J.P. Morgan Chase (NYSE: JPM)

Update Report - Price $40.31

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Company description: J.P. Morgan is headquartered in New York City. It is one if the world's largest financial institutions providing a full array of banking, investment and related financial services.

Investment Rating			Market Perform
	Current		Prior
Target Price	$44.00		
Price (March 17, 2008)			$40.31
52 Week Range			$36.01 - $53.25
Shares Outstanding			3,472 MM
Market Capitalization			$139,956 MM
Assets			$1,561,147 MM

Rev/Share	Current	Prior	P/R
2010E	$25.47		1.58x
2009E	$23.35		1.73x
2008E	$21.47		1.88x
2007	$20.35		1.98x

EPS	Current	Prior	P/E
2010E	$4.50		9.0x
2009E	$3.88		10.4x
2008E	$3.30		12.2x
2007	$4.37		9.2x

Book Value	Current	P/B
Reported	$35.49	1.14x
Tangible	$20.70	1.94x

Dividend	Current	Yield
Annualized	$1.52	3.8%

Ratios
December, 2007

Income	
Trading/Rev	0.9%
Inv Banking/Rev	9.6%
Net Int. Inc/Rev	41.5%
Operating Cost Ratio	61.7%
Provision/Loans	1.96%
Equity	
Reserves/Loans	1.78%
Common Equity/Assets	7.89%
Tangible CE/Assets	4.60%
Annual	
Past 3-Year RPS Growth	9.6%
Past 3-Year EPS Growth	17.9%
P.E./Past EPS Growth	0.68x
Proj. 3-Year EPS Growth	2.0%
Returns	
ROE	9.6%
ROA	0.76%

Think Accounting

- The press and investors are constantly attacking the Federal Reserve for what it is /is not doing. They are like monks arguing over how many angels are on the head of a pin. Unfortunately, though, they are not locked away in monasteries. They have ignored the SEC in their ruminations. Yet the SEC's support of the flawed accounting rule SFAS 157 is one of the core causes of the current financial crisis. J.P. Morgan Chase, however, may be about to take advantage of the silliness of 157 in its purchase of Bear Stearns (BSC/$4.81/Market Perform).
- There are two camps developing regarding this merger. One believes that Bear Stearns is worth more dead than alive. They think the company should be allowed to go bankrupt. It should then be cut into pieces and sold with the proceeds going to the stockholders. On this side of the dispute, there are others who believe that there is a white knight available to buy this company at a much higher price. I think these thoughts may be misplaced.
- On the other side are those who believe that this is a high risk transaction entered into hastily in order to help the financial markets. People here see J.P. Morgan's earnings being possibly reduced by 1/3rd due to this transaction before any benefits accrue to its shareholders. I am in this camp.
- Let us take the thoughts one by one leaving accounting for last. Believers in the break-up/bankruptcy theory see multiple assets to be sold. There are almost none. The firm has a building in New York. That is it.
- The prime brokerage business is evaporating and would have no value if Bear was bankrupt. The asset management business is relatively small and is being sued. The retail sales force would walk taking their business with them. The investment banking division would cease to exist.
- This is a company built on people and there would be no people. Additionally, the assets would be sold at massive discounts by a court in a fire sale disrupting the financial markets and resulting in negative book value.
- The whole process of sorting out lenders to the company would take years and no one would get anything.

Estimated Earnings Per Share

	March	June	September	December	Year
2010	$1.06	$1.12	$1.11	$1.21	**$4.50**
2009	$0.90	$0.96	$0.98	$1.06	**$3.88**
2008	$0.75	$0.85	$0.82	$0.88	**$3.30**
2007	$1.34	$1.20	$0.97	$0.86	**$4.37**

Notes: Reported/Operating Profits

Analyst Certification and important disclosures can be found on the last page of this report.

White Knight

A so called white knight would be involved in a hostile take-over. S/he would not have a look at the books. S/he would be faced with the opposition of management, the Federal Reserve Board, the Treasury Secretary of the United States, and the President, all who have approved this deal. If able to overcome these obstacles, the knight would have to be willing to accept a near term loss of $6 million and take on the risk of guaranteeing $45 billion in assets of unknown quality. If one was foolish enough to do this the buyer would also have to have the stature in the market place so that other participants would be wiling to do business with it.

I think this is all highly unlikely. My view is that the stock went up in the market yesterday due to short covering.

SFAS 157

These same problems that would surface if the company was bankrupted and/or taken over by a white knight exist but to a lesser degree in a J.P. Morgan takeover. The customers will not leave with J.P. Morgan here. Other parties in the market are happy to do business with J.P. Morgan. The assets can be sold at a measured pace. The financial markets are not disrupted. There is a $30 billion Federal guarantee.

J.P. Morgan is not getting a free ride, however. Bear Stearns businesses are deeply troubled:

- The prime brokerage and clearance businesses are bleeding.
- The equity platform has been cut back through continuous firings.
- The energy business may not really exist after the Calpine mishap.
- The asset business is being sued.
- The brokers must be wooed.
- The investment banking business must be rebuilt.
- The assets are of unknown quality.
- No one needs to increase their position in either the prime or subprime mortgage business at the moment.
- This is a bankrupt company for many good reasons; must importantly it has negative cash flows

This is a very high risk transaction and as Morgan admits the bank will lose $6 billion in the 1st 12 months following the takeover. It will take 3 to 4 years to get this money back. Plus, J.P. Morgan will not be making any large acquisitions of regional banks for at least 12 to 18 months now that its balance sheet has to be sorted out.

There is one benefit. It is the ridiculous accounting rule 157, supported by the SEC. Under this rule J.P. Morgan is allowed to treat the assets of Bear Stearns differently than Bear Stearns could. Bear Stearns had to mark these assets to market even though:

- There was no truly comparable market, and
- The assets may have been paying interest and principal on a timely basis.

J.P. Morgan does not have to do this. It can put Bear's assets into a held to maturity account; mark them up to par; and hold them, without any marks, for as long as it takes for them to mature. This could be worth tens of billions in book value. It will be important to note if the bank makes use of this opportunity. I think it must if it wants this deal to work.

Important Disclosures

Risk Factors

Companies in the financial industry do not control the macro economic factors that have the greatest impact on their earnings performances and their stock prices. These include changes in the level of interest rates and the shape of the yield curve, as well as changes in economic direction which may slow or accelerate unit growth and loan losses

These companies do not provide adequate data concerning their holdings of loans and securities. In this sense they are blind pools and investors only become aware of problems after they have occurred. Managements are also prone to errors in decision making in positioning their balance sheets and in the general operation of their businesses which may impact the profits of the company.

The analyst preparing this report may also make incorrect judgments concerning interest rates and economic direction and this could cause his estimates to deviate meaningfully from actual results. Further, his assumptions concerning PE multiples may be faulty leading to faulty price targets.

Rating Definitions and Coverage Percentages

Rating	Definition	% of companies under coverage with this rating	% within rating category for which investment banking services have been provided in the last 12 months
Buy	Common stock is expected to outperform the market by 15 or more percentage points	60.00%	16.67%
Accumulate	Common stock is expected to outperform the market by five to 15 percentage points	1.67%	0.00%
Market Perform	Common stock is expected to perform with the market plus or minus five percentage points	35.00%	4.76%
Sell	Common stock is expected to under perform the market by 15 or more percentage points	3.33%	0.00%

The rating system is a guide to expected total return (price plus dividend) relative to the total return of the market on which the stock trades over the next 12 months.

Analyst Certification:

I, Richard Bove, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company and its securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation related to my views expressed or any specific recommendations that are contained in this report.

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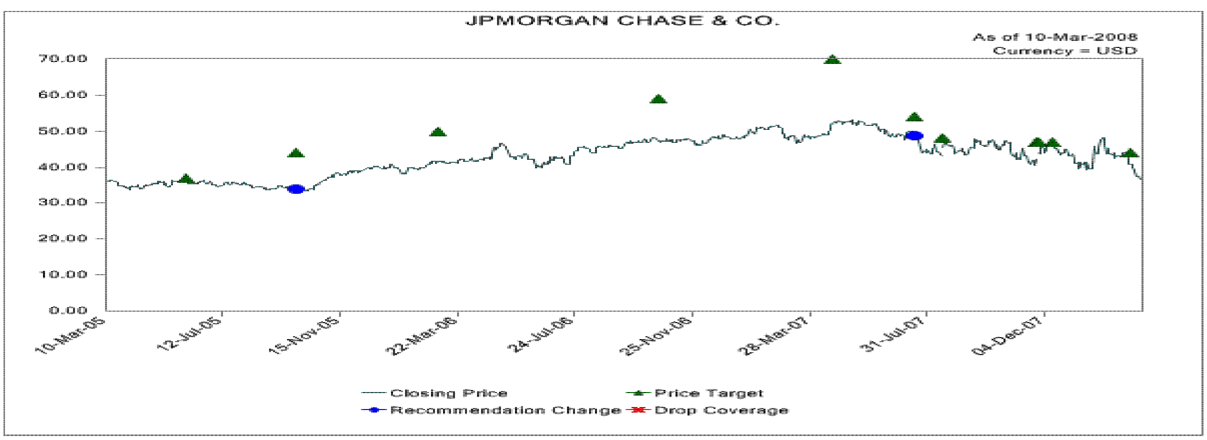

JPMORGAN CHASE & CO.

Currency = USD

Date	Closing Price	Recommendation Change
18-Jul-2007	48.88	MARKET PERFORM
27-Sep-2005	33.88	BUY

Date	Closing Price	Price Target
29-Feb-2008	40.65	44.00
11-Dec-2007	45.94	47.00
27-Nov-2007	42.35	46.82
27-Nov-2007	42.35	47.00
15-Aug-2007	43.00	48.00
19-Jul-2007	48.62	54.00
18-Apr-2007	52.07	70.00
18-Oct-2006	47.21	59.00
01-Mar-2006	41.63	50.00
27-Sep-2005	33.88	44.00
01-Jun-2005	35.76	37.00