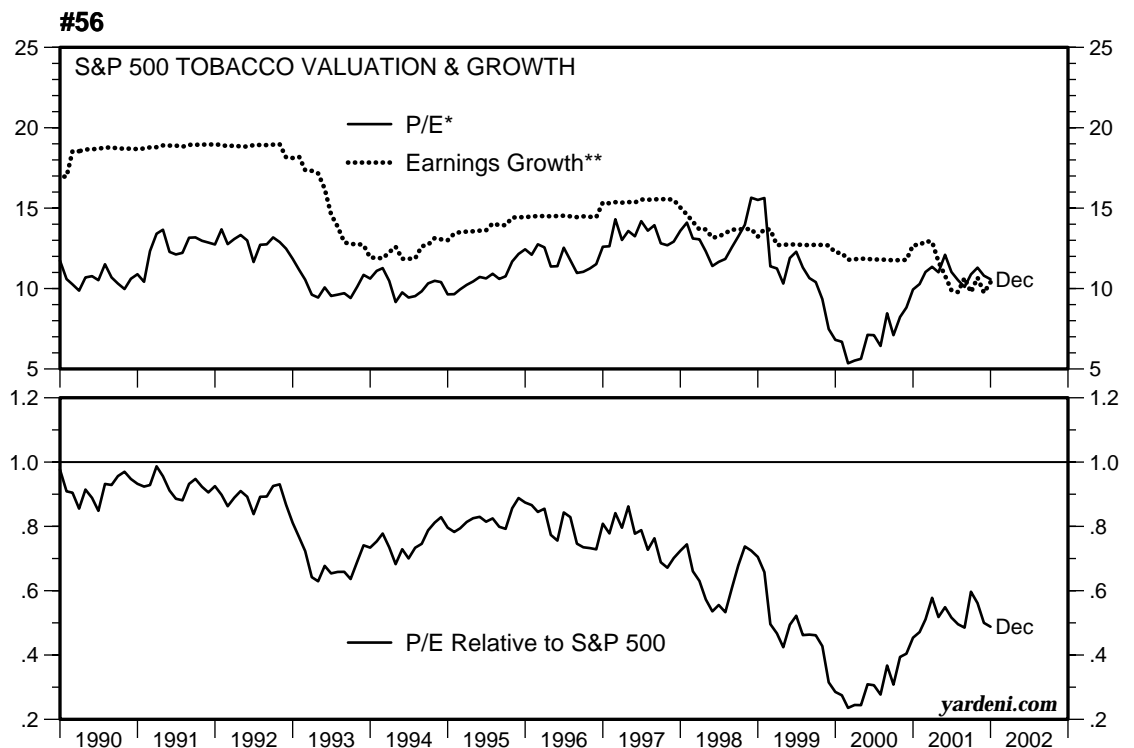
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Consumer Staples: Tobacco -



Something to chew on: Tobacco earnings are more predictable than Tobacco P/E. 2002 earnings expected to be up 10.9% to a new record high.



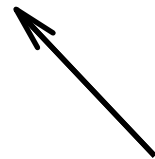
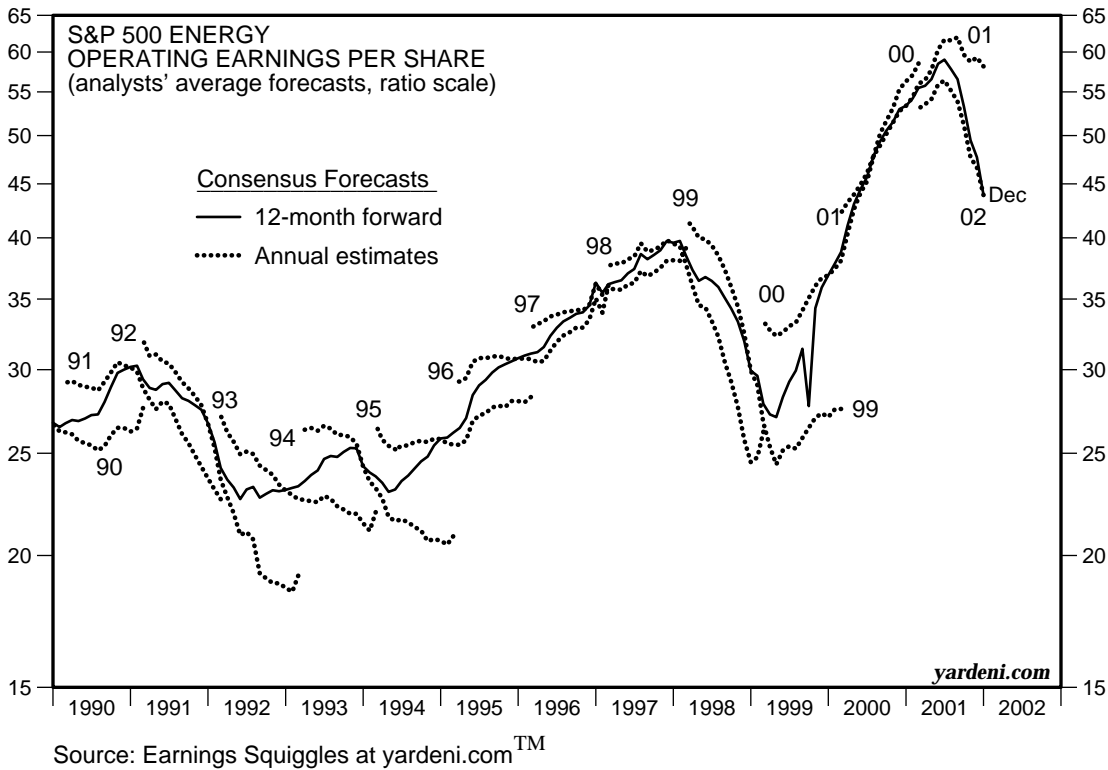
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

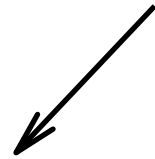
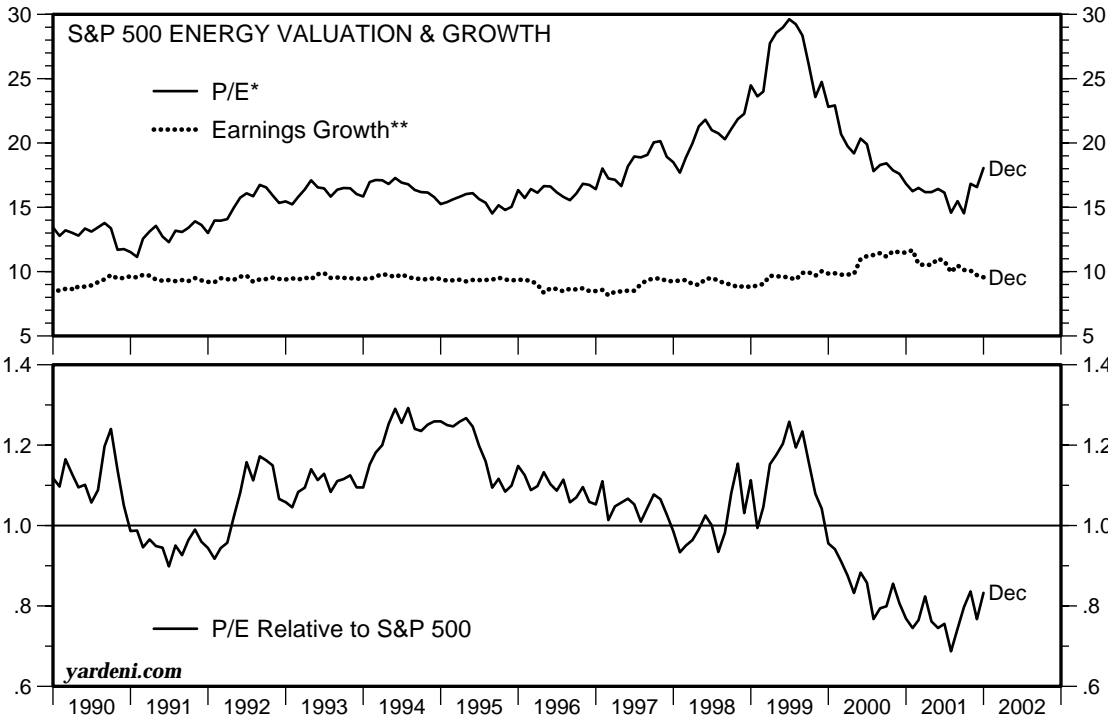
- Energy -

#57



In Dec, forward earnings expectations fell for the sixth straight month. 2002 earnings are expected to be 24.5% below 2001. LTEG fell to 9.6%.

#58

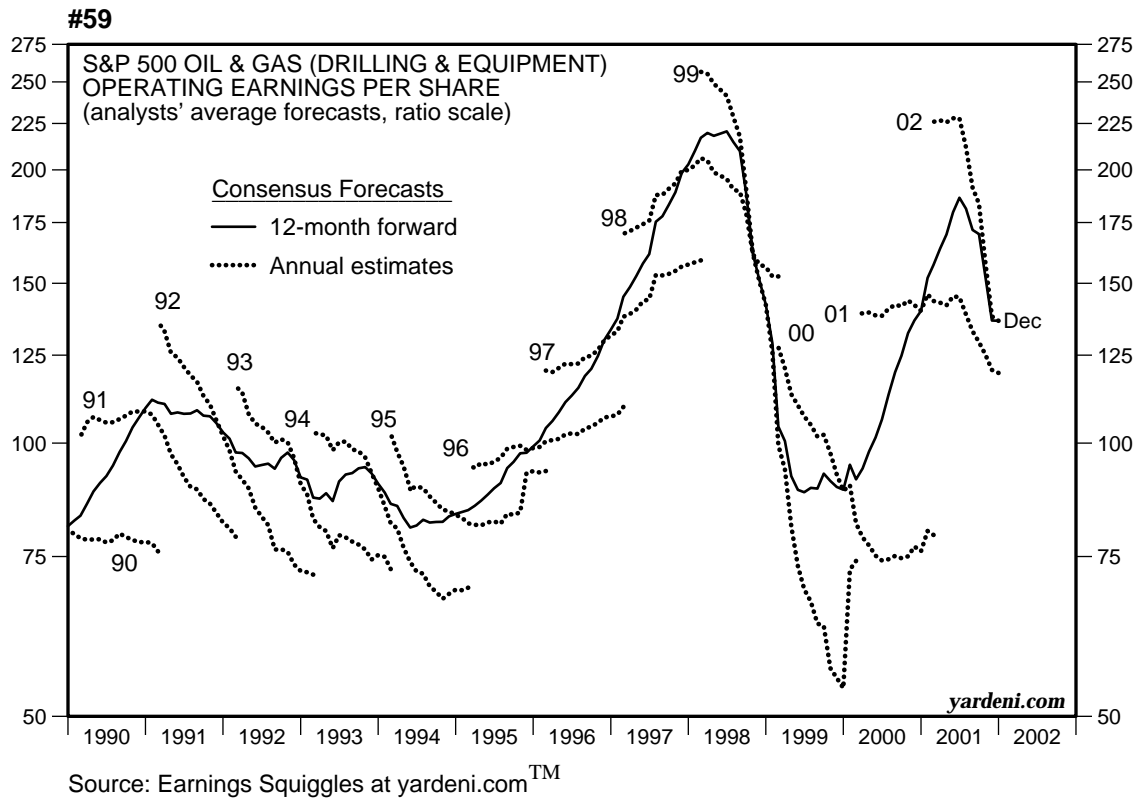


* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

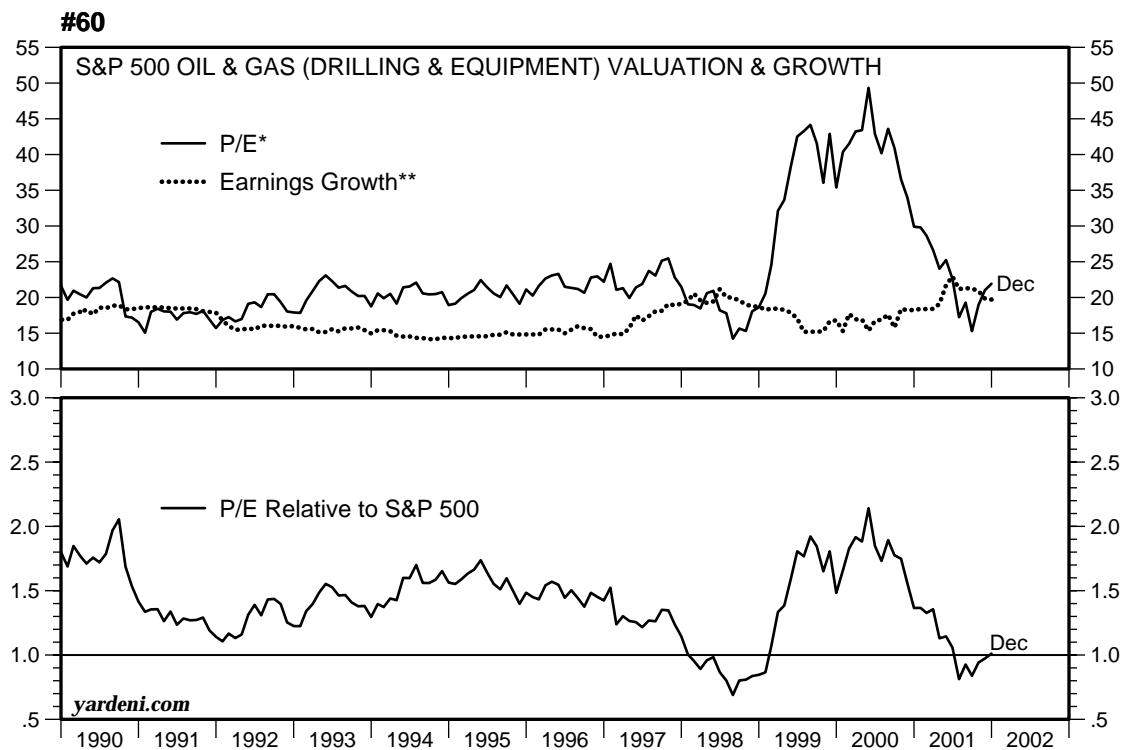
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Energy: Drilling -



For Drilling & Equipment, all three earnings periods decreased in Dec. Analysts currently expect 2002 results to exceed 2001 by 14.2%, yet investors have cut P/E by more than half since 2000 peak.

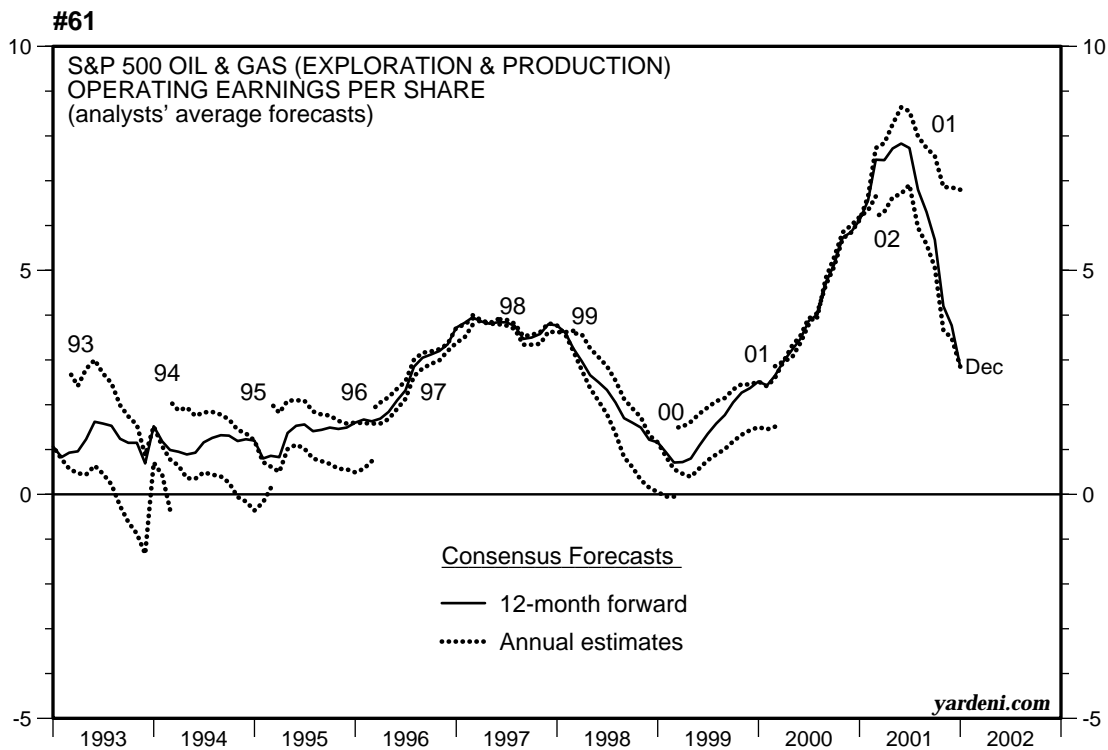


* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

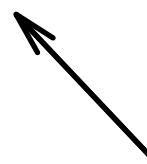
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

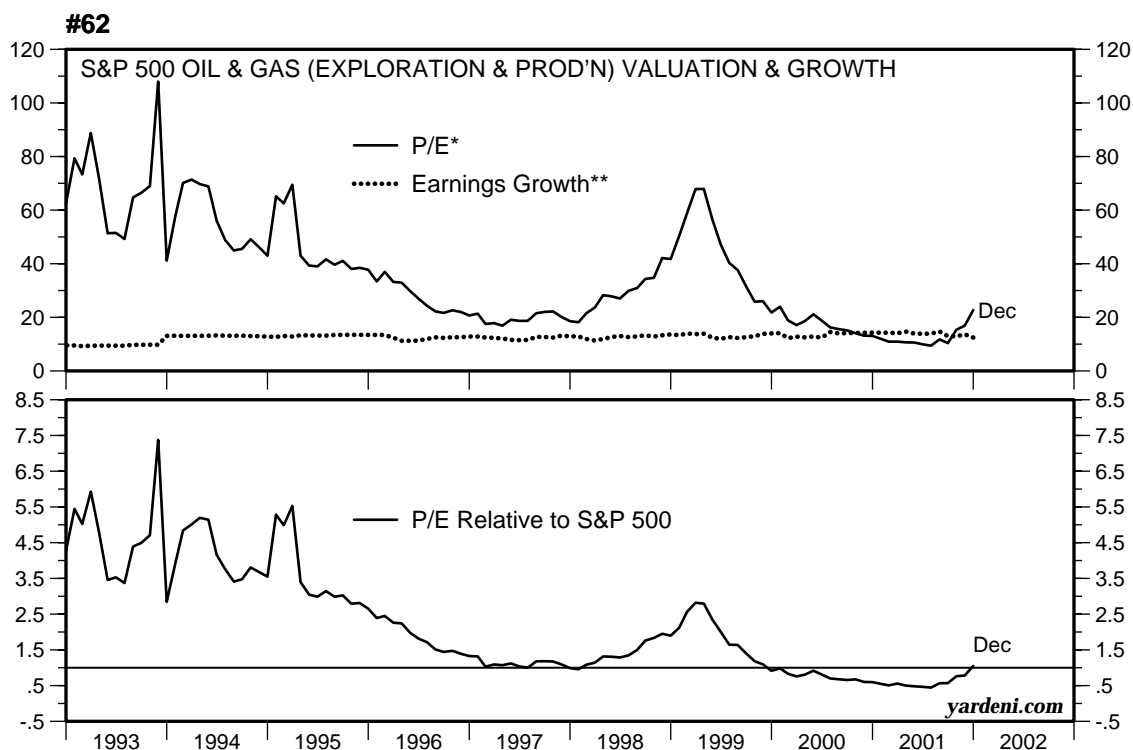
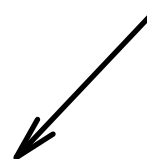
- Energy: Exploration -



Source: Earnings Squiggles at yardeni.com™



For Exploration & Production, all three earnings periods have declined substantially in the past seven months. 2002 earnings expected to fall 58.1% below 2001.

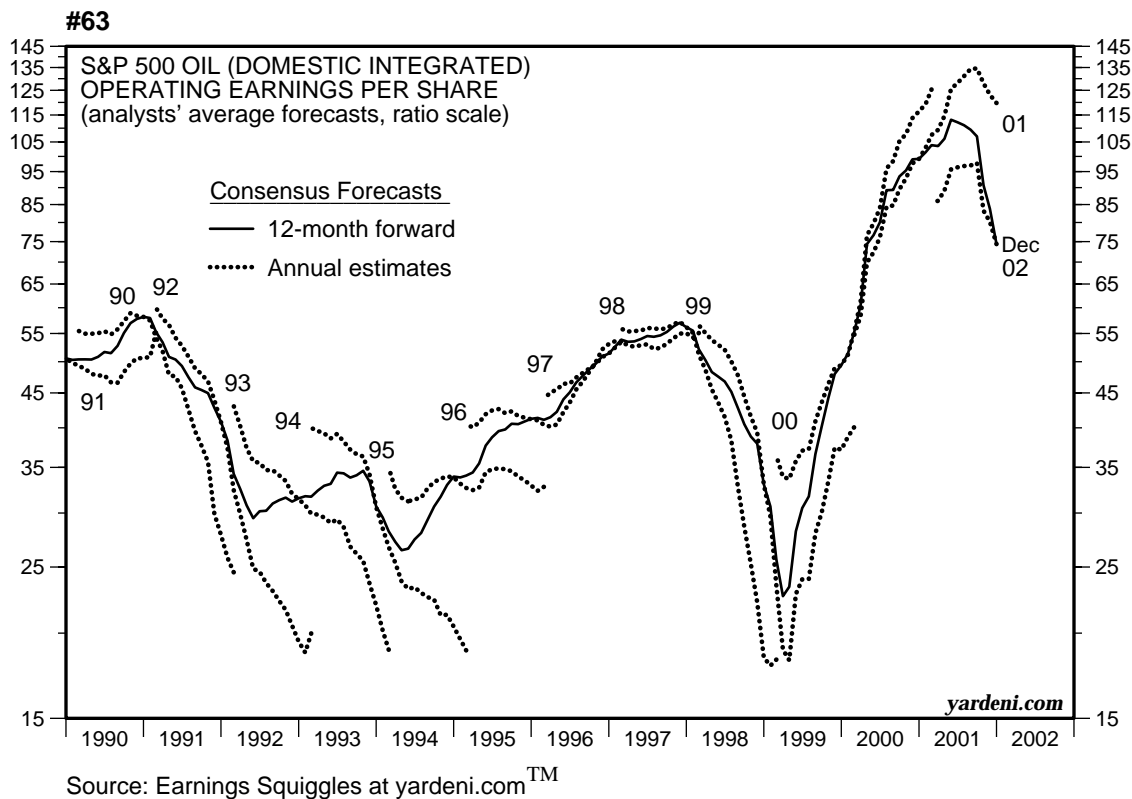


* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

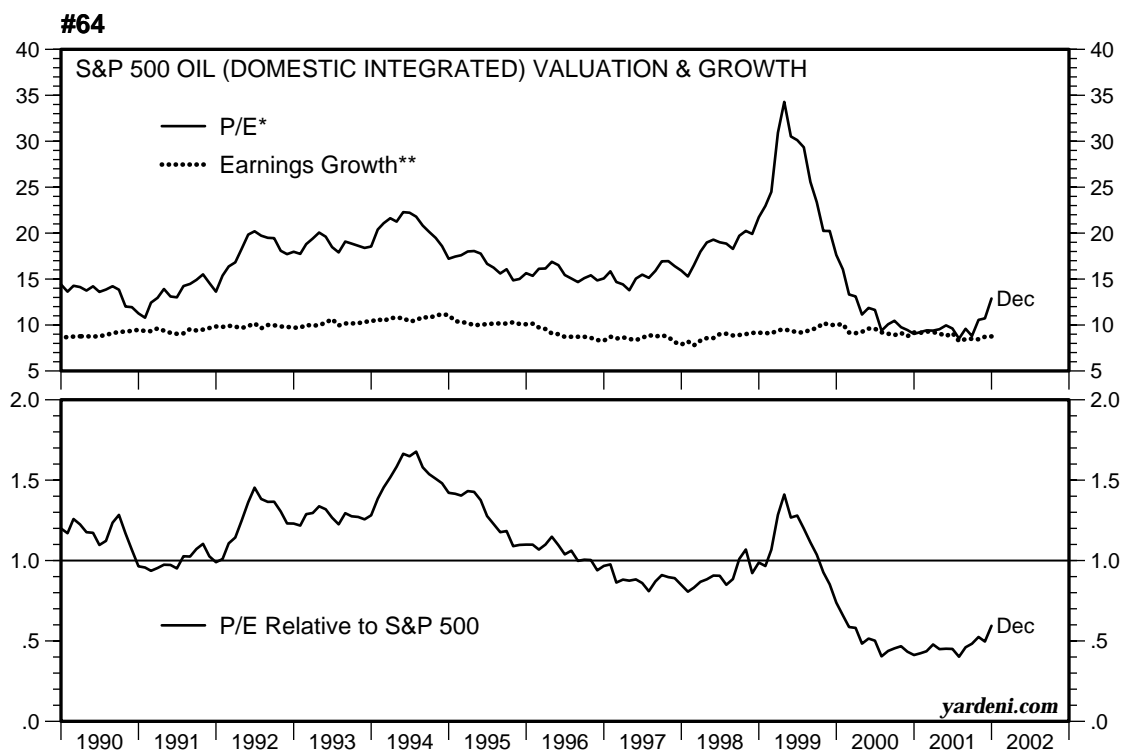
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Energy: Integrated (Domestic) -



For Domestic Integrated, all three earnings periods declined in Dec. 2002 earnings expected to be 37.9% below 2001. Relative P/E improving from recent all-time low.



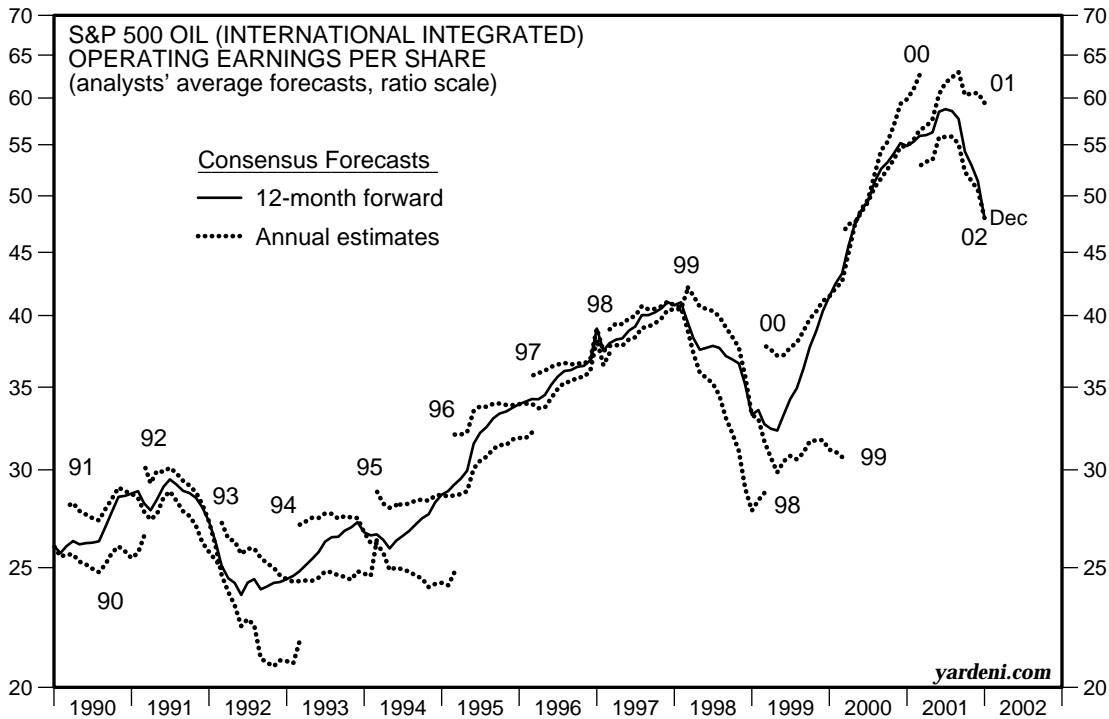
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

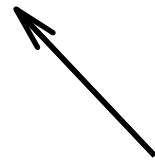
Source: Thomson Financial

- Energy: Integrated (International) -

#65

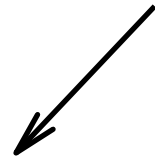
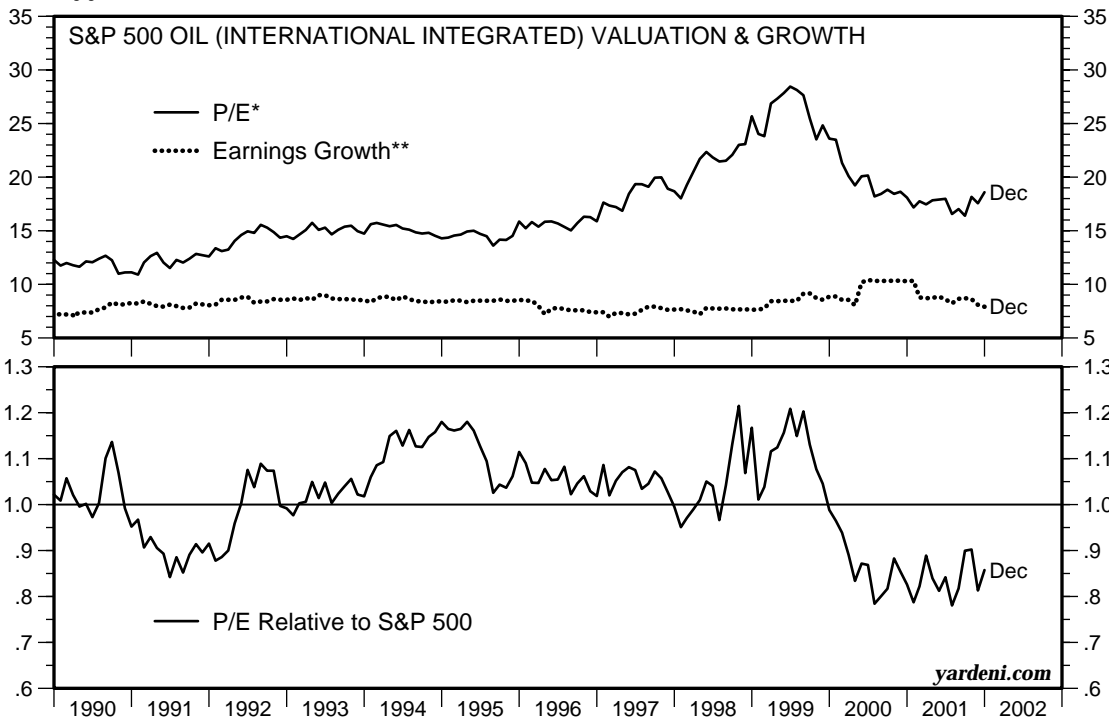


Source: Earnings Squiggles at yardeni.com™



For International Integrated, 2002 earnings expected to be 19.3% below 2001. P/E is relatively low.

#66

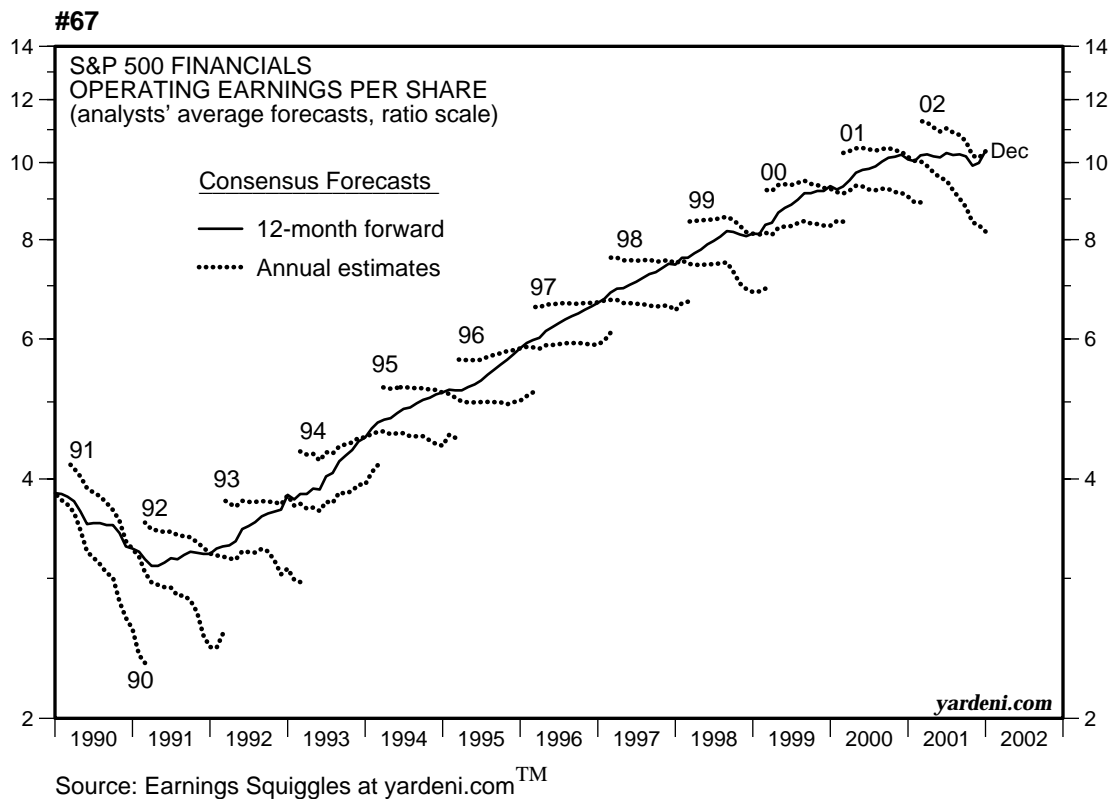


* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

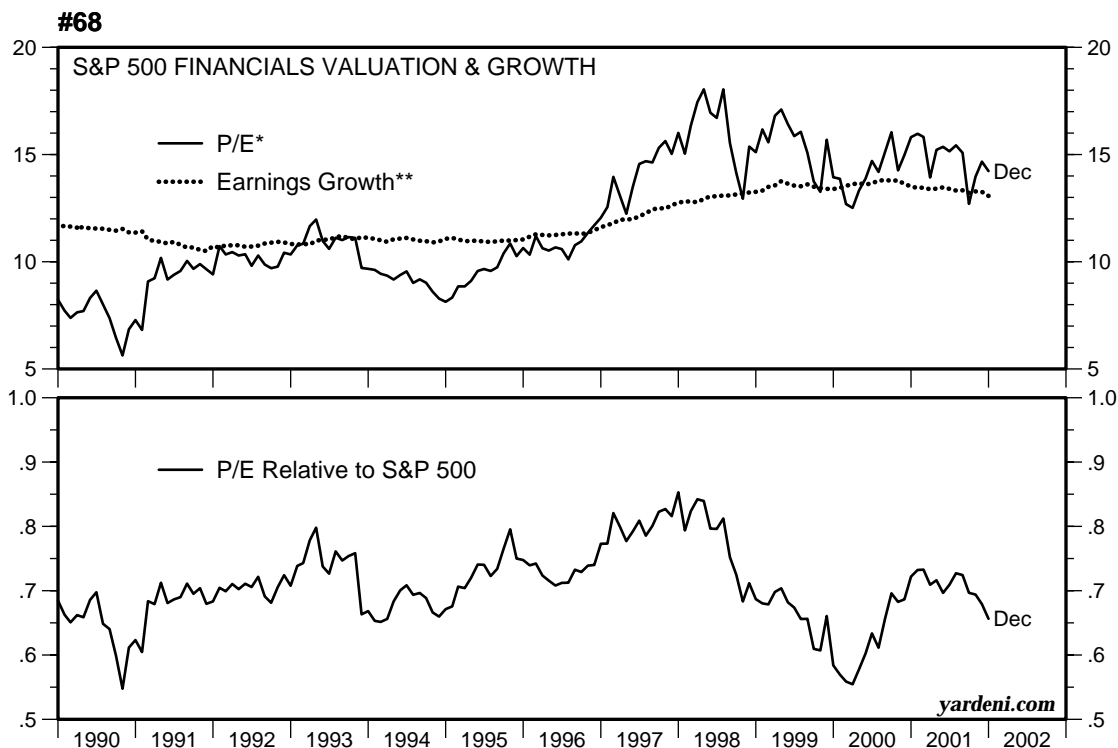
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Financials -



Consensus 2002 and forward earnings rose in Dec after Banking and Insurance estimates adjusted to exclude goodwill amortization. Forward P/E has fluctuated in a volatile fashion around 15 since 1997. Long-term earnings growth expected to be 13.1%. Sector sells at a 35% discount to market's P/E.



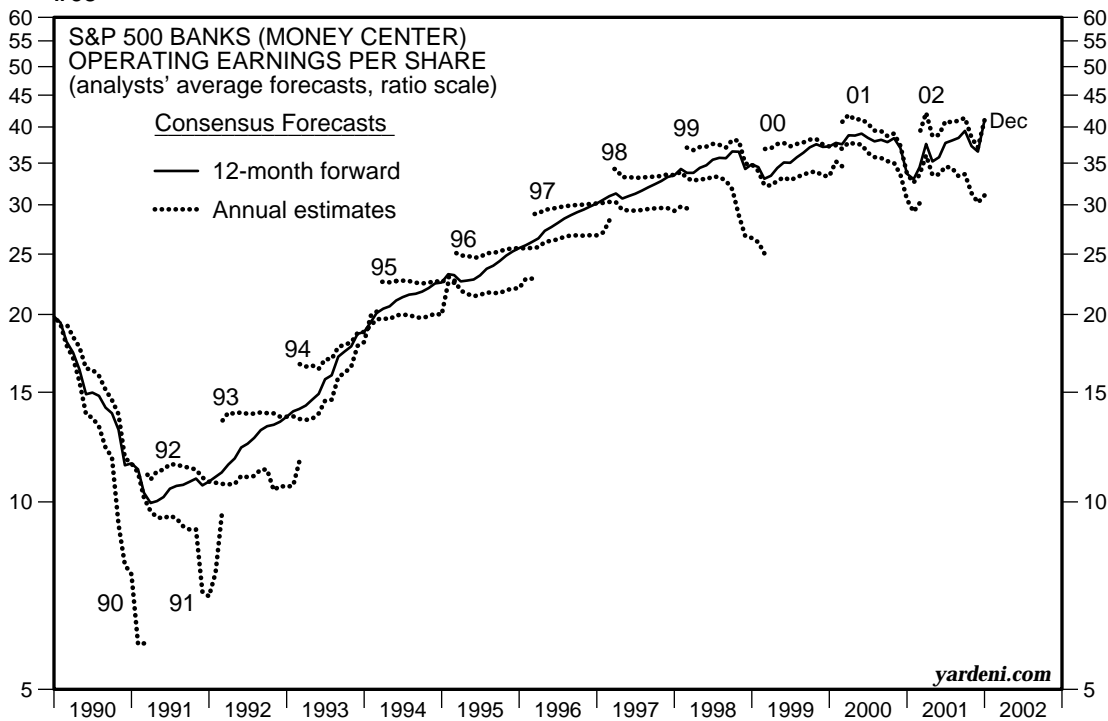
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

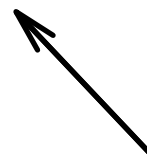
Source: Thomson Financial

- Financials: Banks (Money Center) -

#69

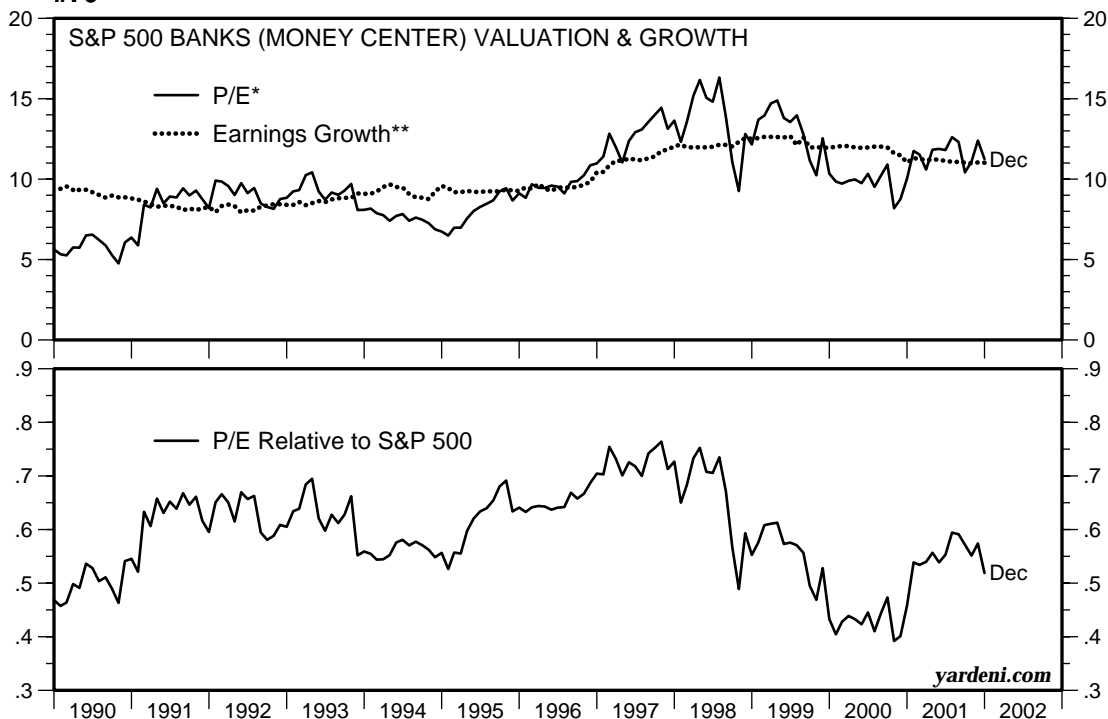


Source: Earnings Squiggles at yardeni.com™



Consensus 2002 and 12-month forward earnings rose in Dec due to removal of goodwill expense. Analysts expect earnings to increase 32.1% in 2002 to new high. P/E of 11.3 continues to fluctuate around long-term earnings growth forecast of 11.0%.

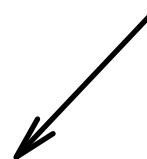
#70



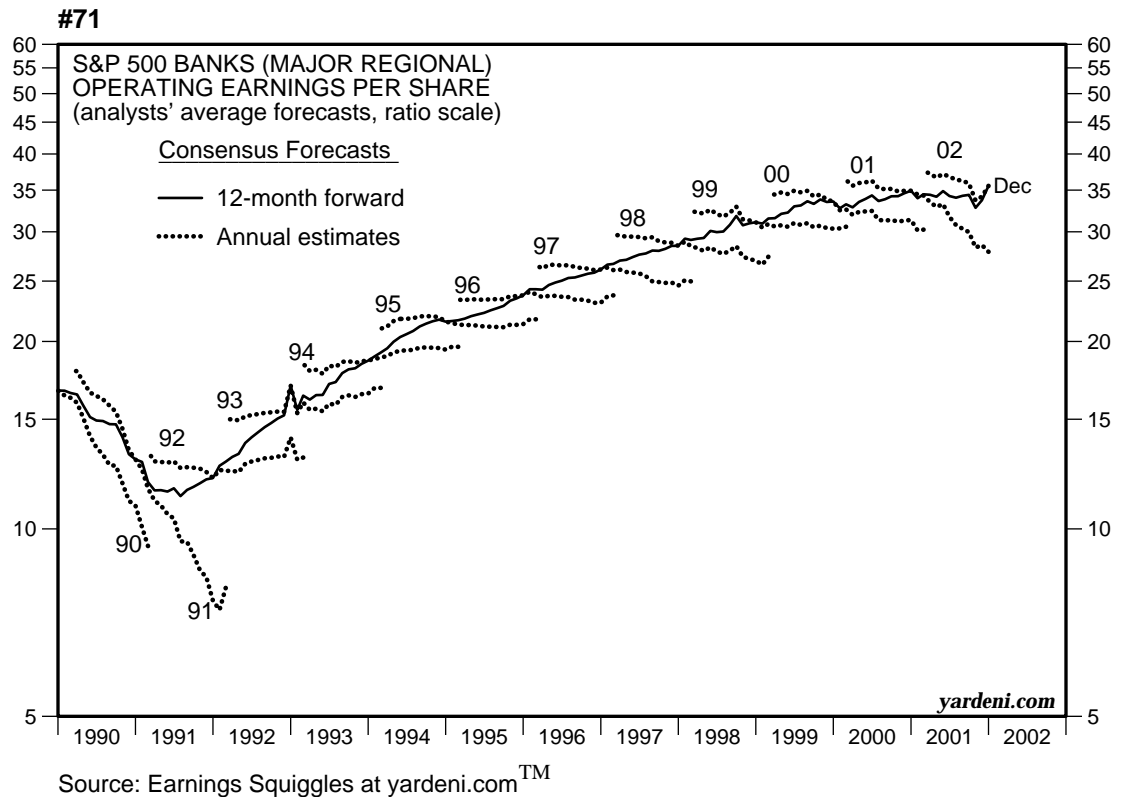
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

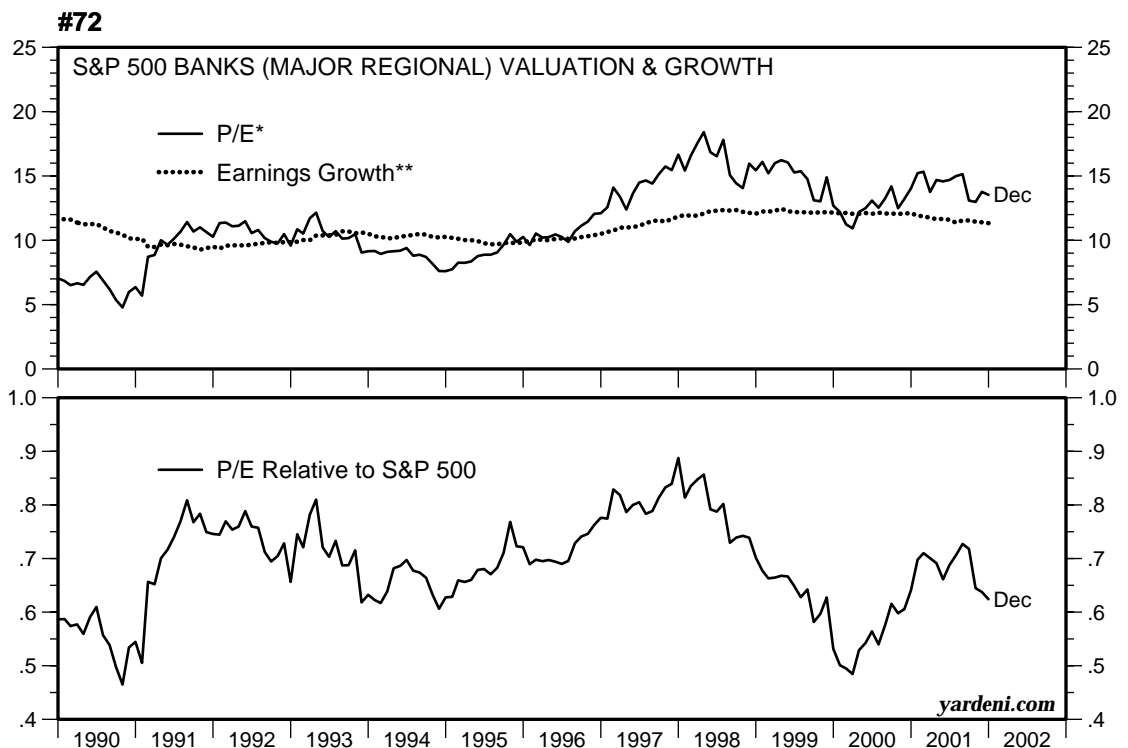
Source: Thomson Financial



- Financials: Banks (Regional) -



Consensus 2002 and forward earnings rose in Dec as goodwill expense was added back to the forecasts. P/E dropped to 13.5 as LTEG expectations edged down to 11.3%. Analysts expect 2002 earnings to increase 27.6% to new high.



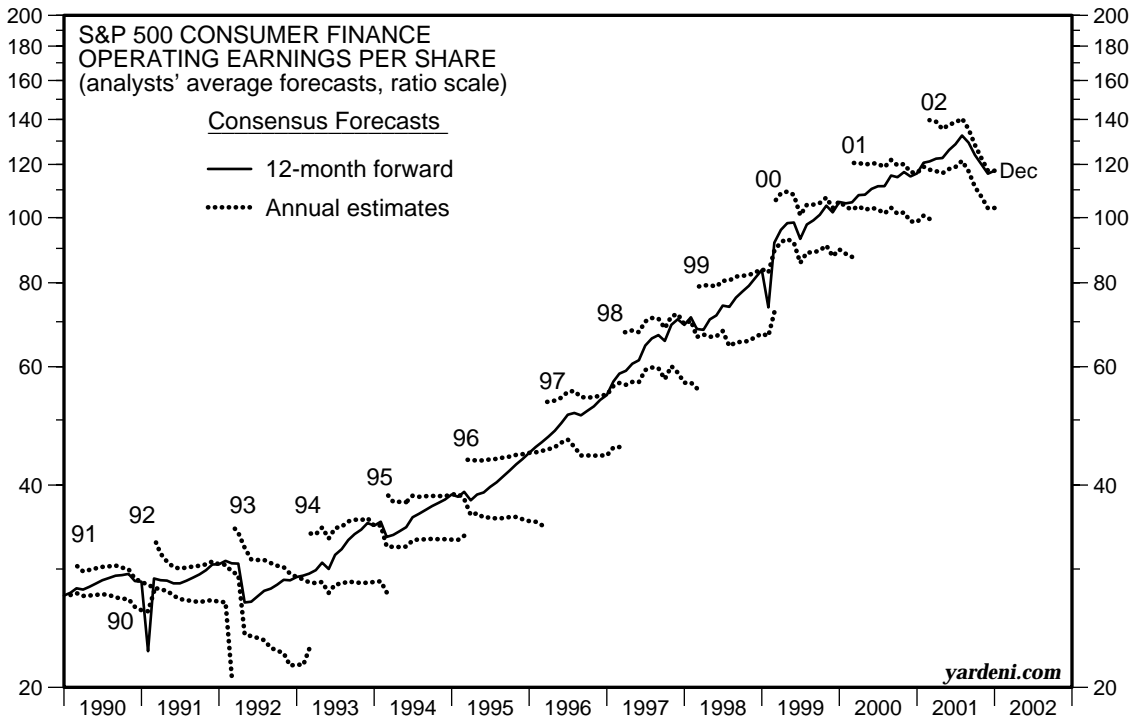
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

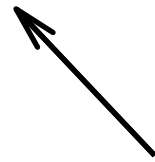
Source: Thomson Financial

- Financials: Consumer -

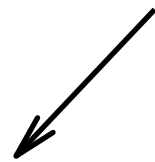
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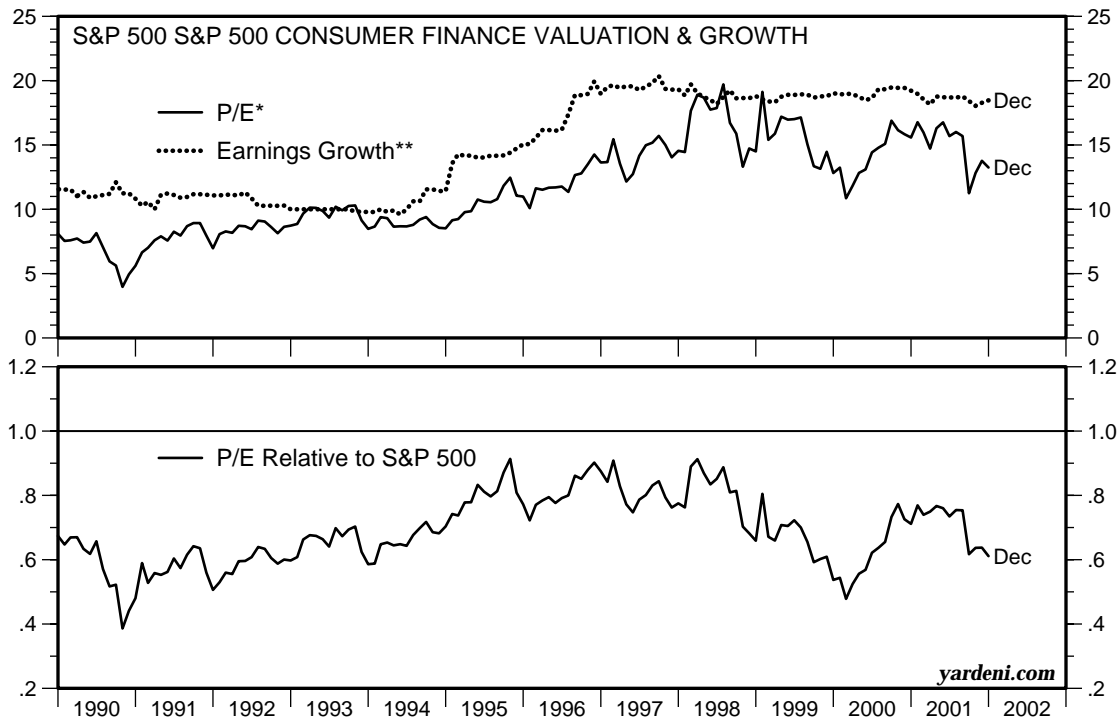
Source: Earnings Squiggles at yardeni.com™



For Consumer Finance, all three earnings periods stabilized in Dec. Consumer Finance P/E of 13.3 is low relative to long-term earnings growth expectations of 18.5%. Analysts expect 2002 earnings to rise 13.6% to new high.



#74

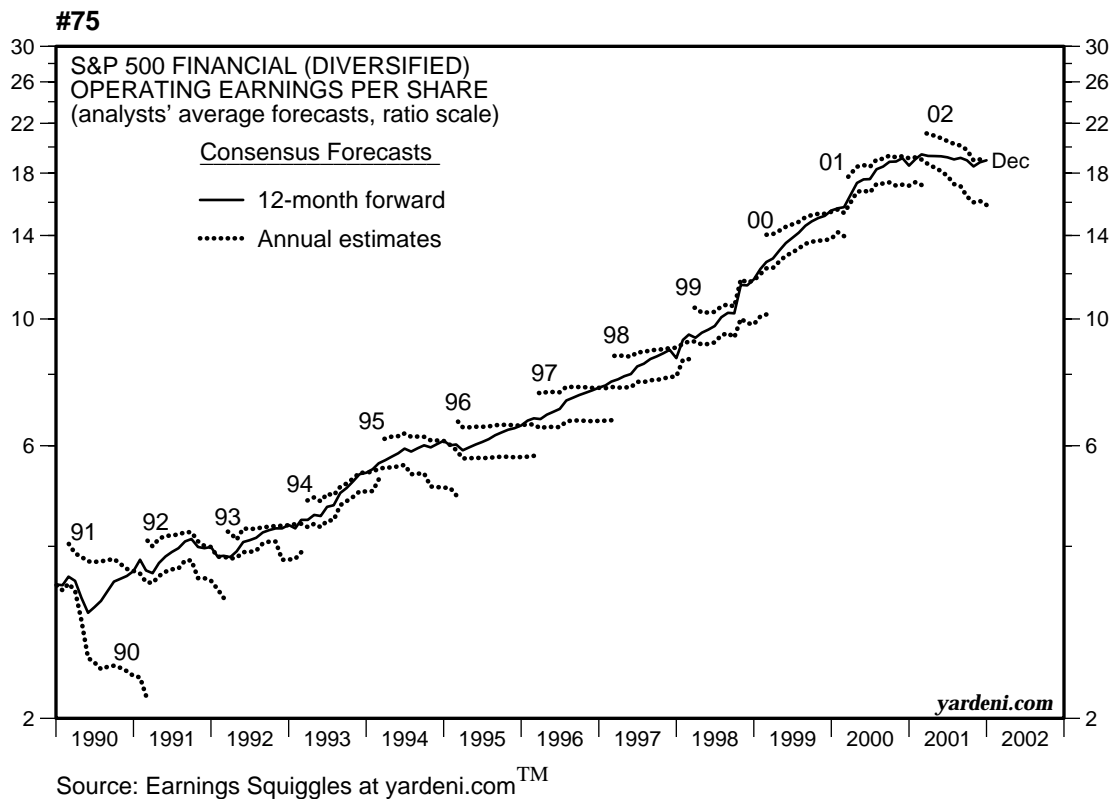


* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

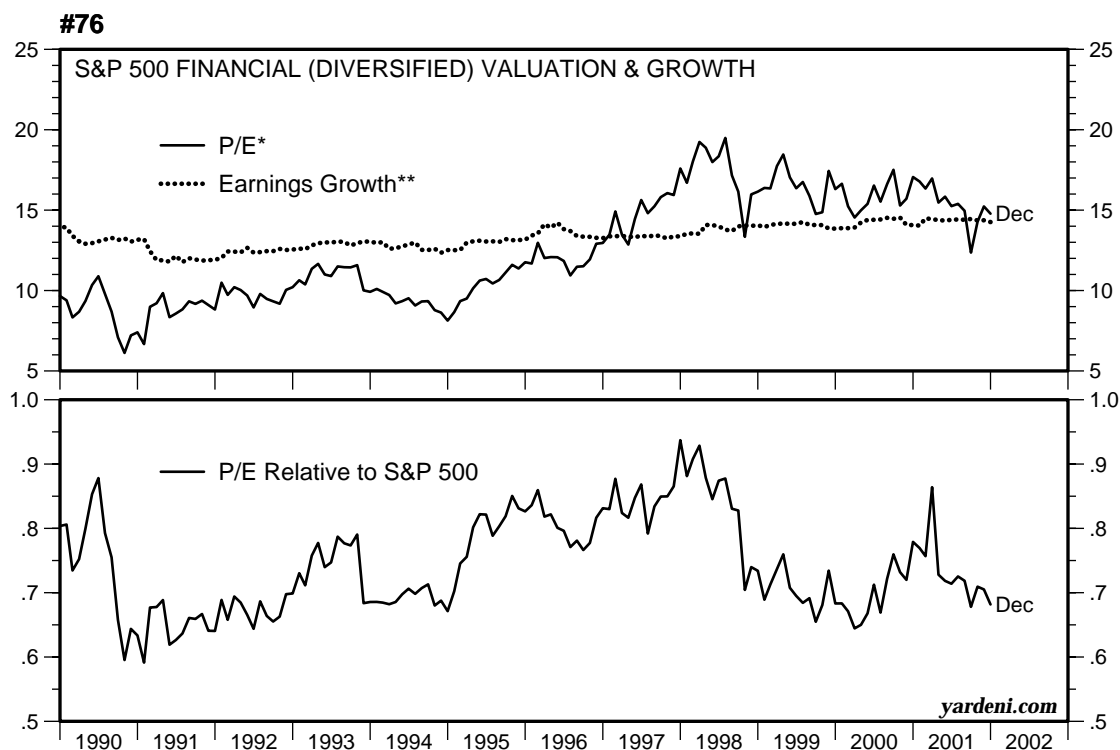
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Financials: Diversified -



Uptrend in this industry interrupted as forward earnings have been in a flat trend for the past year. P/E is nearly identical to LTEG of 14.3%.



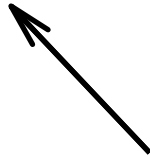
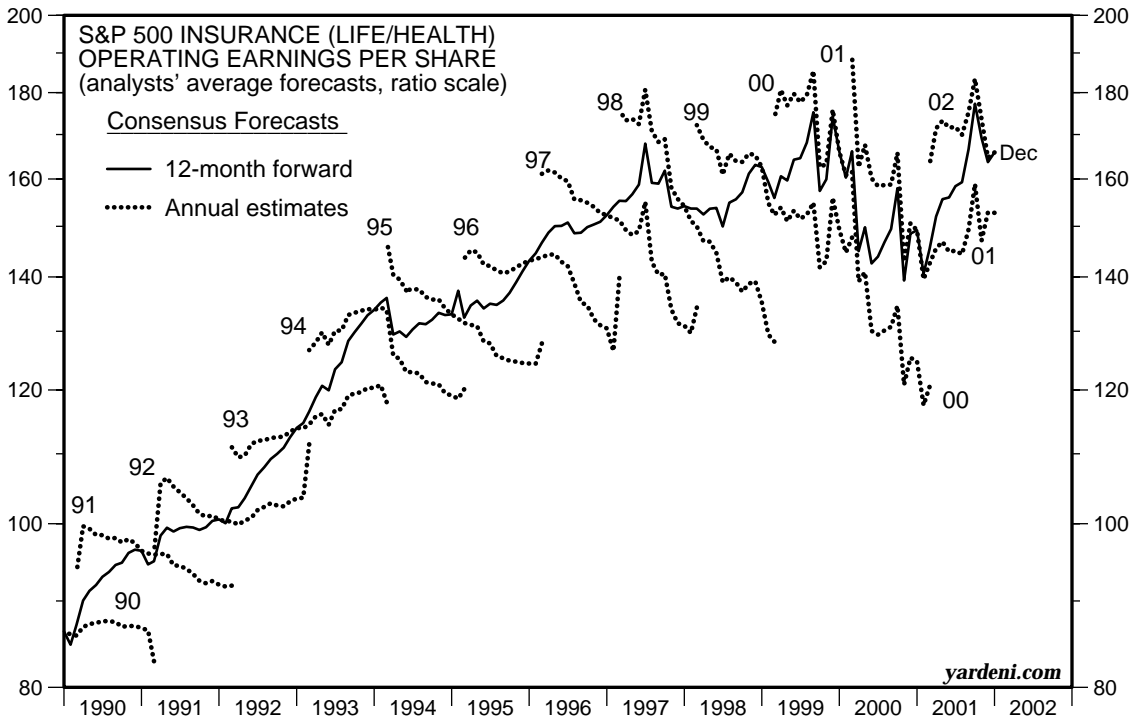
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

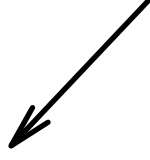
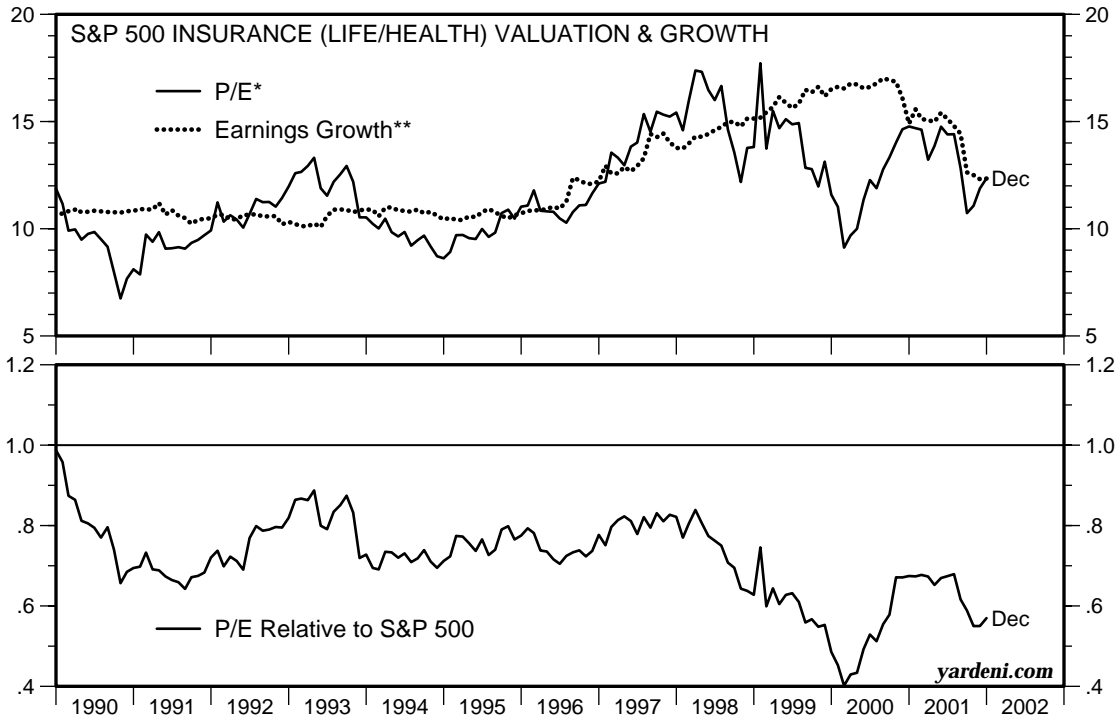
- Financials: Insurance -

#77



2002 and forward earnings rose in Dec as the P/E increased to 12.4. Analysts expect 2002 earnings to rise 8.6% to new high. This industry deserves low P/E given volatile earnings.

#78

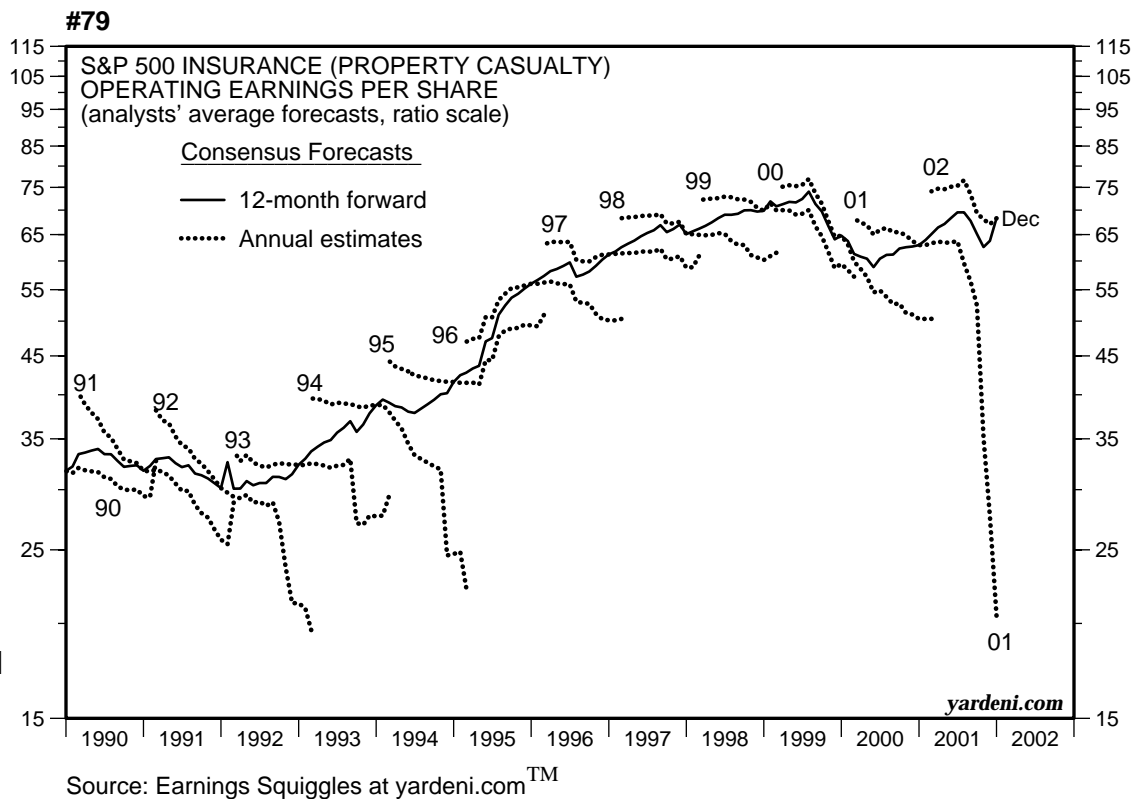


* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

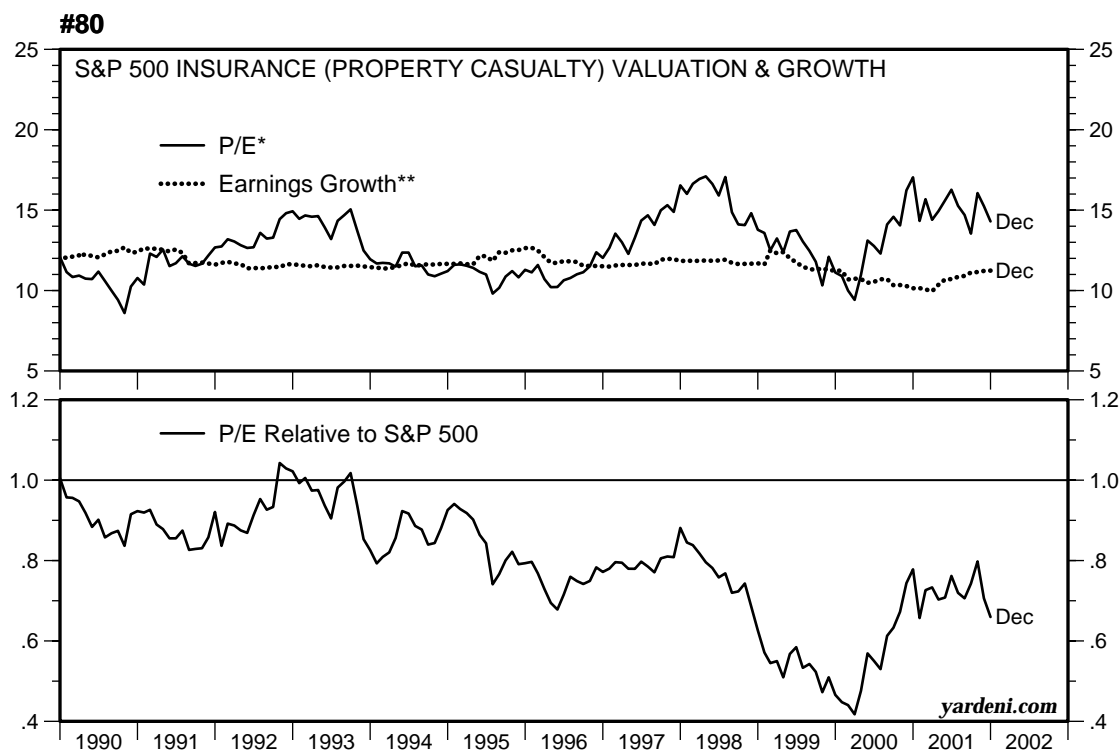
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Financials: Insurance -



2001 estimate continued to fall sharply in Dec due to higher-than-expected Attack-related claims. However, consensus 2002 and forward estimate rose due to removal of goodwill expense. Analysts expect 2002 earnings to increase 233.5% to a new high thanks to improved pricing power.



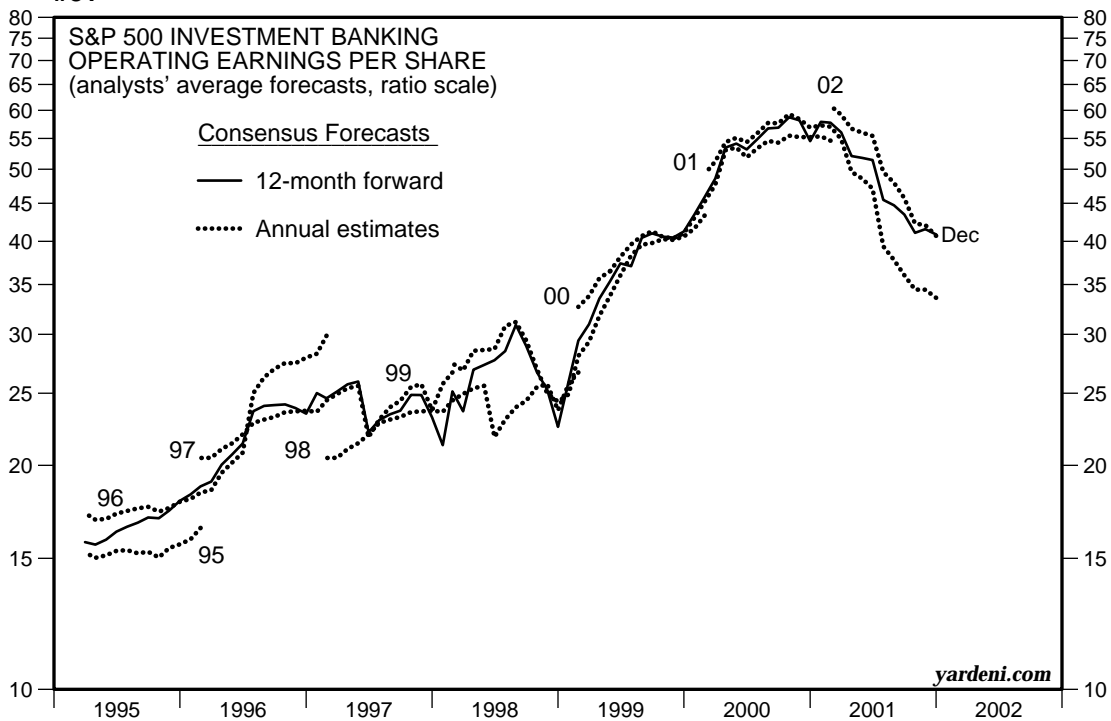
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

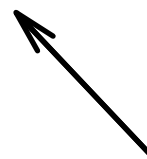
Source: Thomson Financial

- Financials: Investment Banking -

#81

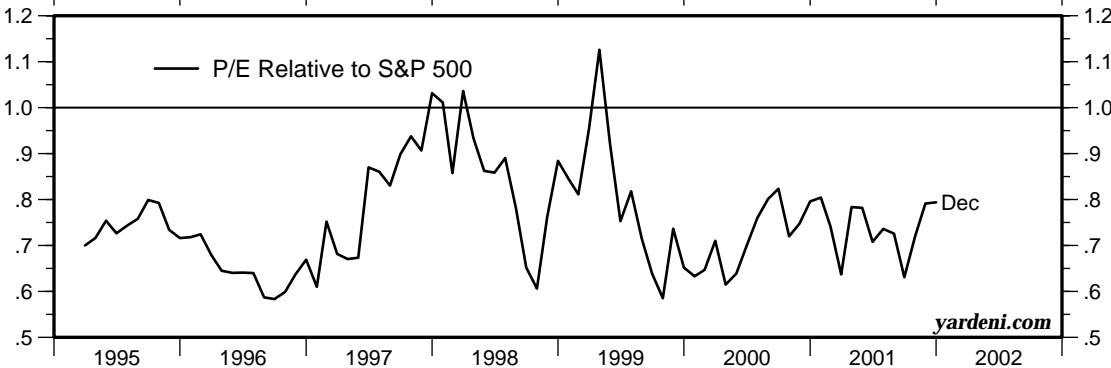
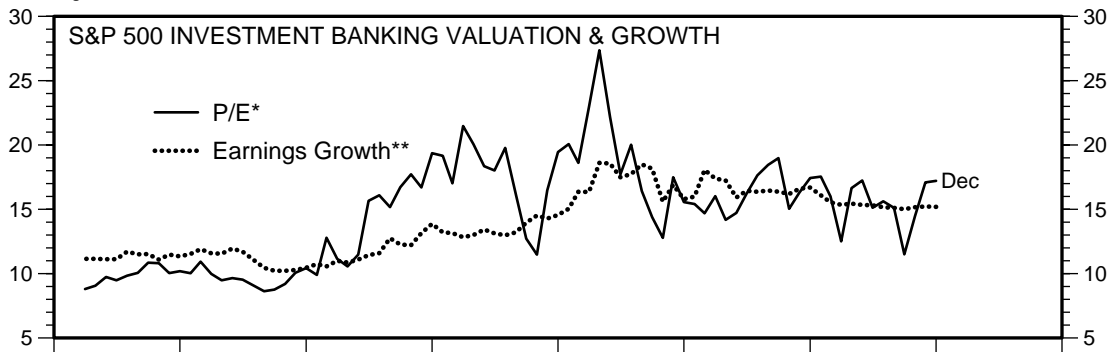


Source: Earnings Squiggles at yardeni.com™



All three earnings measures fell in Dec. P/E is relatively low because earnings are volatile, and LTEG is 15.2%.

#82



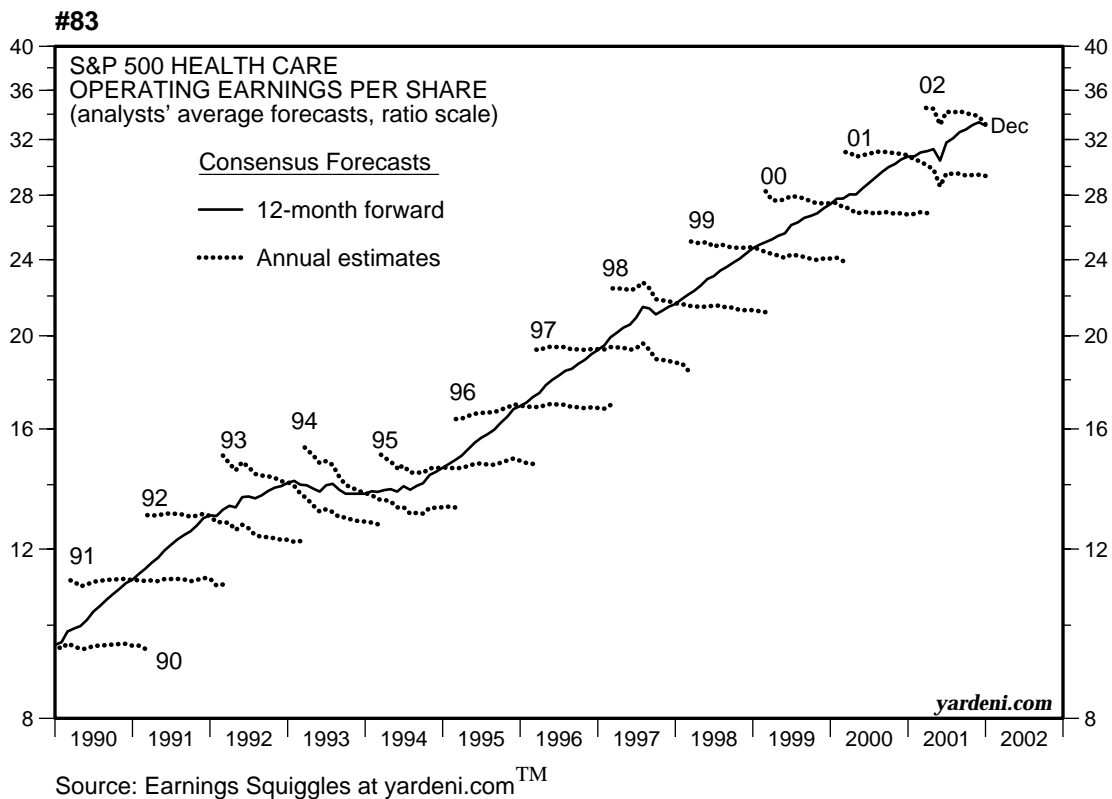
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

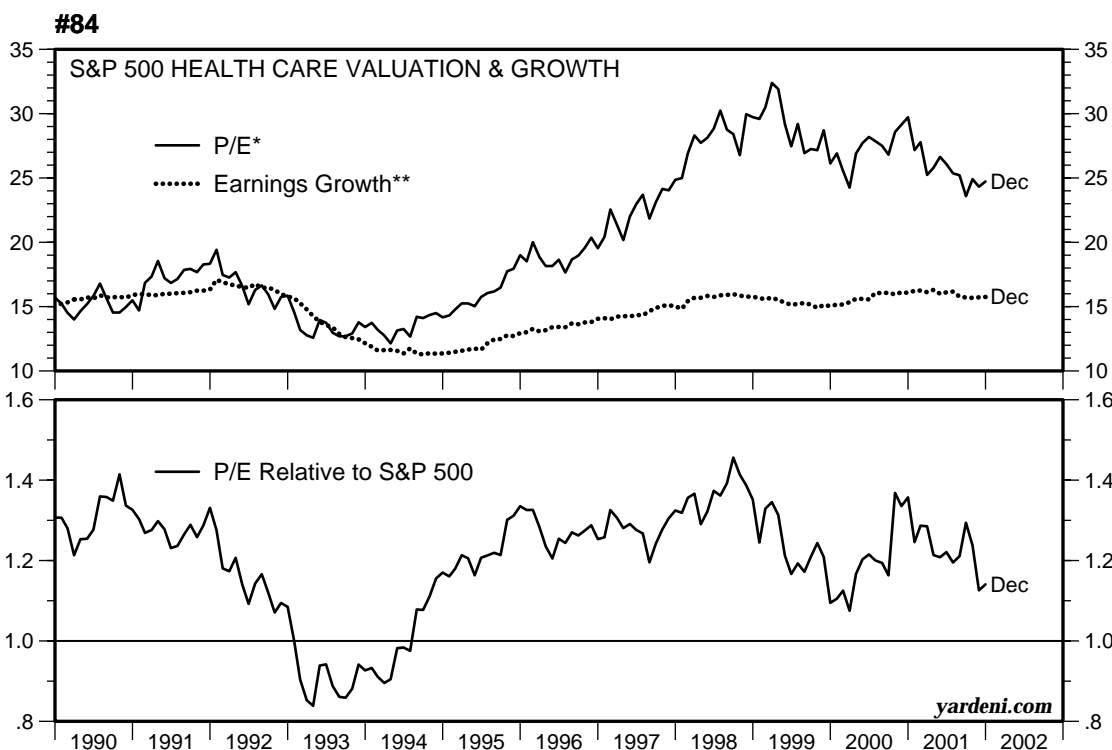
Source: Thomson Financial



- Health Care -



Although consensus forward earnings fell in Dec for the first time in seven months, Health Care remains on solid uptrend. This is a very steady earnings growing sector. Health Care stocks' forward P/Es relatively high at 24.7 during Dec, well above 15.8% long-term expected earnings growth.



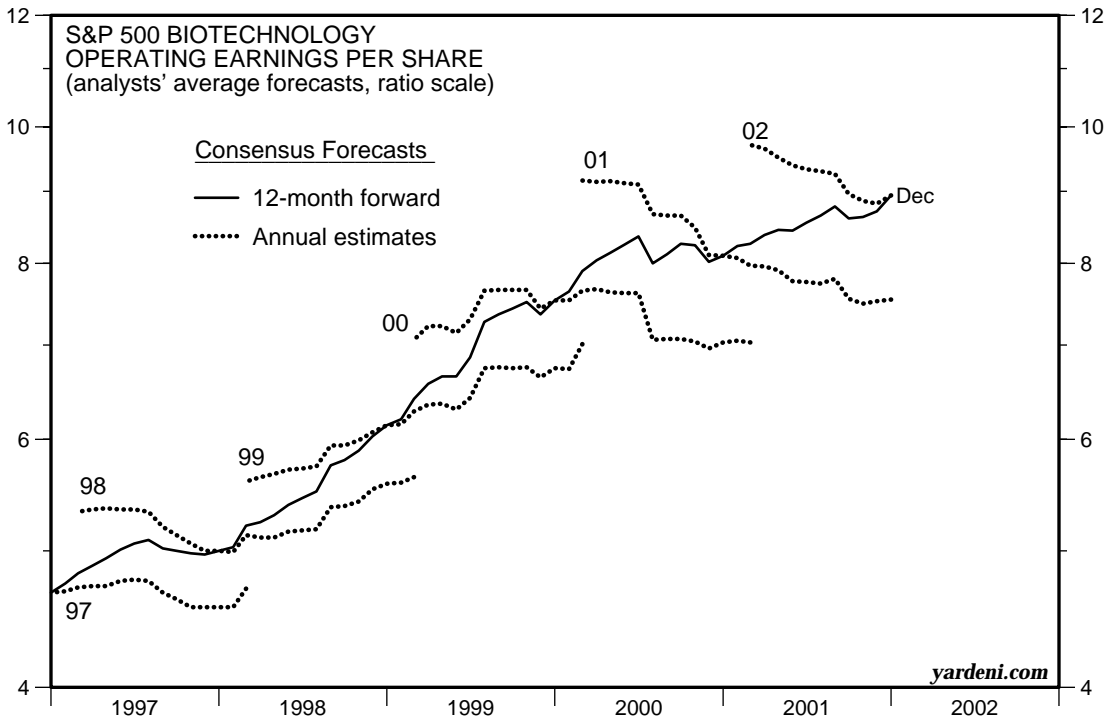
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

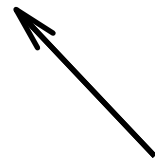
Source: Thomson Financial

- Health: Biotech -

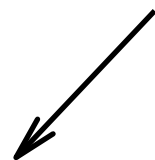
#85



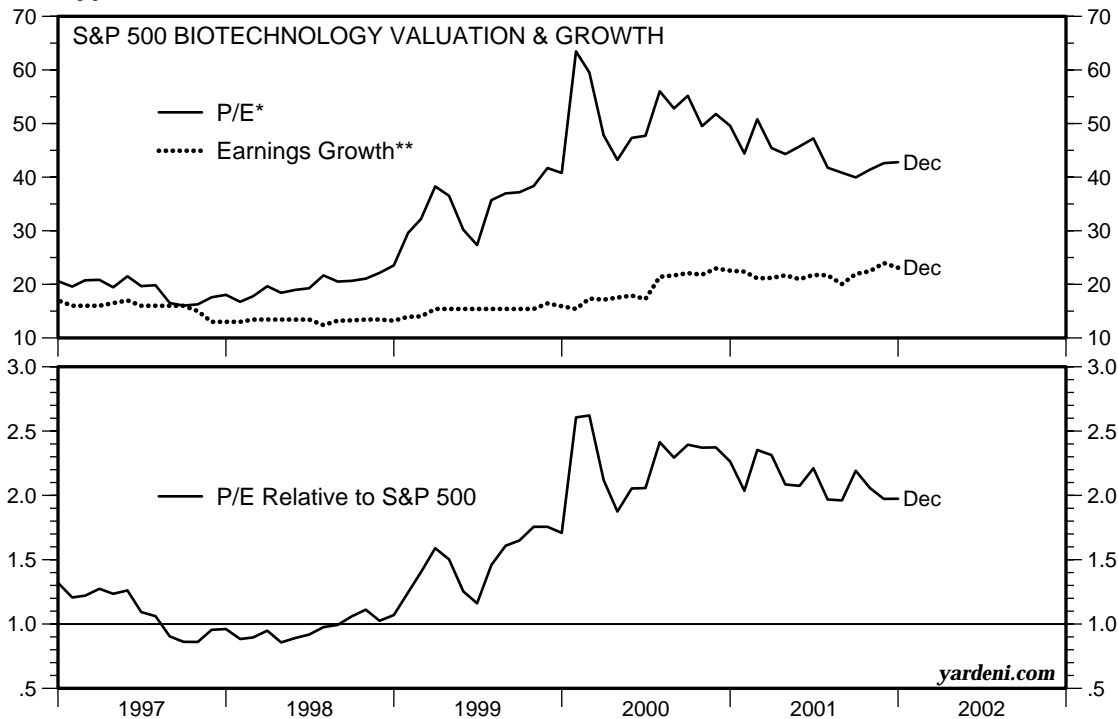
Source: Earnings Squiggles at yardeni.com™



S&P 500 Biotech industry's forward earnings are on relatively stable uptrend. But they aren't cheap with P/E of 42.8, or two times the market's multiple. 2002 earnings expected to be up 18.6% to new high.



#86

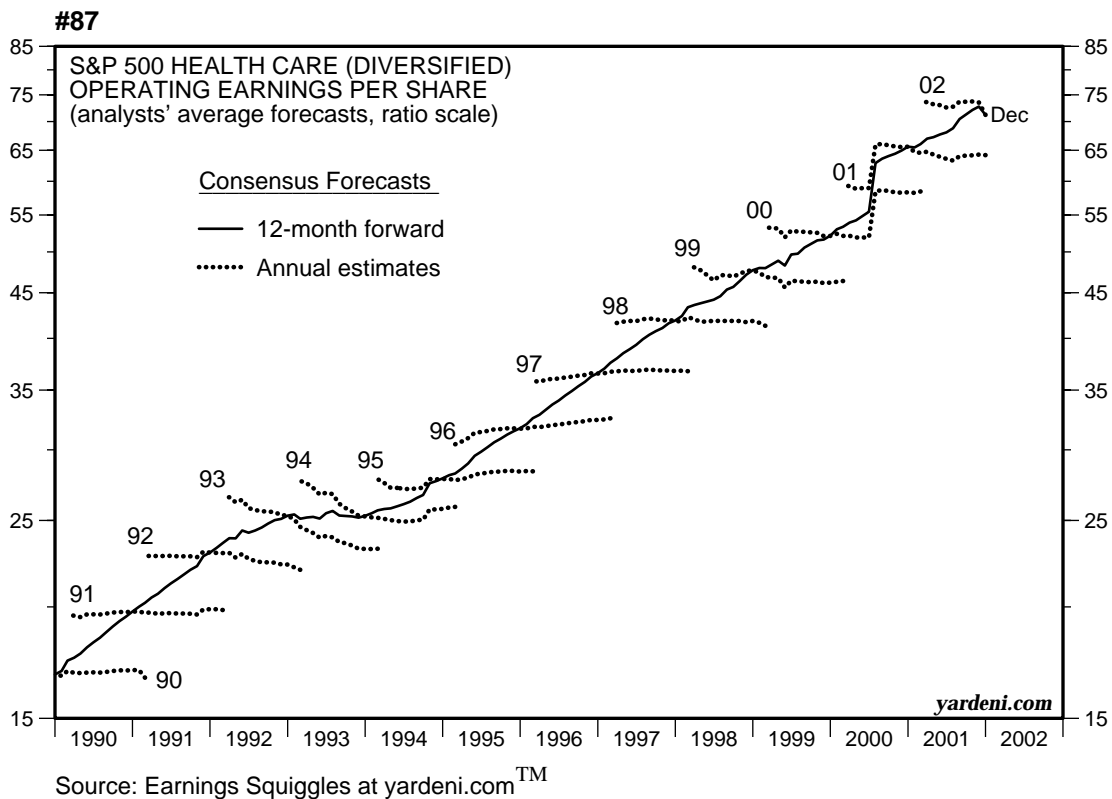


* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

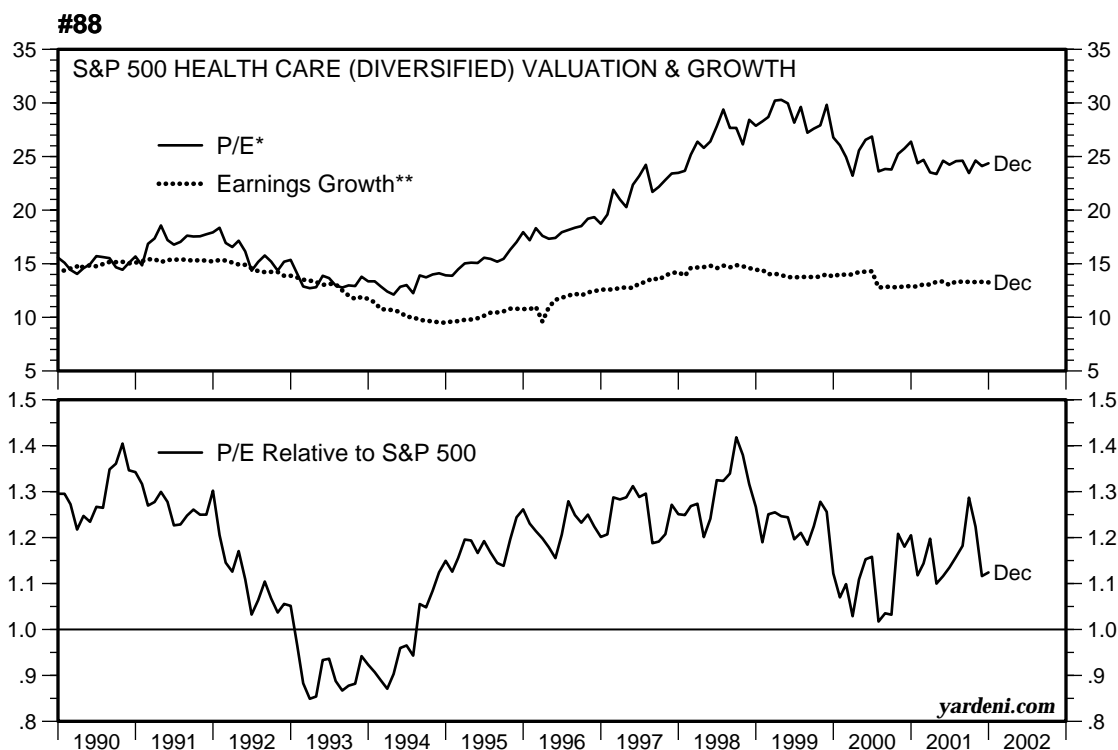
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Health: Diversified -



Despite the first decline in 11 months, consensus forward earnings remain in a solid uptrend. P/E high relative to LTEG forecast of 13.3%. 2002 earnings expected to be up 11.0% to new high.



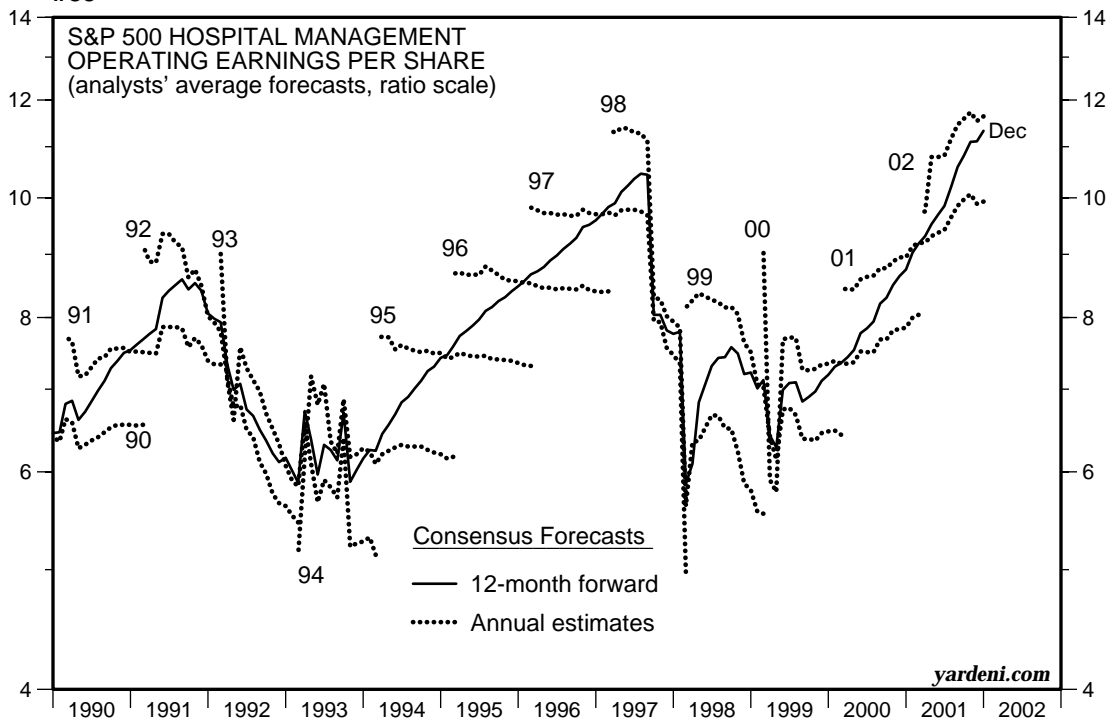
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

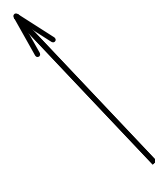
Source: Thomson Financial

- Health: Hospital Management -

#89

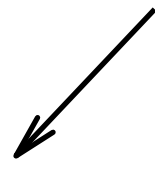
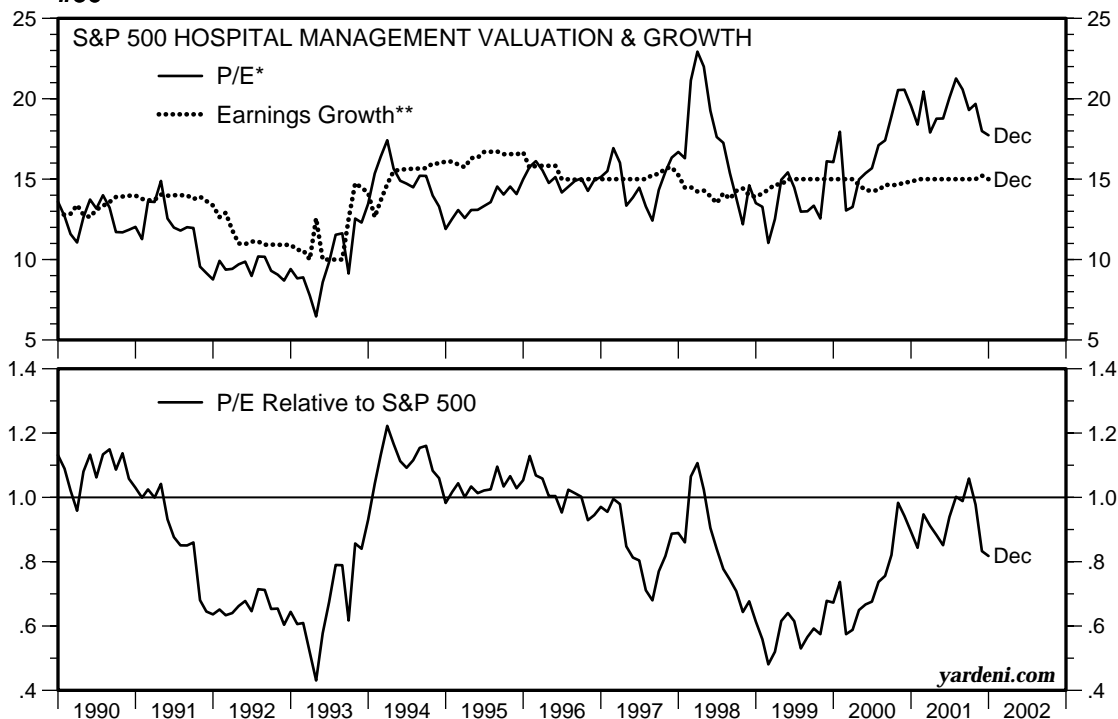


Source: Earnings Squiggles at yardeni.com™



Forward earnings on solid uptrend since 1999, with reasonable P/E. Very volatile earnings and P/E history for Hospital Management. Still, 2002 earnings expected to rise 17.2% to new high.

#90

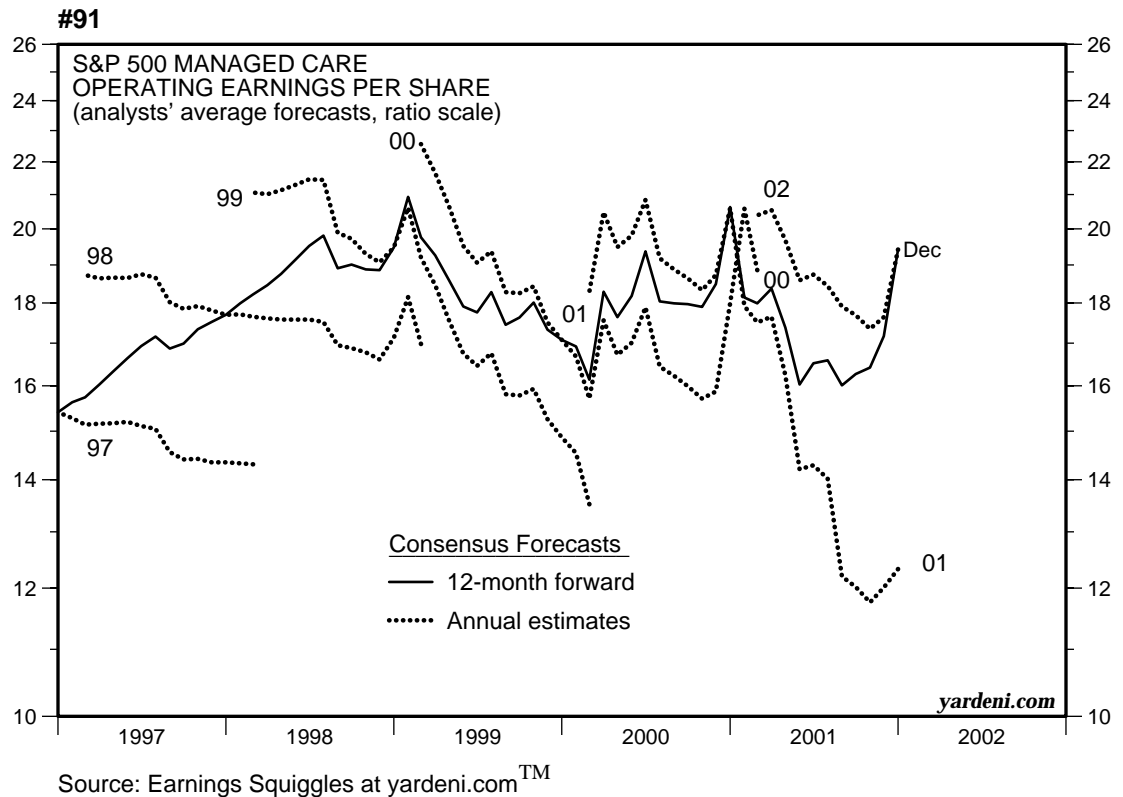


* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

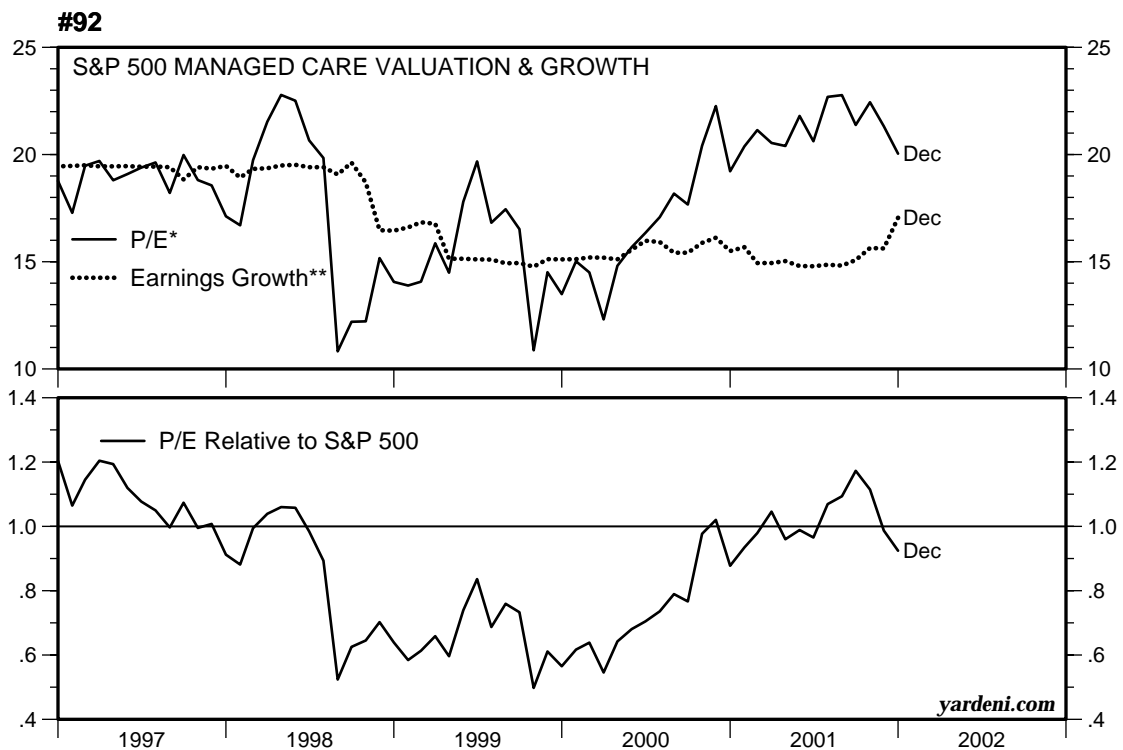
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Health: Managed Care -



Managed Care earnings hard to forecast. All three earnings periods edged up in Dec. 2002 earnings expected to be up 57.6%.



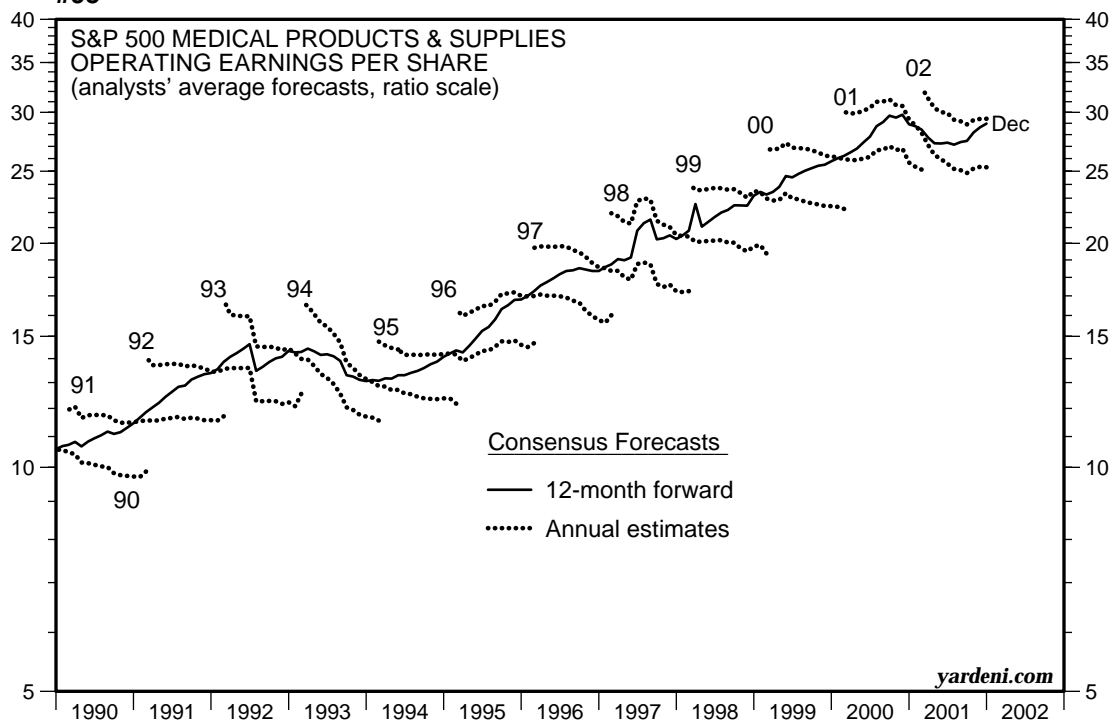
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

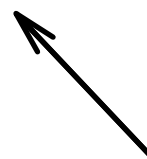
Source: Thomson Financial

- Health: Medical Products -

#93

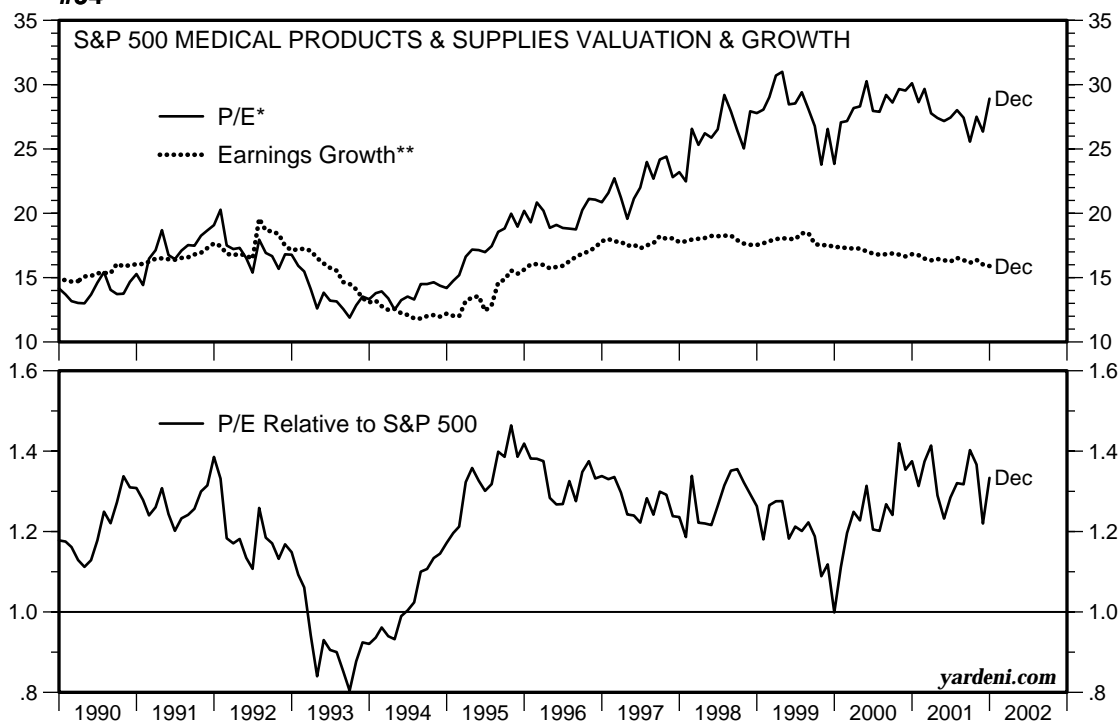


Source: Earnings Squiggles at yardeni.com™



Consensus forward earnings continued to rise in Dec. P/E of 28.9 near all-time high despite the extended slide in long-term earnings growth expectations to 15.9%. 2002 earnings expected to be up 16.2% to new high.

#94

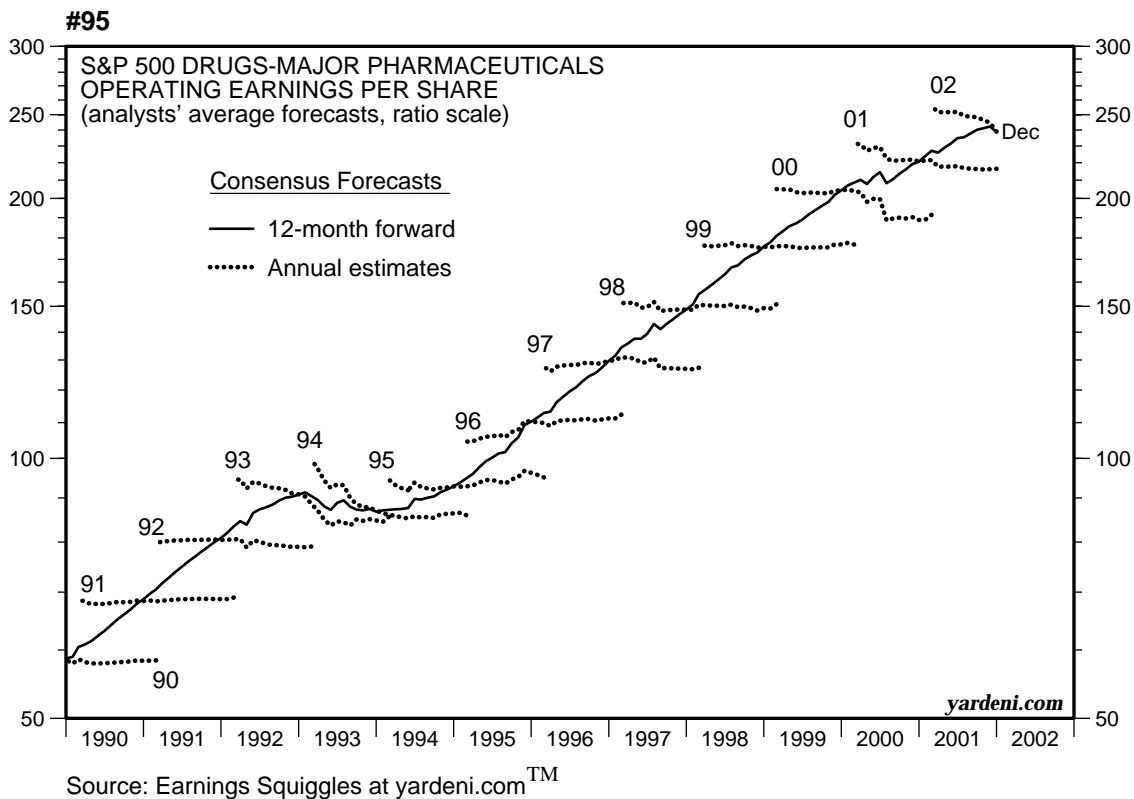


* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

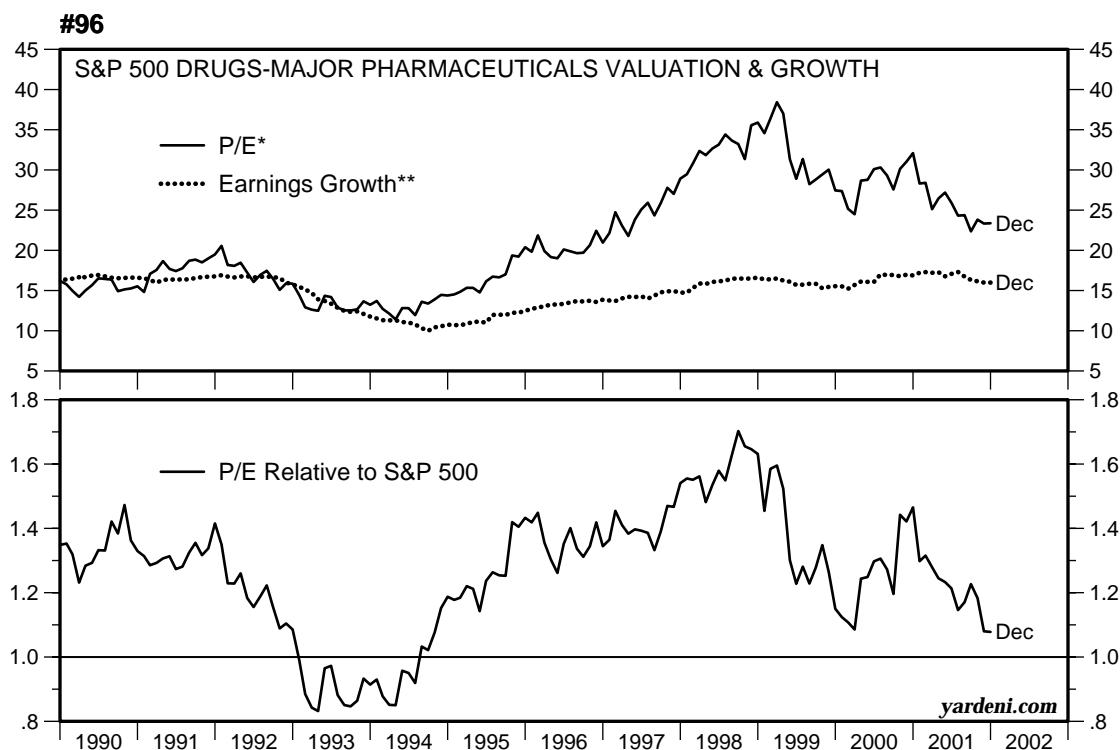
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Health: Pharmaceuticals -



Forward earnings expectations have risen steadily since 1994. Analysts expect 2002 earnings to be 10.4% above 2001. P/E is high at 23.4, but well below 38 during March 1999. Selling at 10% above market multiple, at low end of historical range.



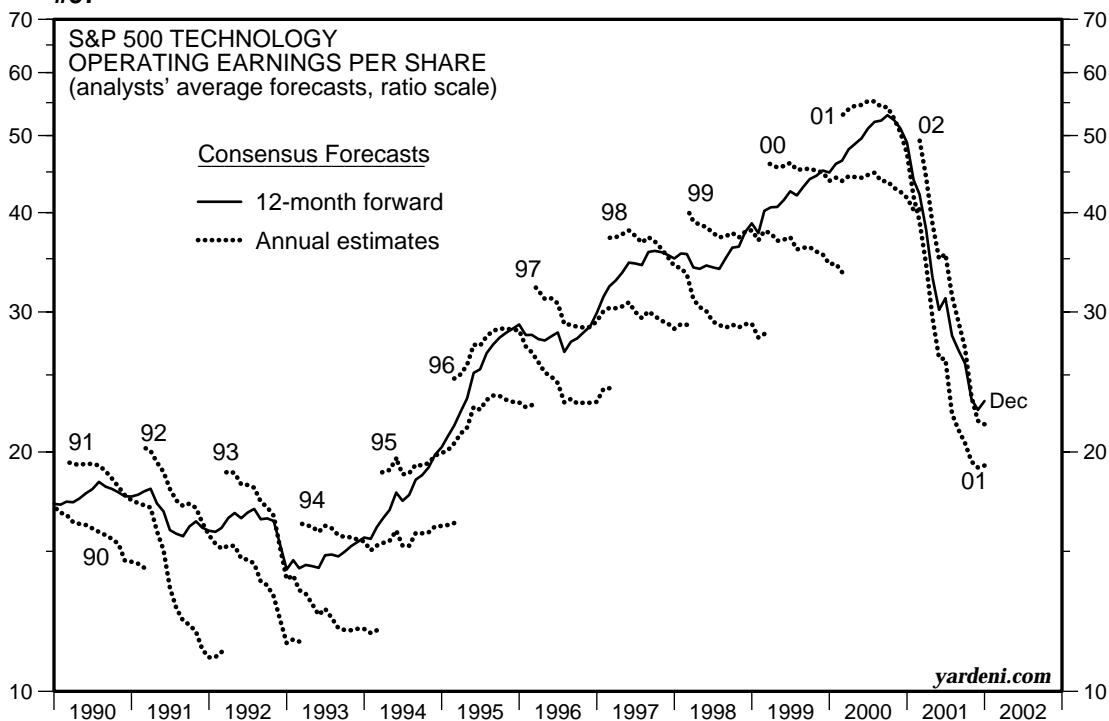
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

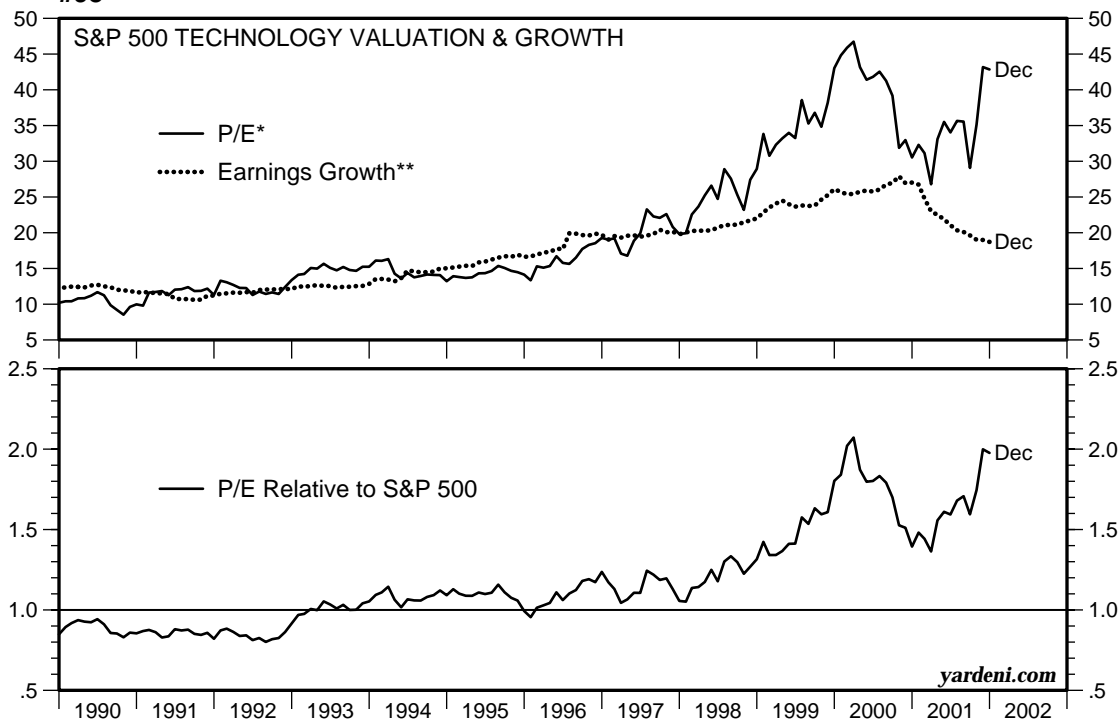
- Technology -

#97



Where's the bottom? 2002 estimate fell at a slower pace in Dec. Consensus forward estimate rose in Dec for the first time in seven months. Analysts expect 2002 earnings to rebound 18.7%, but only back to 1995 level.

#98



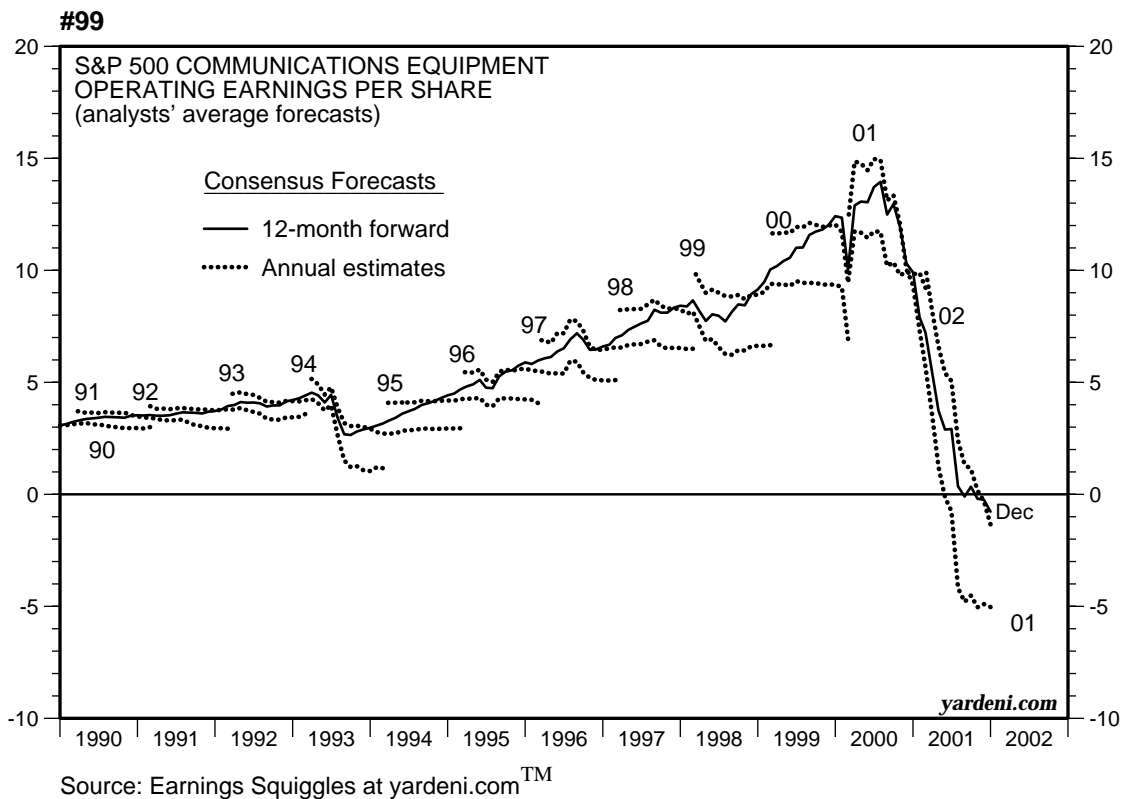
Tech's forward P/E of 42.9 is near 2000's record peak of 47. P/E is too high, especially as long-term growth fell to 18.7% in Dec. Prior to 1998, sector's P/E was almost the same as the market's.

* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

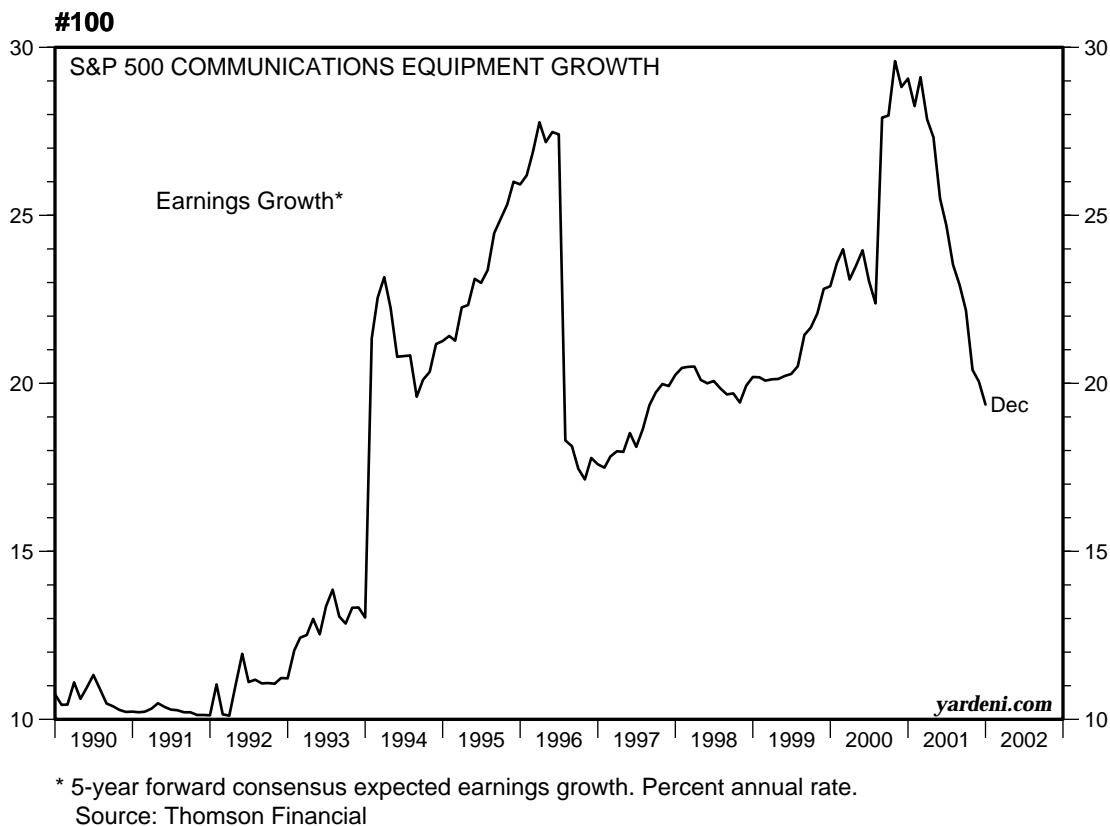
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

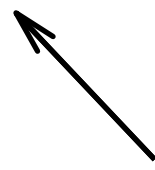
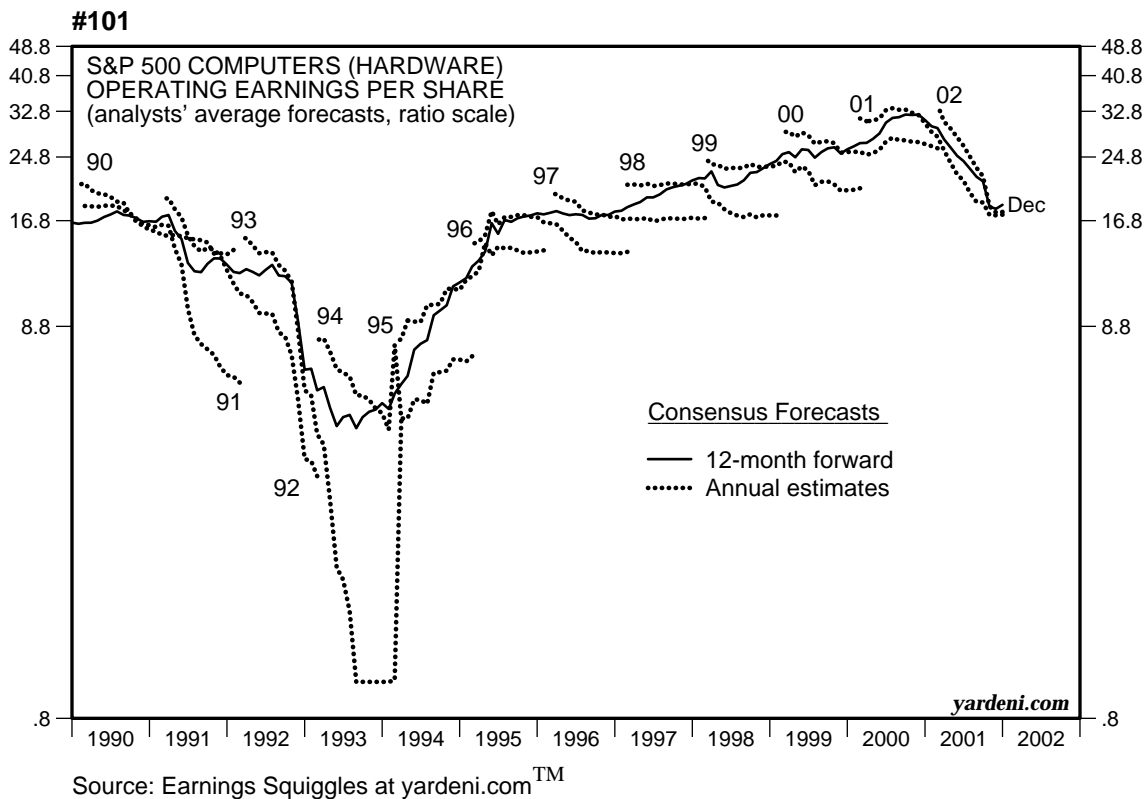
- Tech: Communications Equipment -



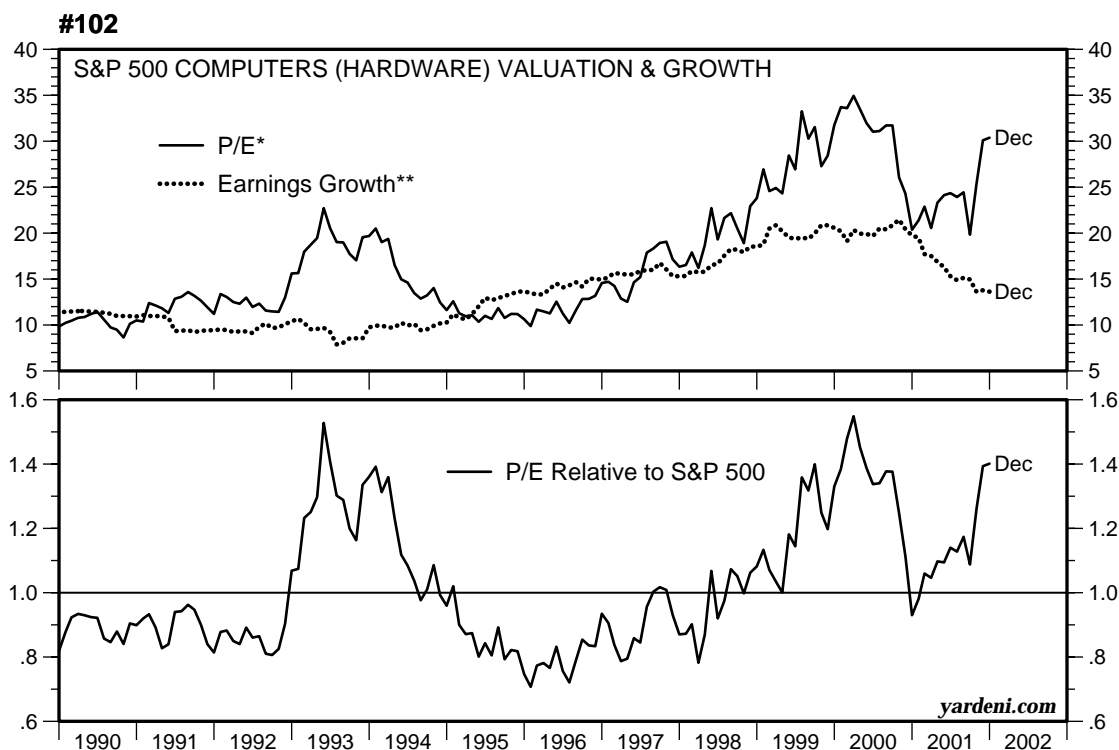
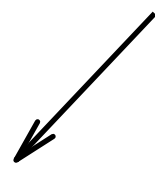
Three Strikes: All three earnings periods fell deeper into negative territory in Dec. Long-term earnings growth down to 19.4% from 29.6% in Oct 2000.



- Tech: Computers (Hardware) -



All three earnings periods recovered slightly in December. Analysts expect 2002 earnings to be up just 1.7%. Long-term expected earnings growth down to 13.6% from a peak of 21.5% in Oct 2000. P/E is relatively high again.



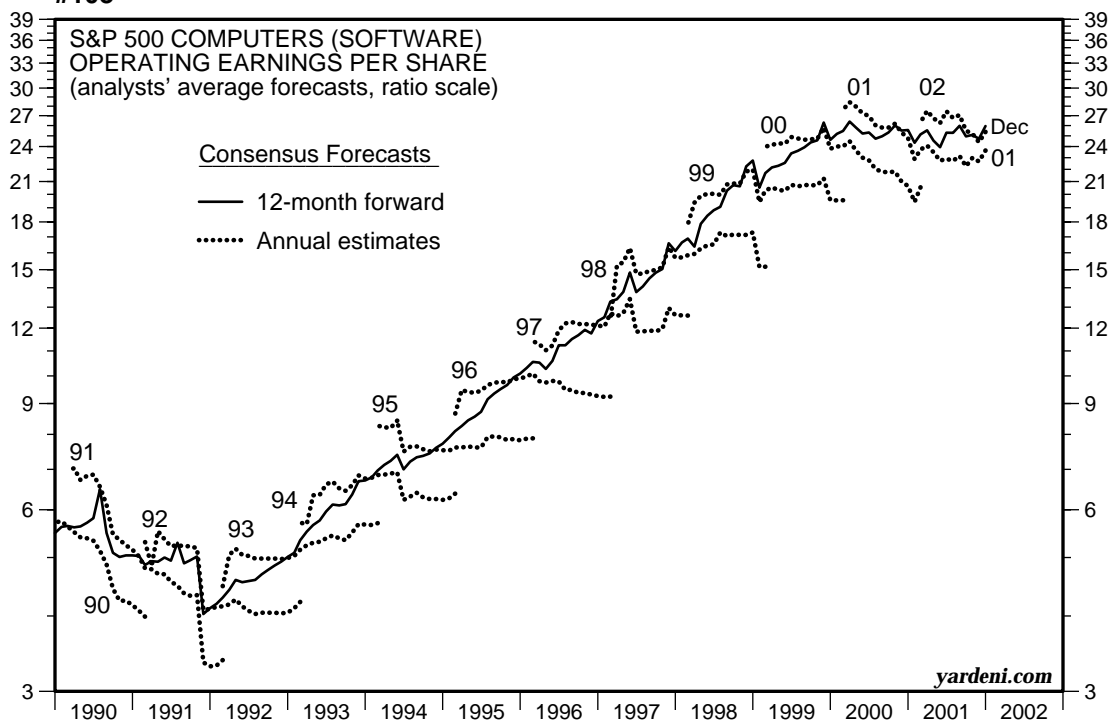
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Tech: Computers (Software) -

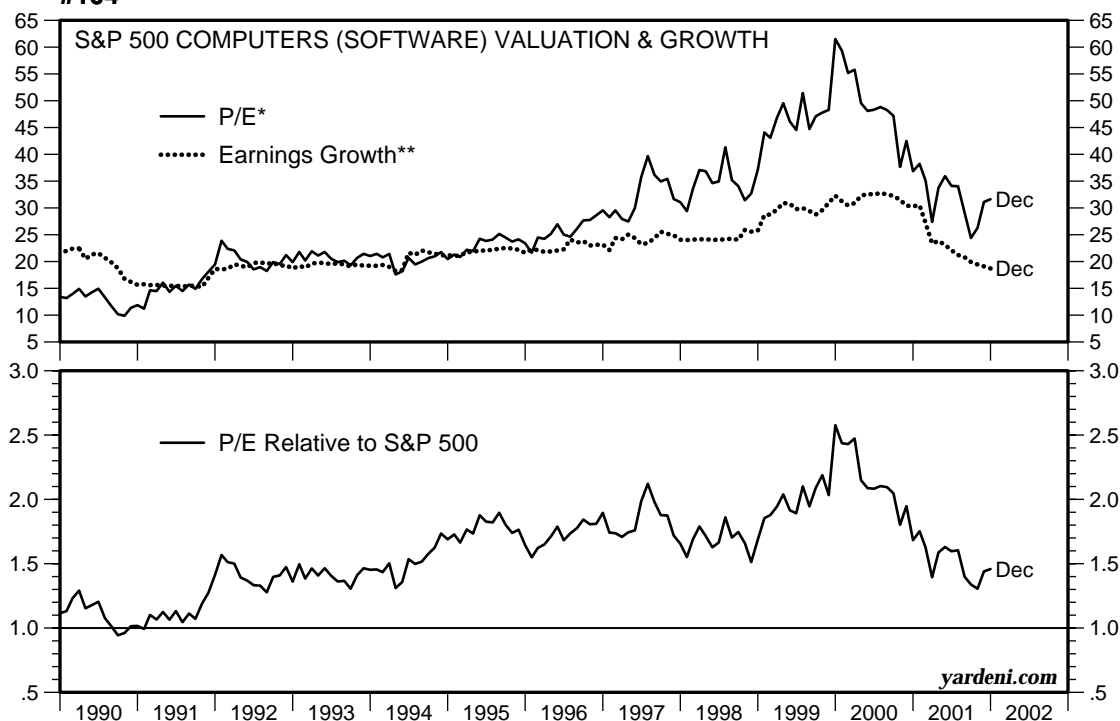
#103



Source: Earnings Squiggles at yardeni.com™

All three earnings periods recovered slightly in December. Although consensus forward earnings for Computer Software is flat since 2000, they have held up better than Computer Hardware earnings. Analysts expect 2002 earnings to be up just 7.4%. Long-term earnings growth expectations down to a more reasonable 18.7% from July 2000 peak of 32.8%.

#104



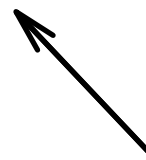
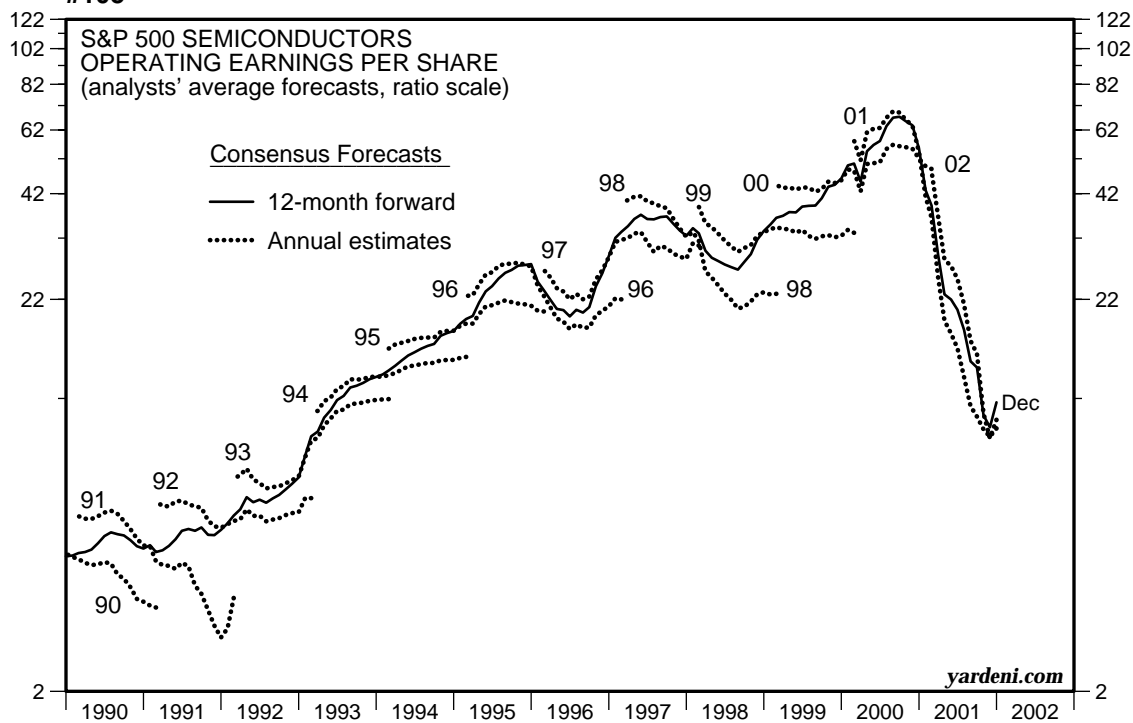
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Tech: Semiconductors -

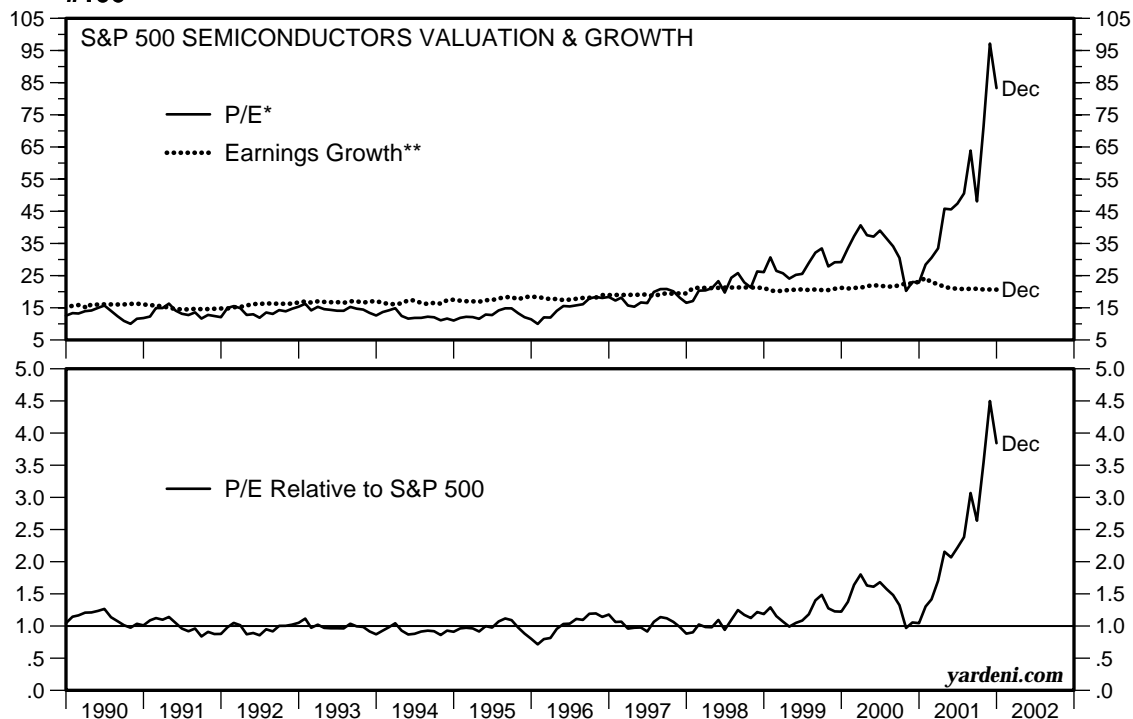
#105



Semiconductors' P/E pulled back in Dec as all three earnings periods rose. Analysts expect 2002 earnings to be 5.4% above 2001 level and well below 2000 peak. P/E is nutty. However, these stocks are selling at 14.5 times previous peak forward earnings.



#106

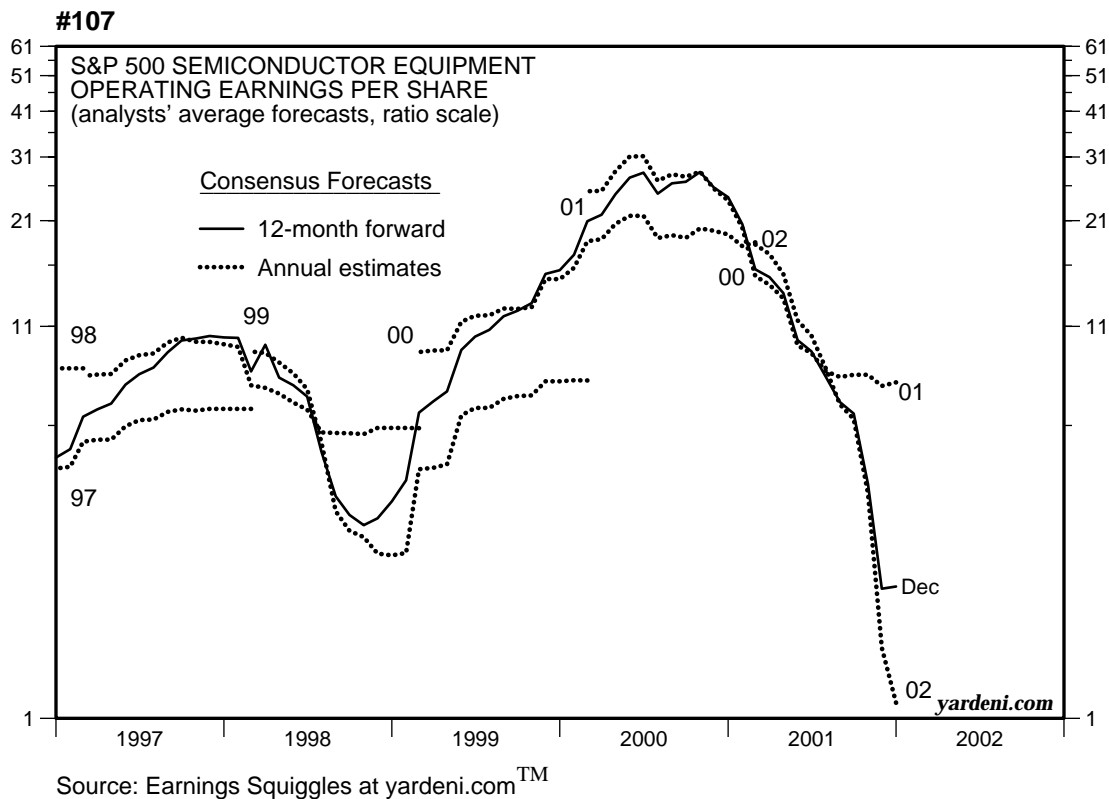


* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

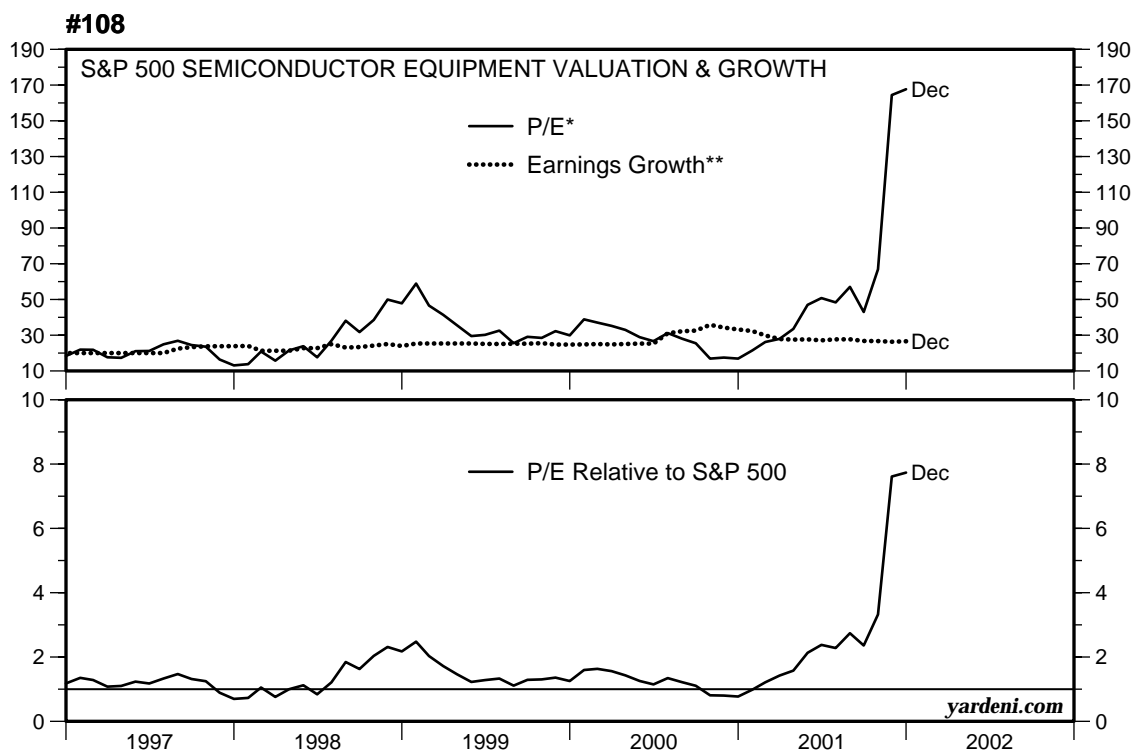
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Tech: Semiconductor Equipment -



Analysts expect 2002 earnings to fall 85.9% as estimates continue to plunge. P/E soars as forward earnings estimate has fallen 92.1% since the Oct 2000 peak. Despite the current downturn in earnings, analysts are still upbeat with long-term earnings growth at 26.6%.



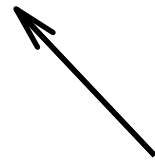
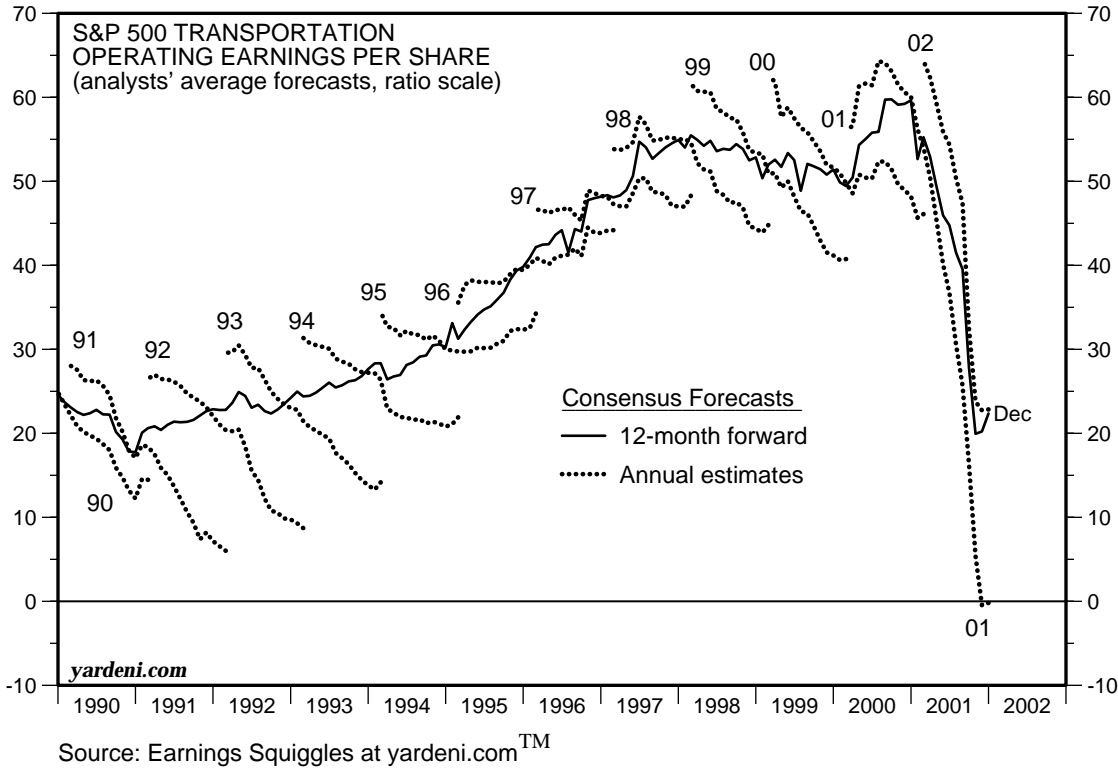
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

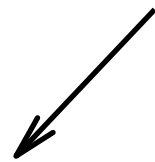
Source: Thomson Financial

- Transportation -

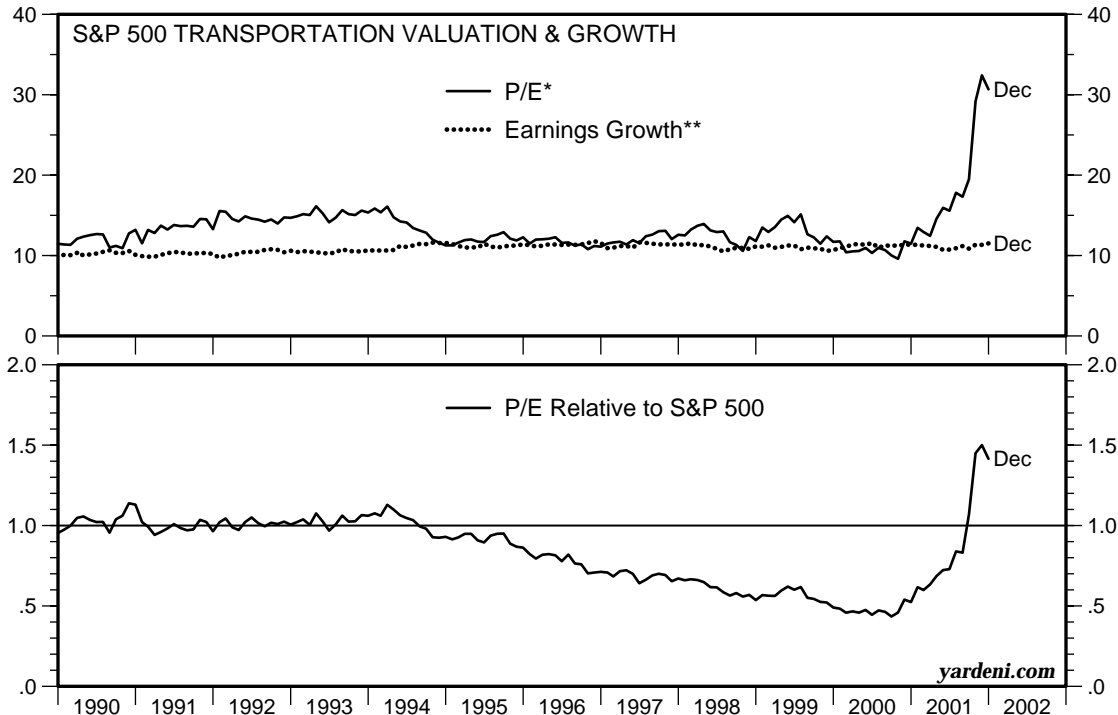
#109



Forward earnings forecast at lowest level for Transportation since 1990 as all three earnings periods stabilized in Dec. Forward P/E volatile for Transportation. It is also up sharply recently due to expected losses in the Airline industry.



#110

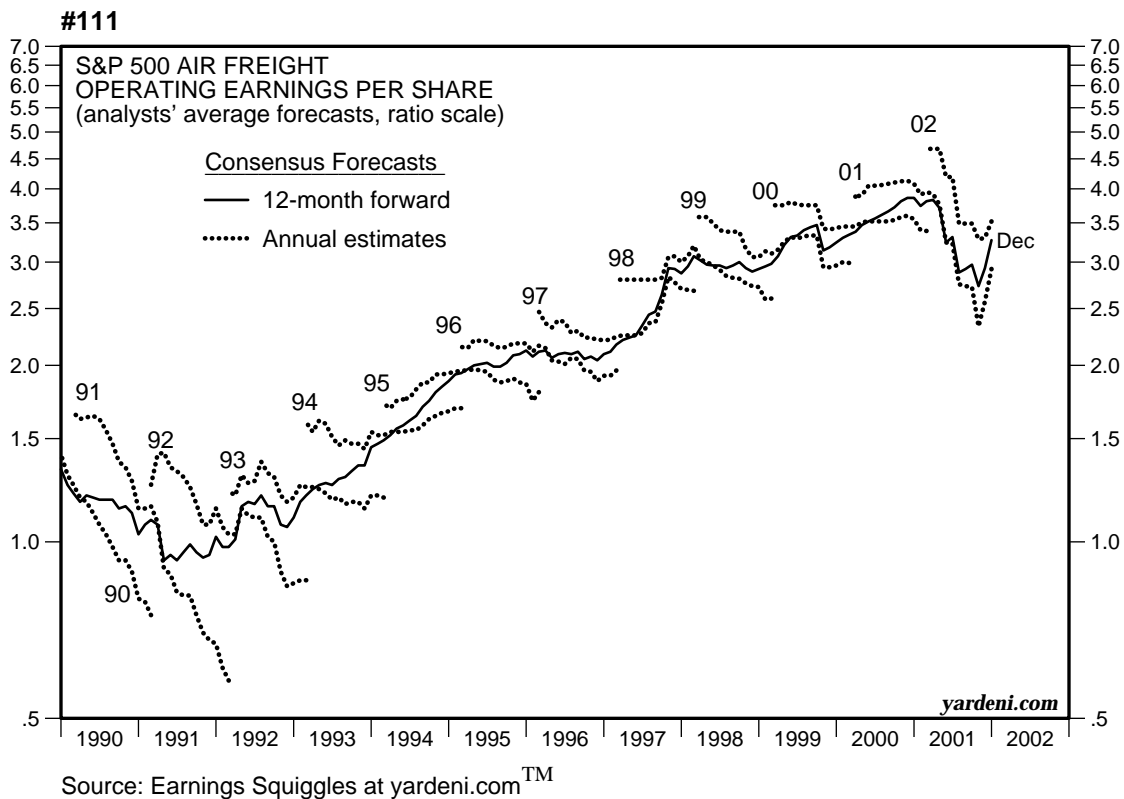


* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

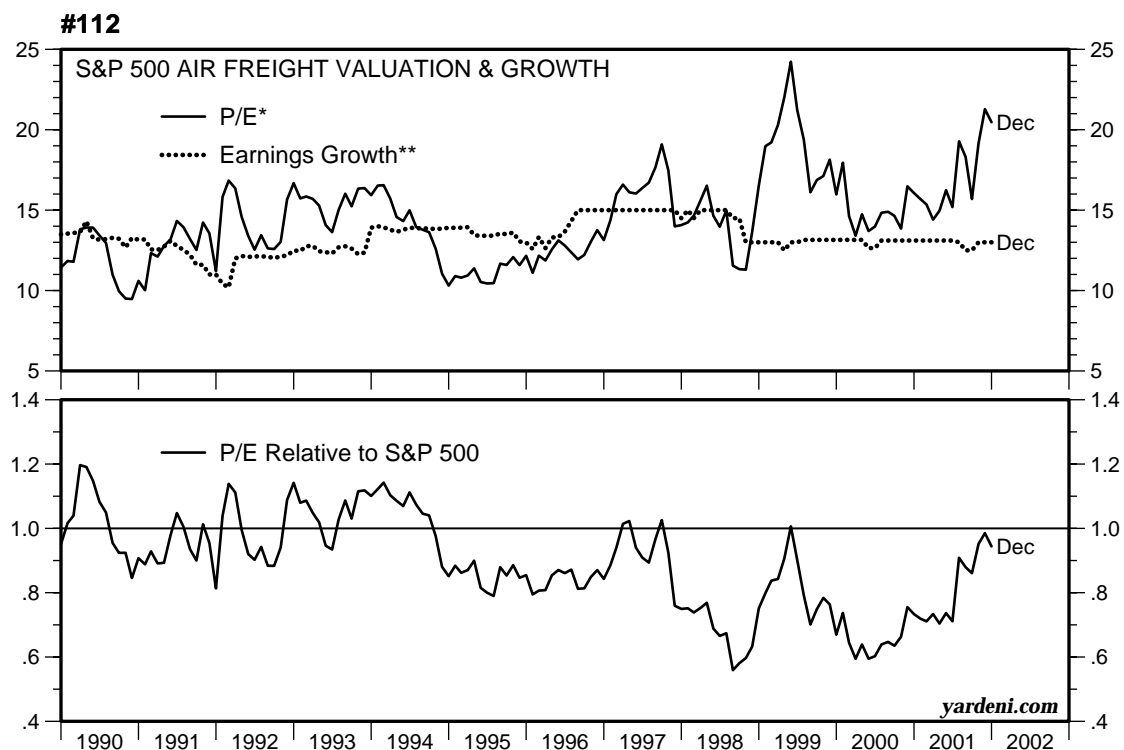
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Transport: Air Freight -



Earnings expectations rose in Dec. Analysts expect 2002 earnings to recover 20.5% to a new high. Long-term earnings expectations steady at 13.0%.

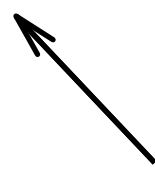
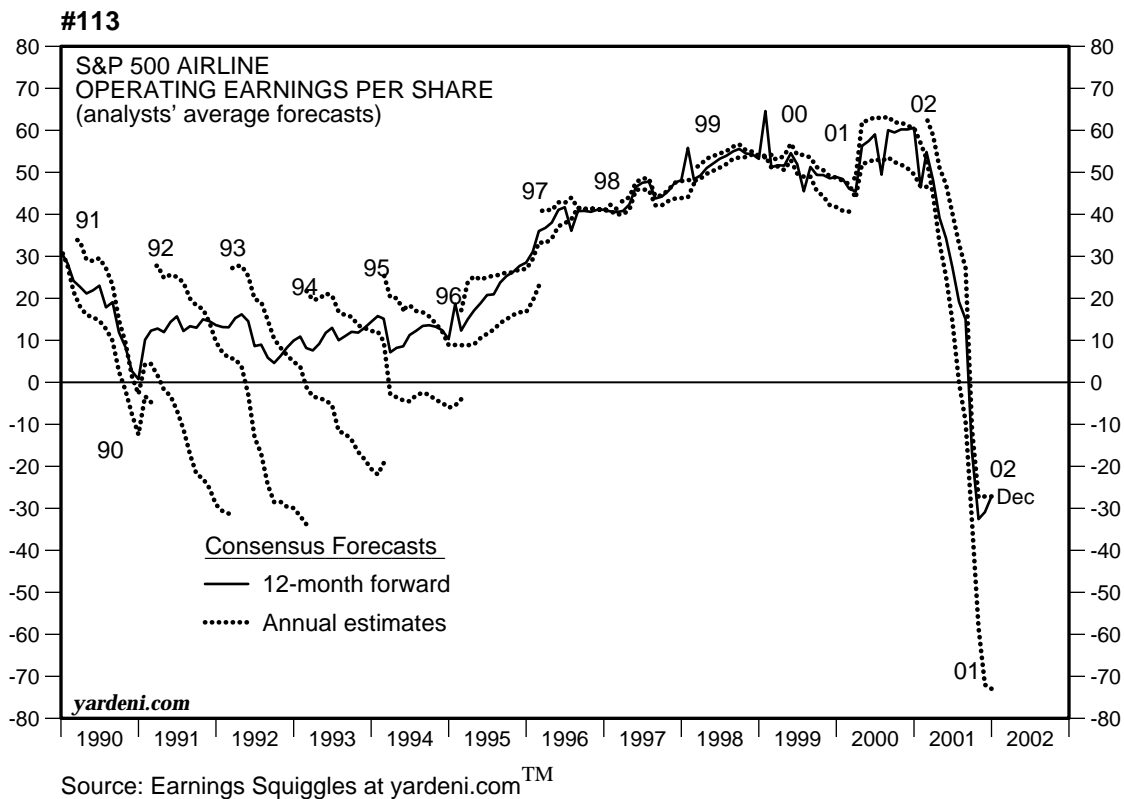


* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

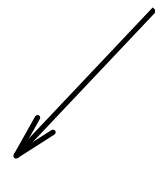
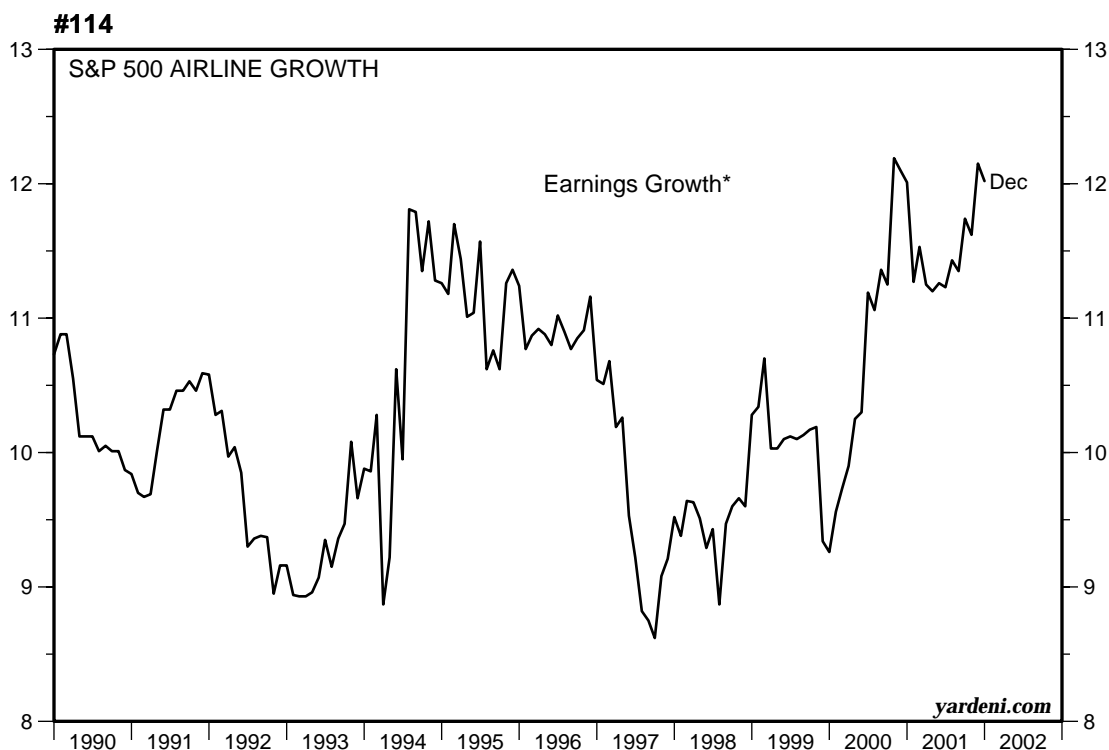
** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

- Transport: Airlines -

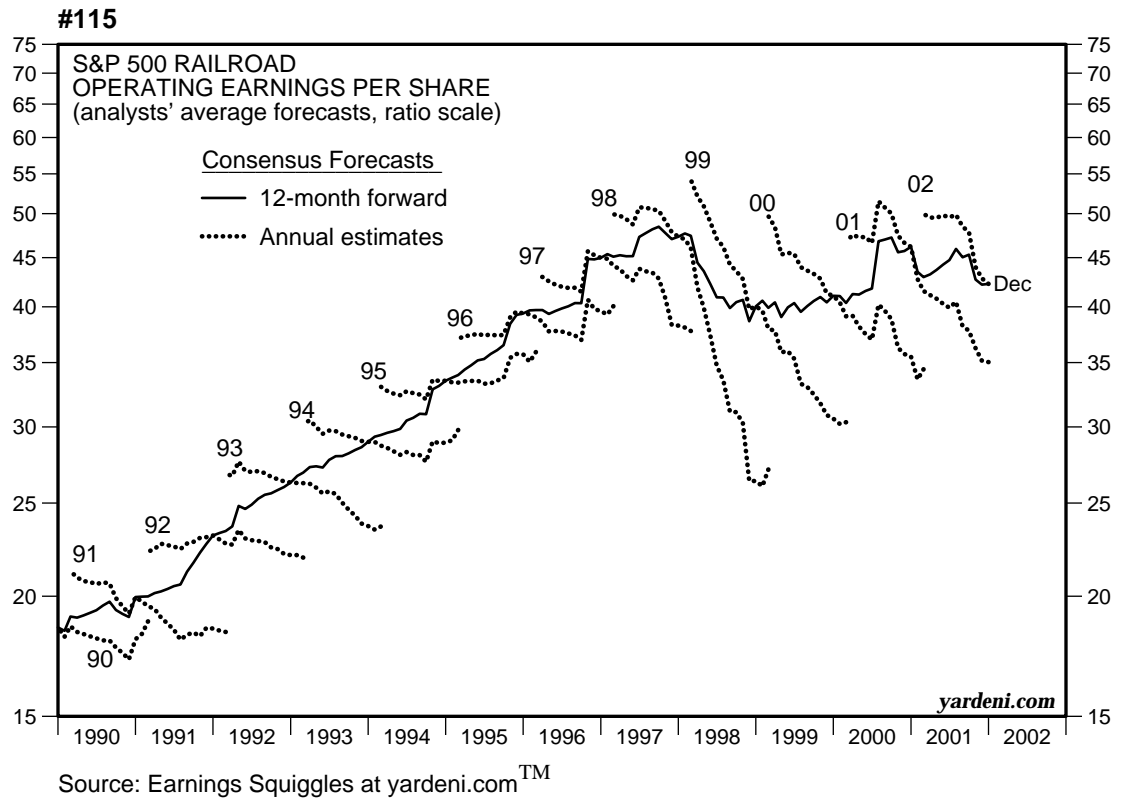


Consensus forward estimate rose slightly in Dec from Nov's all-time low. All three earnings periods remain in negative territory. Long-term earnings growth expectations at 12.0%, close to a new high!

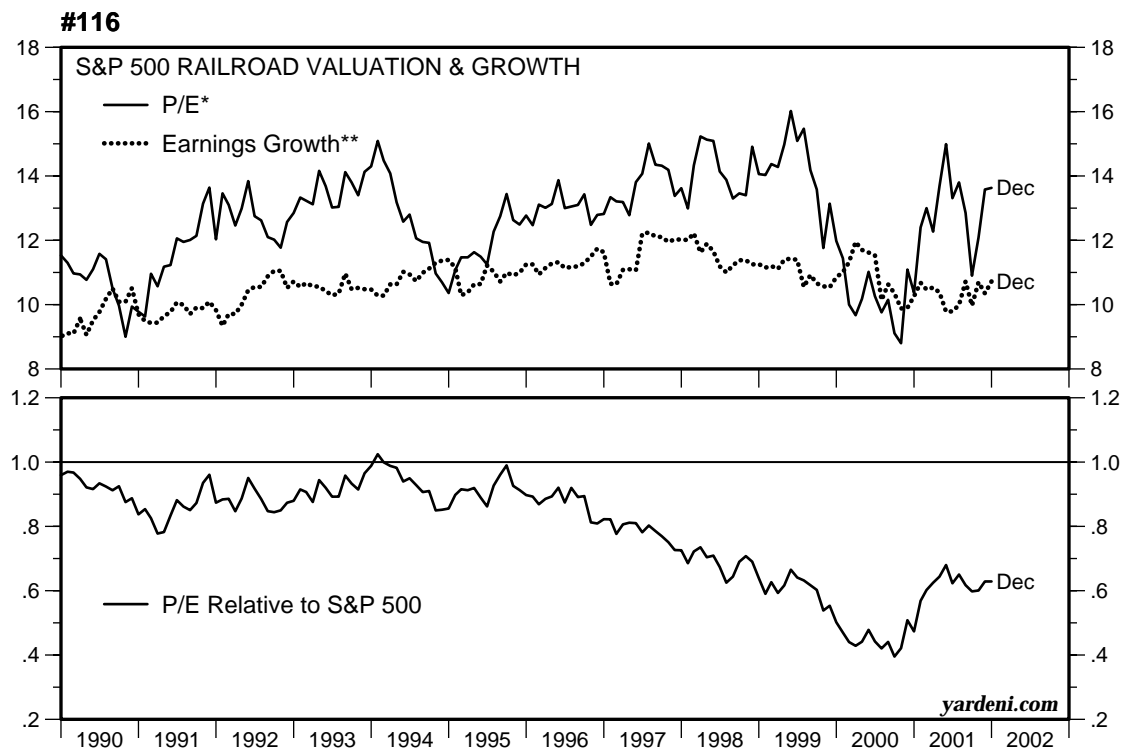


* 5-year forward consensus expected earnings growth. Percent annual rate.
Source: Thomson Financial

- Transport: Railroads -



Consensus forward earnings estimate edged up in Dec despite declines in 2001 and 2002 estimates. Long-term earnings growth steady at 10.7%. 2002 expected to exceed 2001 by 20.6%.



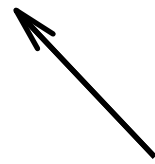
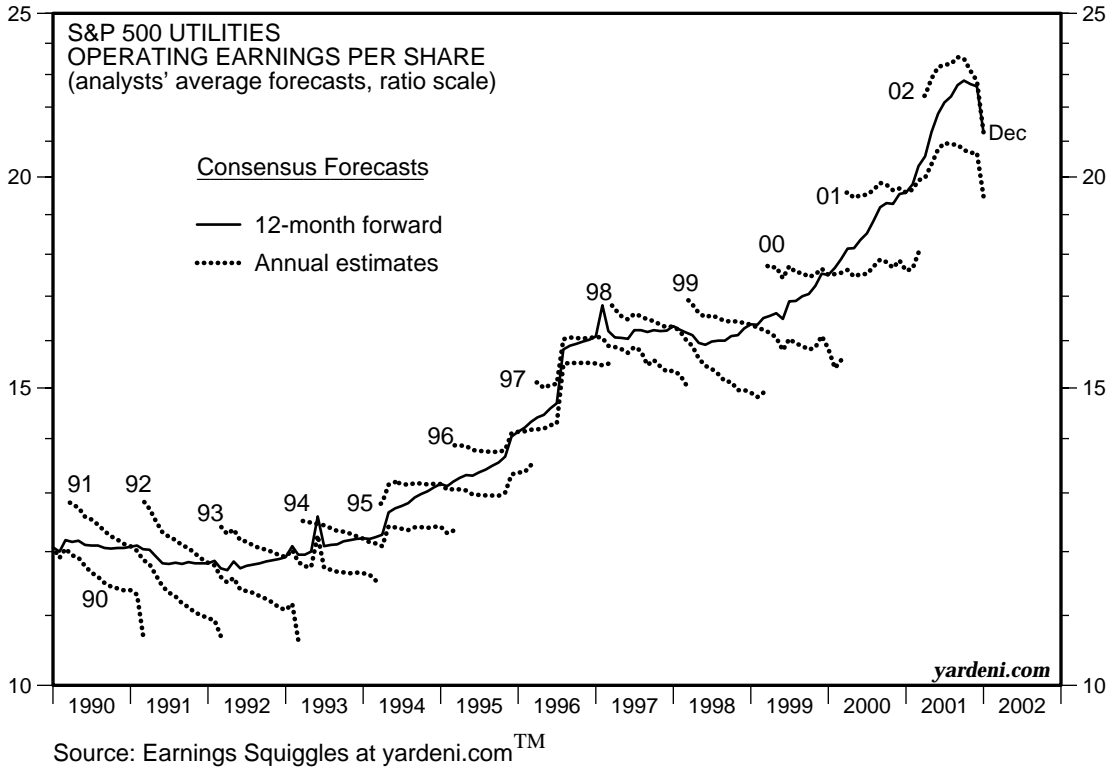
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

Source: Thomson Financial

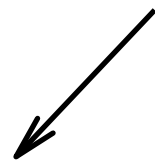
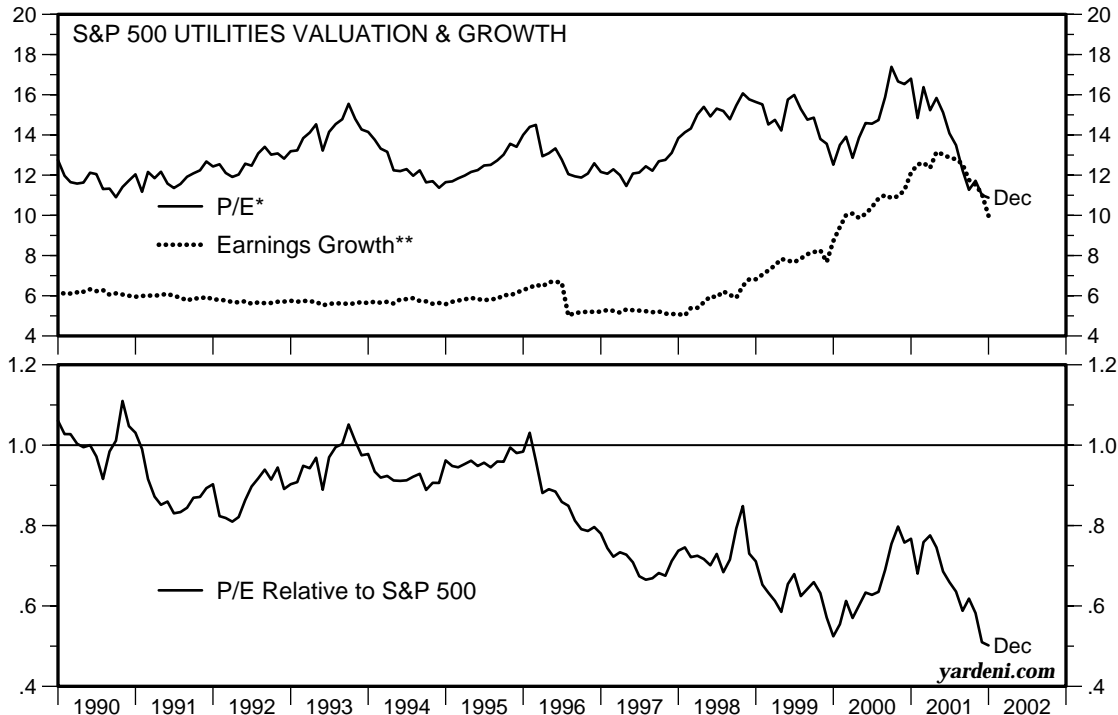
- Utilities -

#117



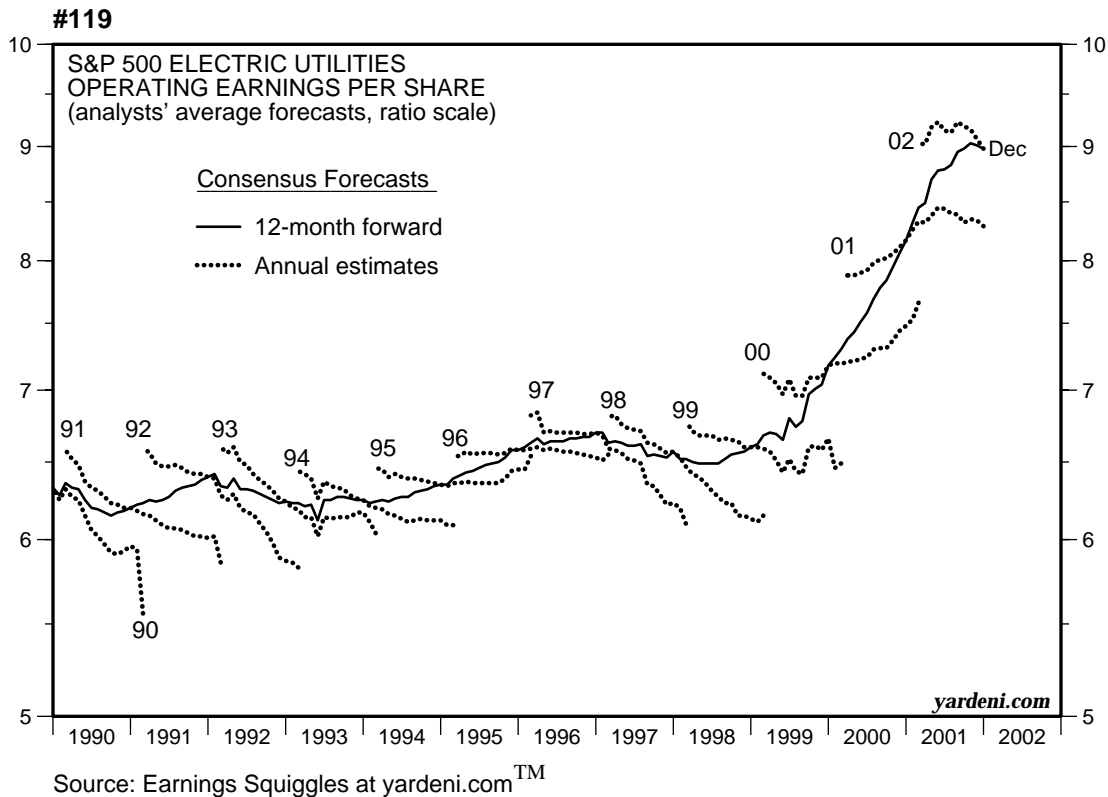
Forward earnings estimate for Utilities down for the fourth time in the past 24 months. 2002 currently exceeds 2001 by 9.1%. Forward P/E of 10.9 is above long-term expected earnings growth of 10.0%. Sector sells at a significant discount to the market.

#118

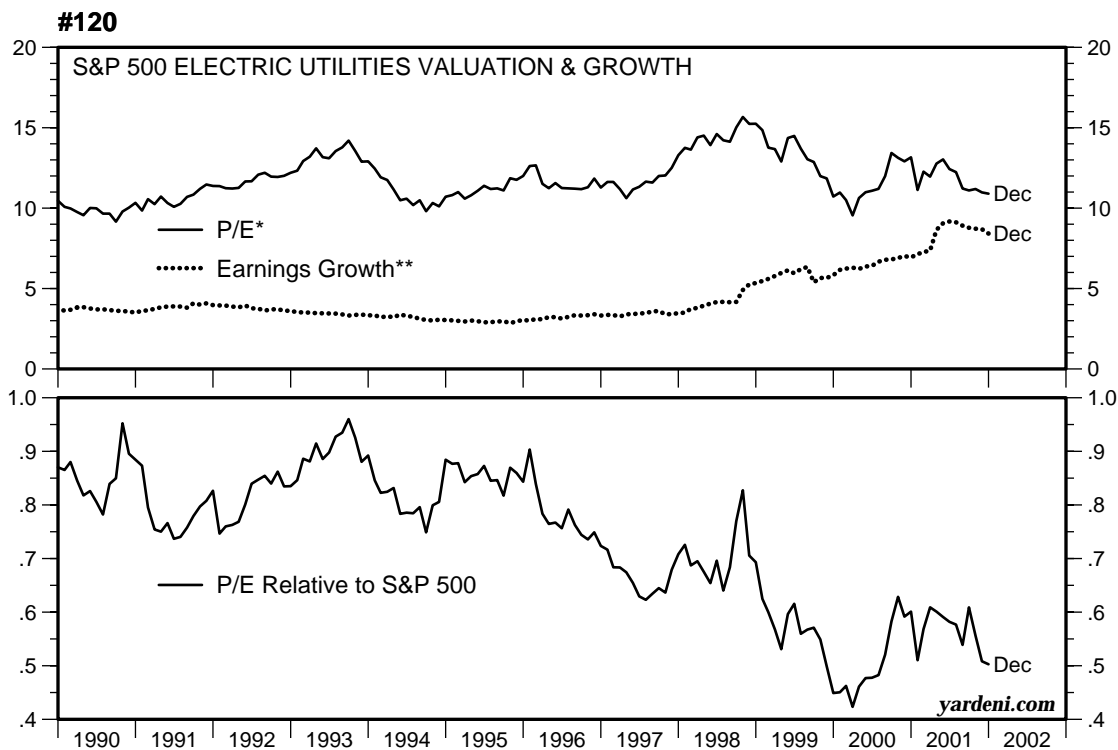


* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.
 ** 5-year forward consensus expected earnings growth. Percent annual rate.
 Source: Thomson Financial

- Utilities: Electric -



For Electric Utilities, current 2002 estimate exceeds 2001 by 8.3%. Consensus forward earnings estimate declined for the second time since May 1999.



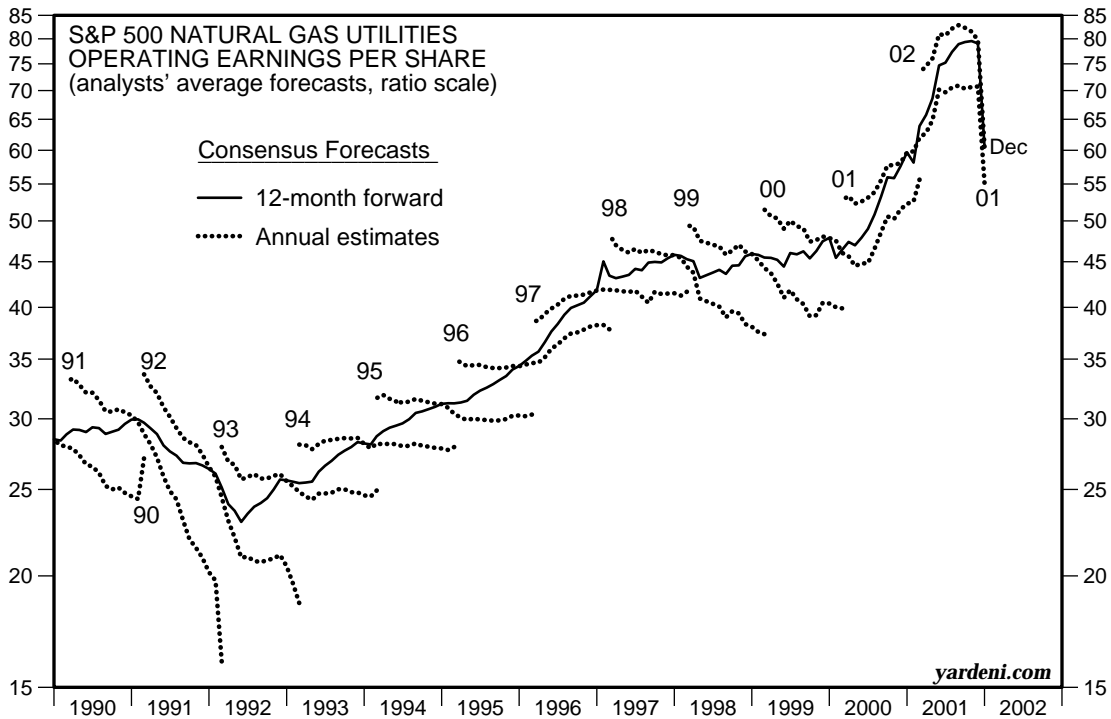
* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

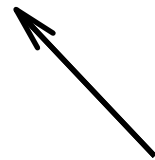
Source: Thomson Financial

- Utilities: Natural Gas -

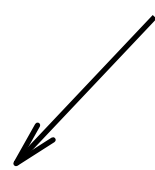
#121



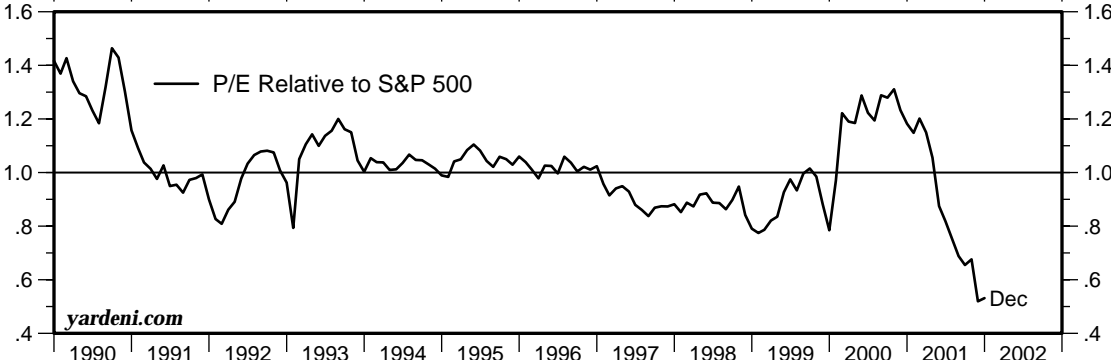
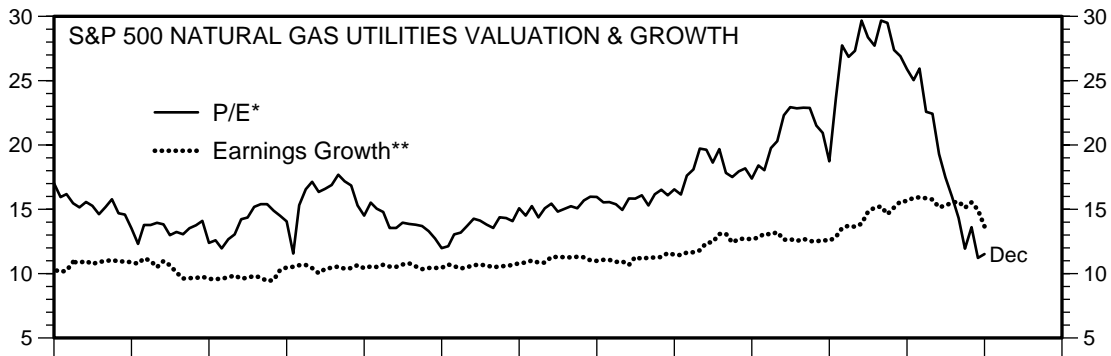
Source: Earnings Squiggles at yardeni.com™



Three Strikes: All three earnings periods fell sharply in Dec. Analysts expect 2002 earnings to be up 9.8%. Industry sells at 50% discount to the market as P/E edges up to 11.5 from last month's all-time low.



#122

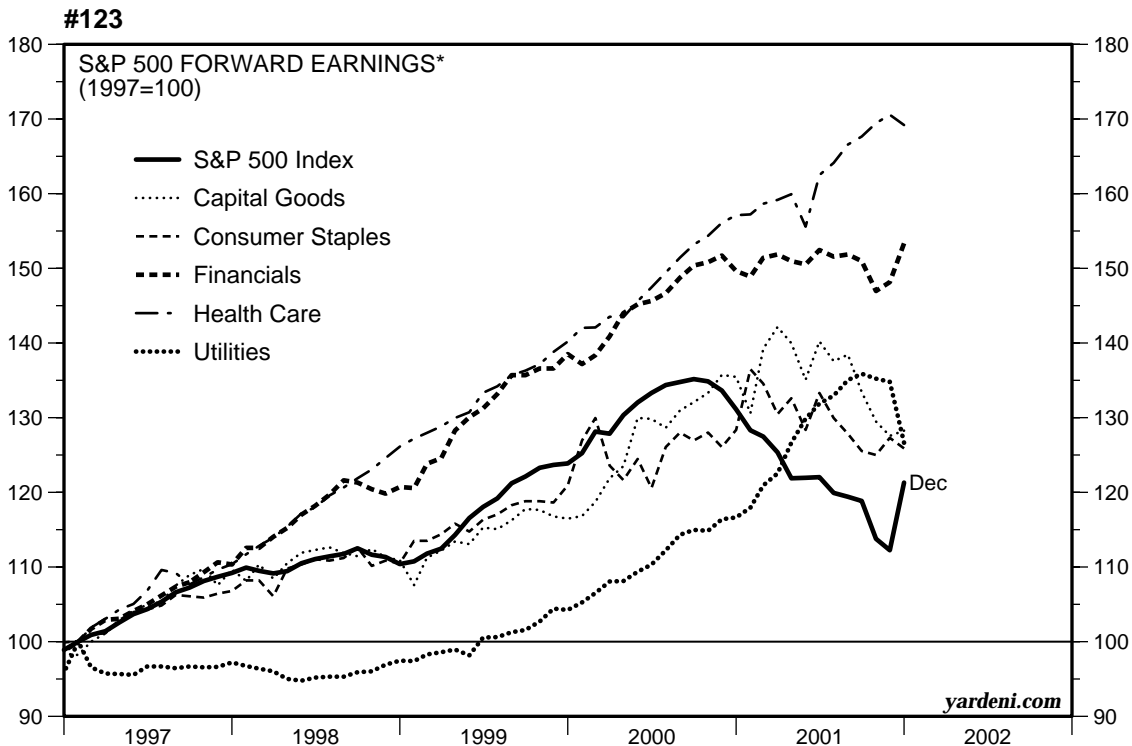


* Price divided by 12-month forward consensus expected operating earnings per share using mid-month data.

** 5-year forward consensus expected earnings growth. Percent annual rate.

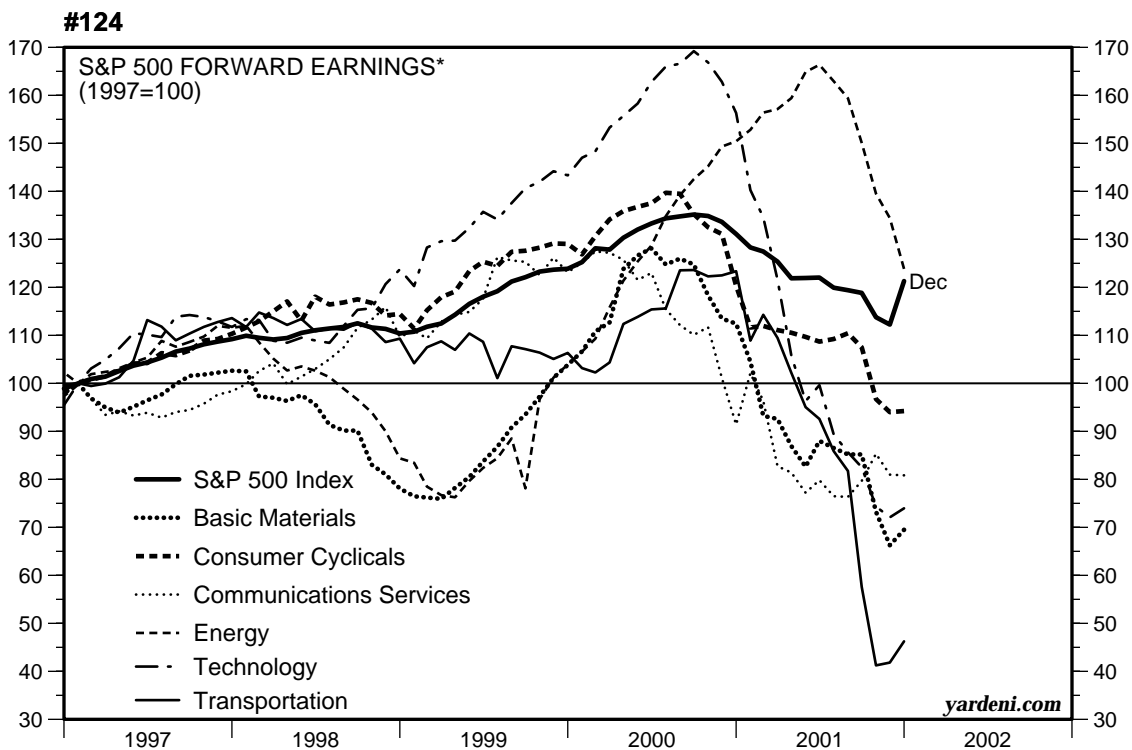
Source: Thomson Financial

- Relative Earnings -



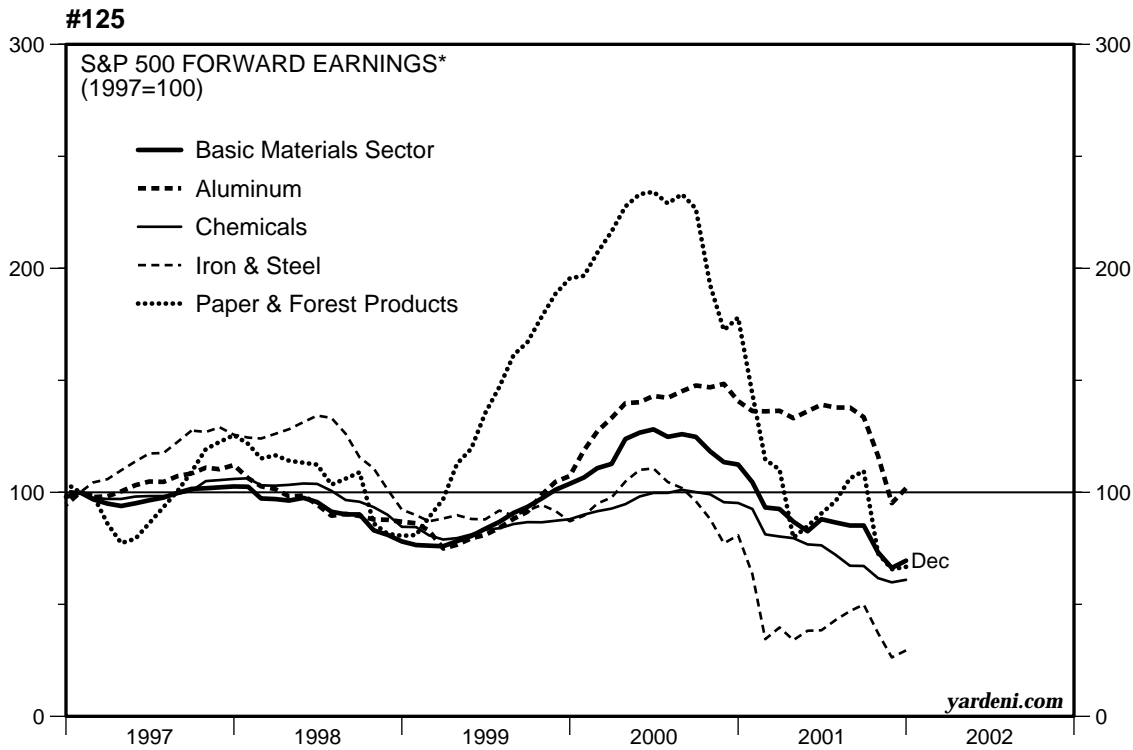
* 12-month forward consensus expected operating earnings per share.

Consensus Turnaround? 12-month forward consensus expected earnings rose in Dec for six sectors: Basic Materials, Capital Goods, Consumer Cyclicals, Financials, Technology, and Transportation. Since 1997, the weakest sectors are Transportation, Basic Materials, Technology, Communications Services, and Consumer Cyclicals.



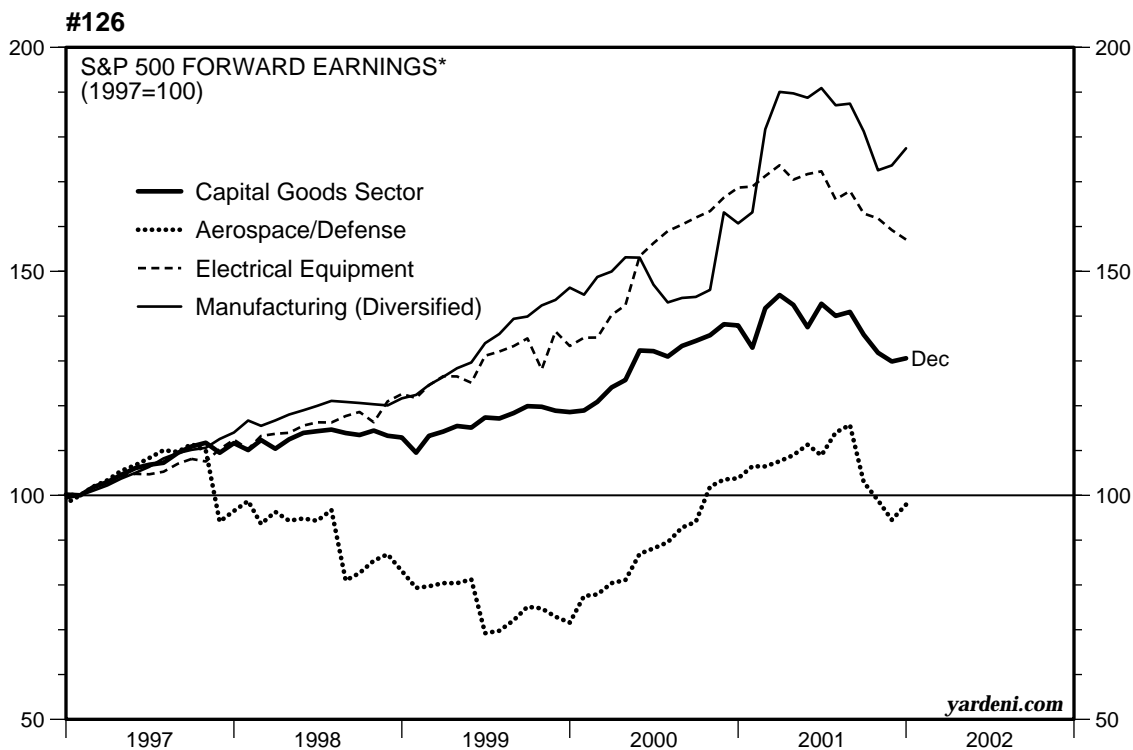
* 12-month forward consensus expected operating earnings per share.

- Relative Earnings -



In Basic Materials, the best earnings momentum is in Aluminum and the worst is in Iron & Steel. Consensus forward earnings estimate rose for all four industries in Dec.

* 12-month forward consensus expected operating earnings per share.

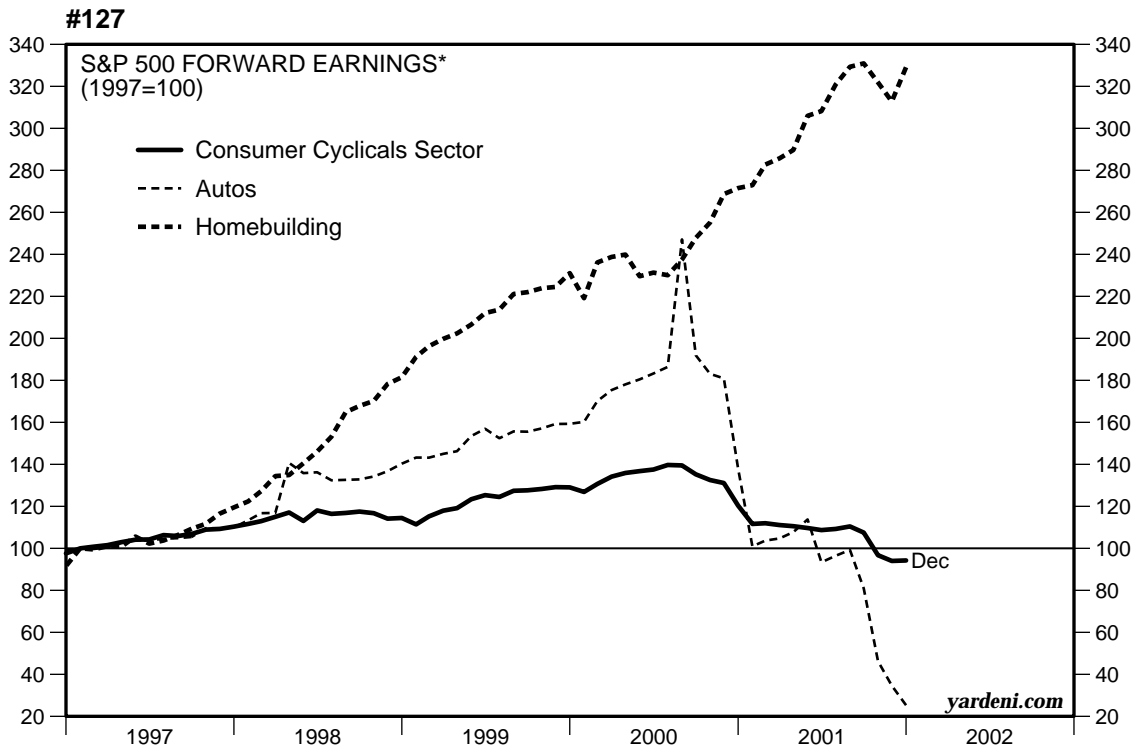


In Capital Goods, the best momentum is in Manufacturing and Electrical Equipment. Aerospace/Defense is below 1997 levels. Electrical Equipment was the only industry to decline in Dec.

* 12-month forward consensus expected operating earnings per share.

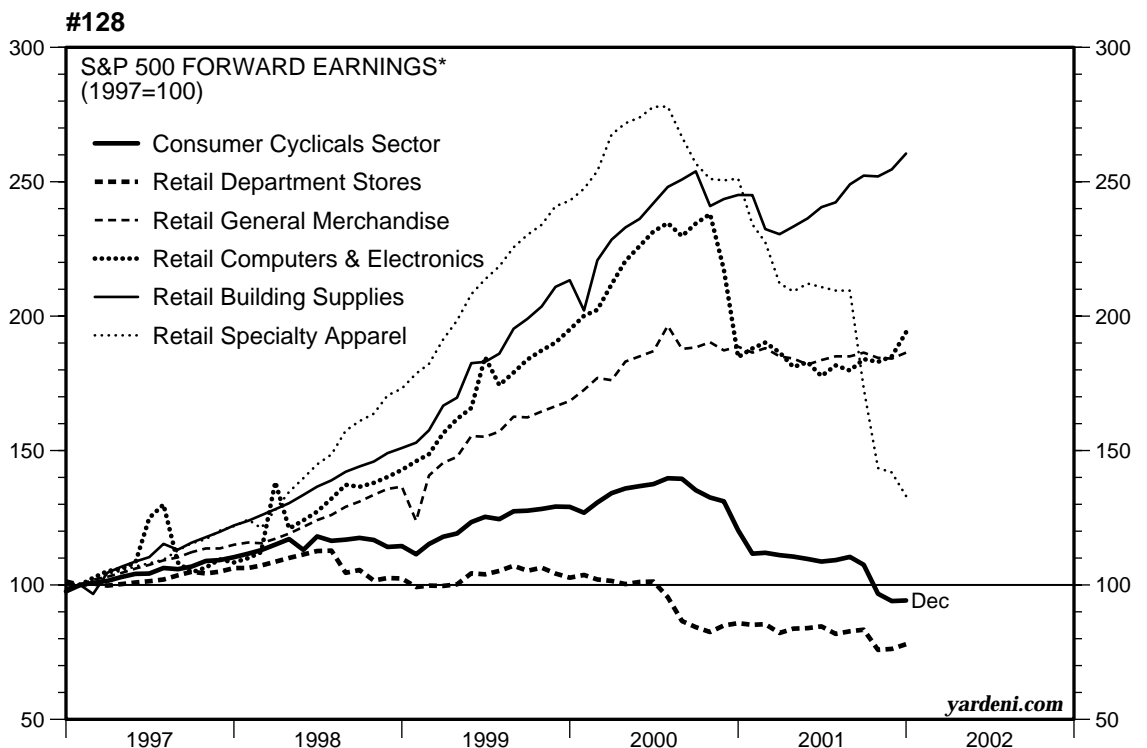
- Relative Earnings -

Homebuilding's earnings momentum is spectacular. Autos has deteriorated sharply since peaking in August 2000.



* 12-month forward consensus expected operating earnings per share.

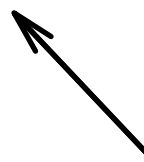
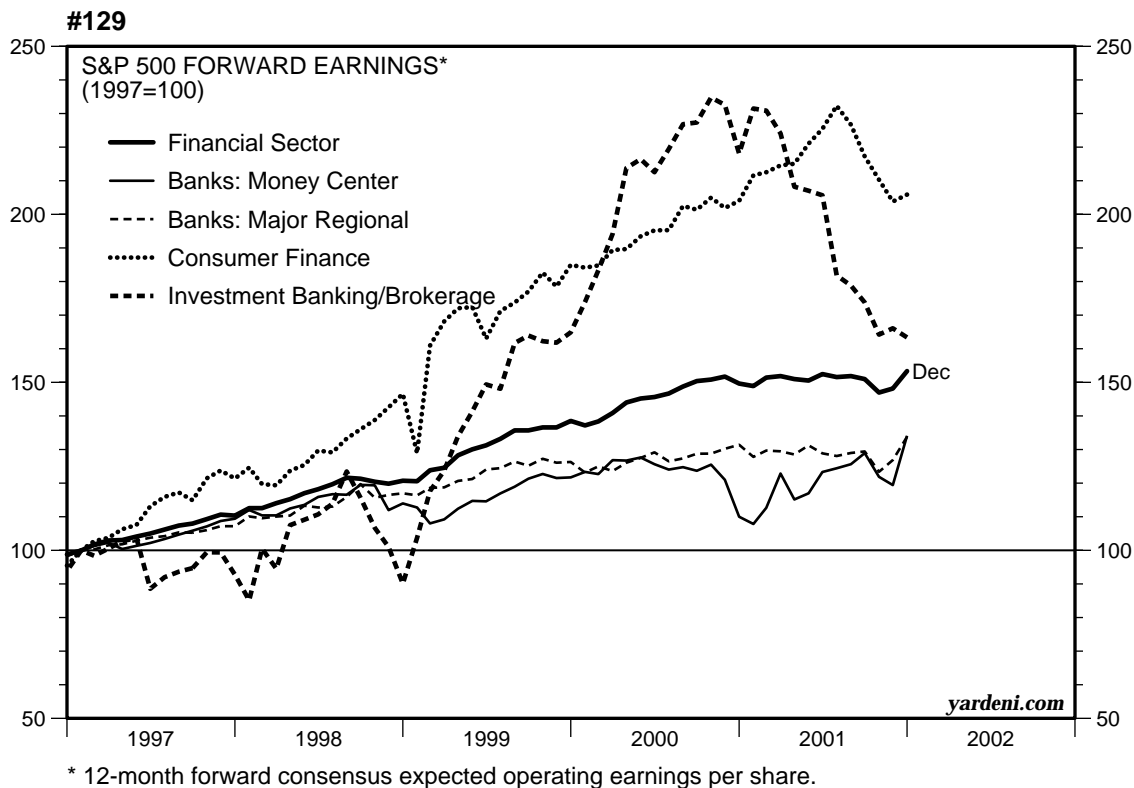
Among Retailers, Building Supplies has held up best in earnings derby while Computers & Electronics has improved for two straight months. Department Stores remains below 1997's level while Specialty Apparel has declined significantly in the past four months.



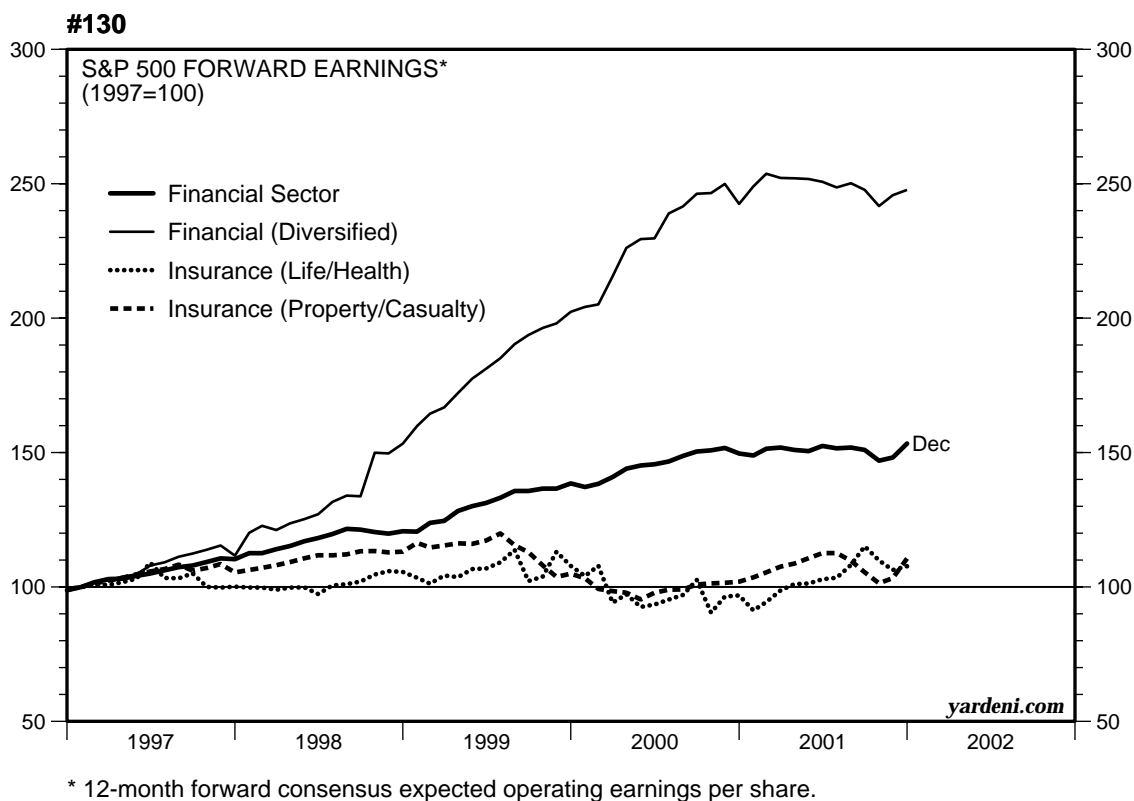
* 12-month forward consensus expected operating earnings per share.

Source: Thomson Financial

- Relative Earnings -

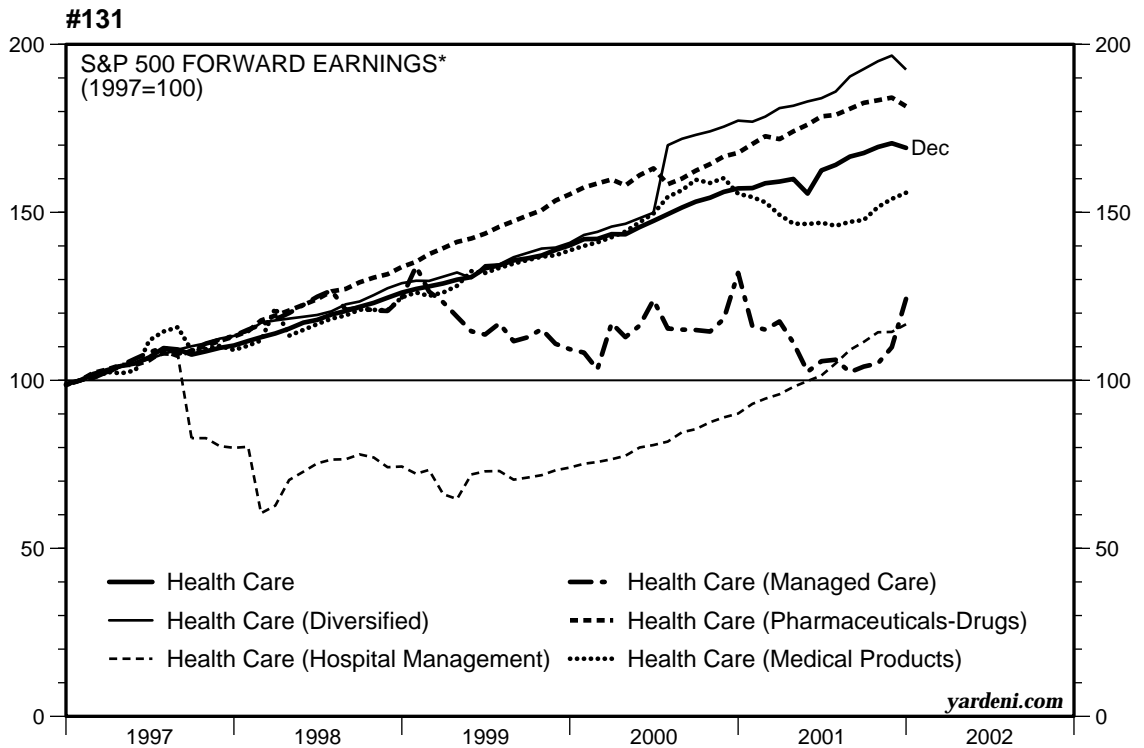


In Finance, Diversified has the best earnings momentum while Consumer Finance recovered in Dec. All industries improved in Dec except for the Brokers, which have deteriorated rapidly since the start of 2001.



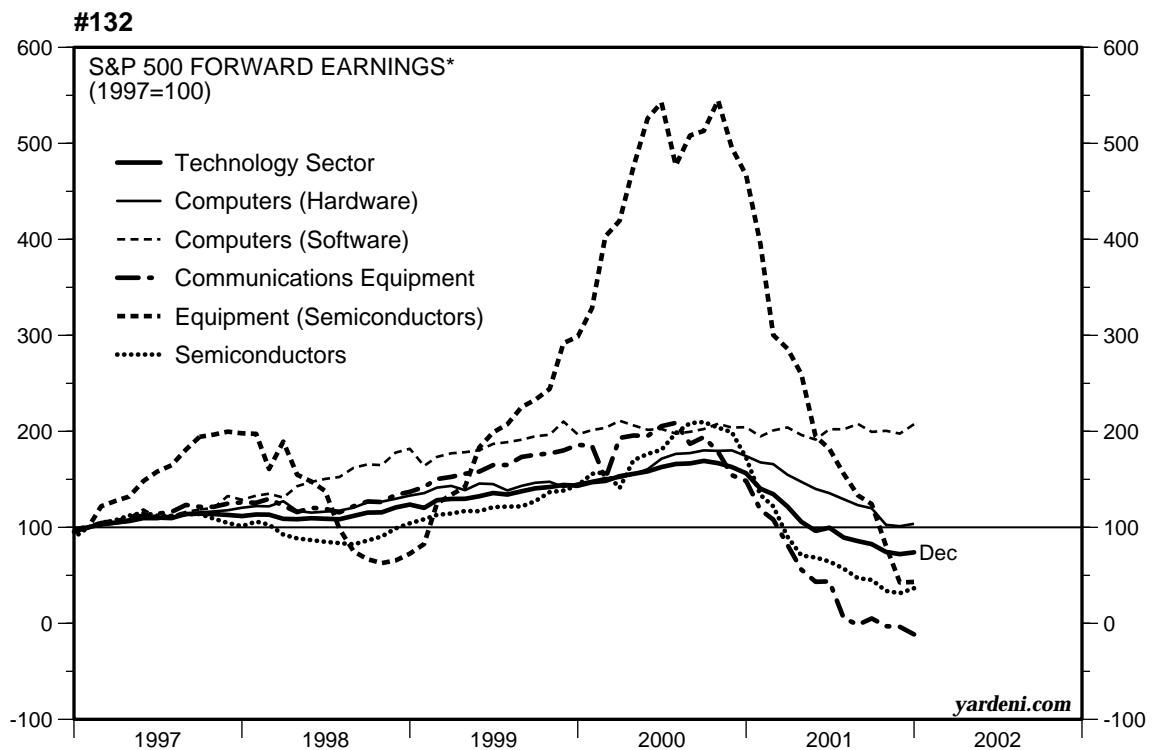
- Relative Earnings -

In Health Care, while Drugs and Diversified are steady earnings performers, they both declined in Dec. Hospital Management and Medical Products continue to improve while the volatile Managed Care industry is on a sharp upswing.



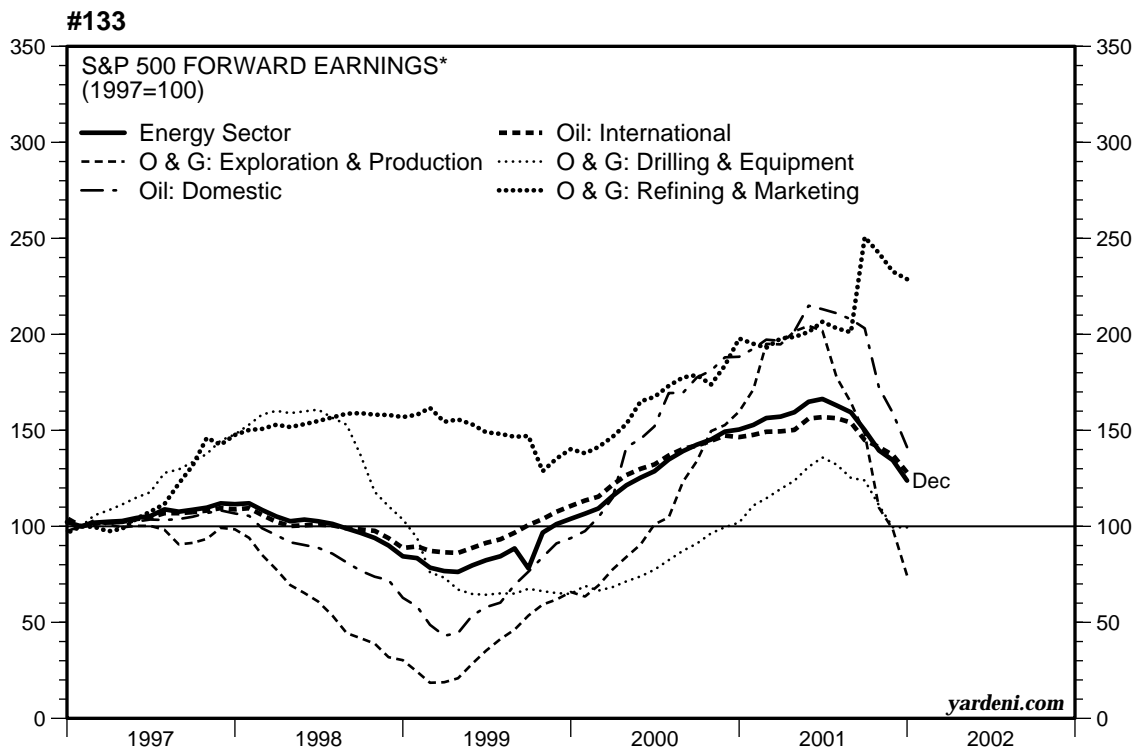
* 12-month forward consensus expected operating earnings per share.

In Tech, earnings momentum is down across the board except Software, which has been flat. Although they stabilized in Dec, Communications Equipment, Semiconductors, and Equipment (Semiconductors) are down sharply since late-2000 peak.



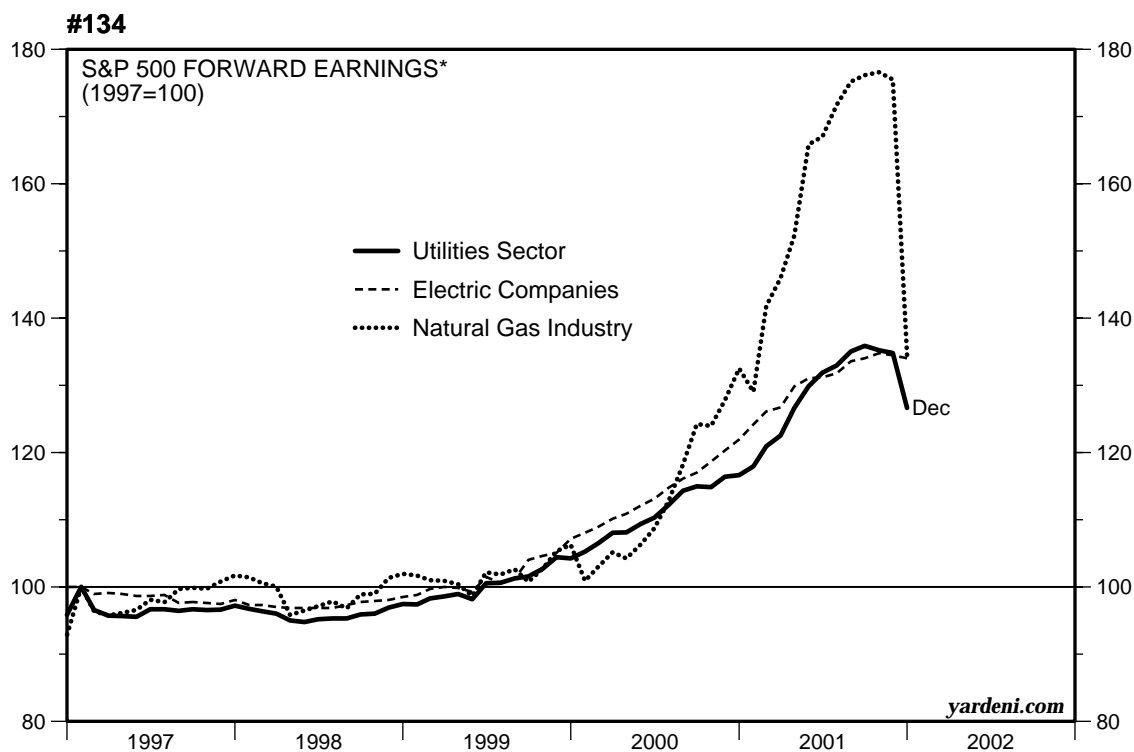
* 12-month forward consensus expected operating earnings per share.

- Relative Earnings -



* 12-month forward consensus expected operating earnings per share. O & G = Oil & Gas

Rapidly deteriorating earnings momentum among "Power Play" industries, with Refining & Marketing the strongest industry. Recent declines in oil and gas prices have depressed consensus forward earnings for the Exploration & Production and Drilling & Equipment industries.



* 12-month forward consensus expected operating earnings per share.

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