Structured Products Research Report

Report Prepared On: 08/02/13

Structured Product Details

Name	Buffered Return Enhanced Notes linked to S&P 500 Index
Issue Size	$4.28 million
Issue Price	$1,000
Term	6 Months
Annualized Coupon	0.00%
Pricing Date	June 15, 2009
Issue Date	June 22, 2009
Valuation Date	December 22, 2009
Maturity Date	December 28, 2009
Issuer	JPMorgan
CDS Rate	100.44 bps
Swap Rate	1.19%
Reference Asset	the S&P 500 Index
Initial Level	923.72
Dividend Rate	2.96%
Implied Volatility	27.90%
Delta[1]	0.36
Fair Price at Issue	$987.83
Realized Return	13.96%
CUSIP	48123LZ64
SEC Link	www.sec.gov/Archives/edgar/data/19617/000089109209002414/e35712_424b2.htm

Buffered Return Enhanced Notes linked to S&P 500 Index

Description

JPMorgan issued $4.28 million of Buffered Return Enhanced Notes linked to S&P 500 Index on June 22, 2009 at $1,000 per note.

These notes are JPMorgan-branded Buffered PLUS securities that do not pay periodic coupons, but instead pay a single amount at maturity depending on the final level of the S&P 500 Index.

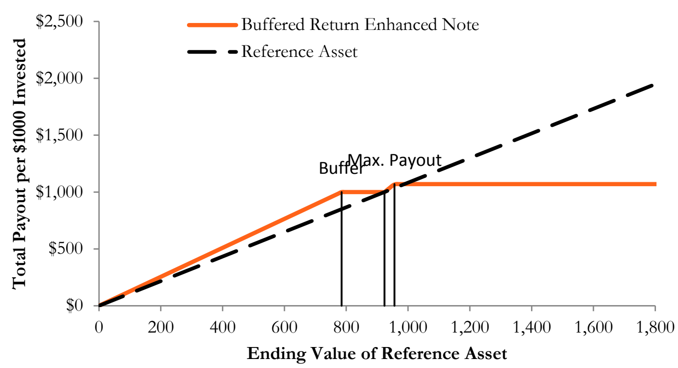
If on December 22, 2009 the S&P 500 Index level is higher than 923.72, but lower than 956.05, the notes pay a return equal to the percentage increase in the S&P 500 Index multiplied by 2.0, up to a cap of 7.00%. If on December 22, 2009 the refe is below 923.72 but not below 785.16, investors receive $1,000 face value per note. If the S&P 500 Index level on December 22, 2009 is lower than 785.16, investors receive face value per note reduced by 1.18 times the amount the reference asset is below 785.16 as a percent of the initial level, 923.72.

Valuation

This product can be valued as a combination of a note from JPMorgan, 1.18 short out-of-the-money put options, two long at-the-money call options, and two short out-of-the-money call options. For reasonable valuation inputs this note was worth $987.83 when it was issued on June 22, 2009 because the value of the options investors gave JPMorgan plus the interest investors would have received on JPMorgan's straight debt was worth $12.17 more than the options investors received from JPMorgan.

There is no active secondary market for most structured products. Structured products, including this note, therefore are much less liquid than simple stocks, bonds, notes and mutual funds. Investors are likely to receive less than the structured product's estimated market value if they try to sell the structured product prior to maturity. Our valuations do not incorporate this relative lack of liquidity and therefore should be considered an upper bound on the value of the structured product.

Payoff Curve at Maturity



The payoff diagram shows the final payoff of this note given the S&P 500 Index level (horizontal axis). For comparison, the dashed line shows the payoff if you invested in the S&P 500 Index directly.

Related Research

Research Papers:

www.slcg.com/research.php

- *"Are Structured Products Suitable for Retail Investors?"* December 2006.
- *"Structured Products in the Aftermath of Lehman Brothers,"* November 2009.
- *"What TiVo and JP Morgan Teach Us about Reverse Convertibles,"* June 2010.

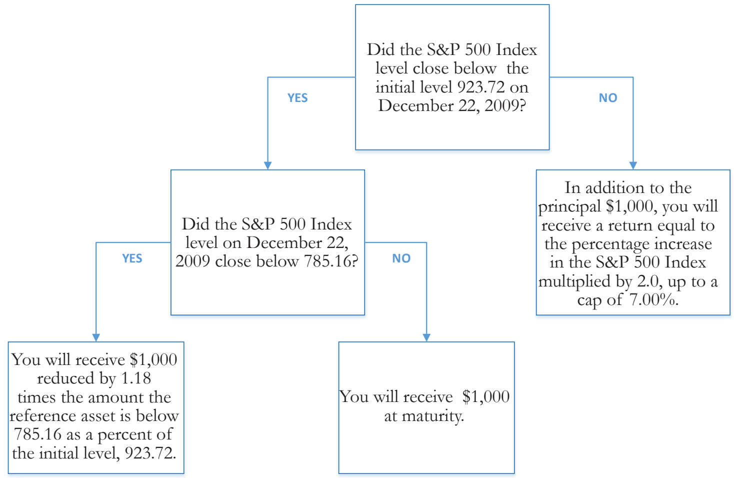
Tim Husson, Ph.D.,
Senior Financial Economist, SLCG
(+1) 703.890.0743
TimHusson@slcg.com

3998 FAIR RIDGE DRIVE, SUITE 250, FAIRFAX, VA 22033 | MAIN (703) 246-9380 | INFO@SLCG.COM
100 WILSHIRE BLVD, SUITE 950, SANTA MONICA, CA 90401 | MAIN (310) 917-1075

Principal Payback Table

The S&P 500 Index	Note Payoff
0.00	$0.00
92.37	$117.65
184.74	$235.29
277.12	$352.94
369.49	$470.59
461.86	$588.24
554.23	$705.88
646.60	$823.53
738.98	$941.18
831.35	$1,000.00
923.72	**$1,000.00**
1,016.09	$1,070.00
1,108.46	$1,070.00
1,200.84	$1,070.00
1,293.21	$1,070.00
1,385.58	$1,070.00

Maturity Payoff Diagram

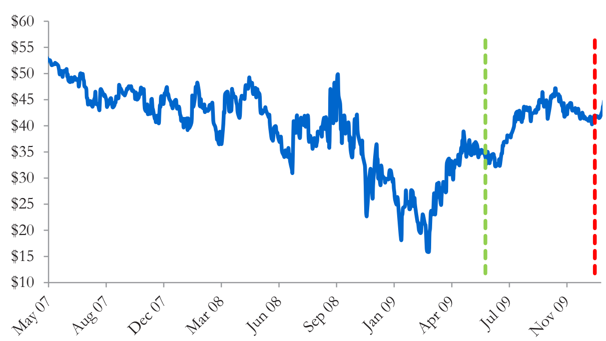


The contingent payoffs of this Buffered Return Enhanced Note.

Analysis

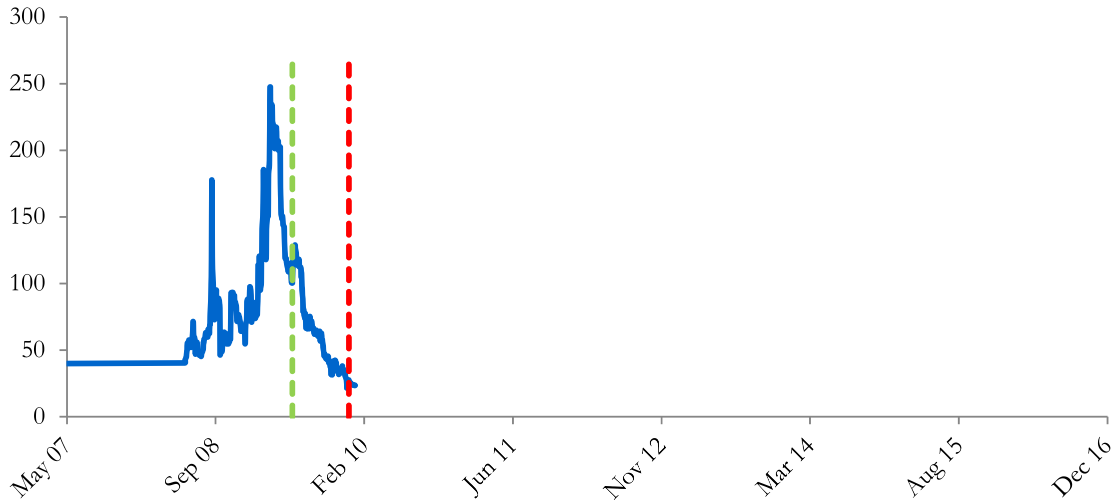
This Buffered Return Enhanced Note pays investors the increase in the S&P 500 Index multiplied by 2.0 capped at 7.00%, but if the S&P 500 Index declines over the term of the note, investors will suffer losses equal to the percentage decline in the S&P 500 Index. In addition, investors bear the credit risk of JPMorgan. Investors purchasing this Buffered Return Enhanced Note effectively sell at-the-money put and out-of-the-money call options to JPMorgan, buy at-the-money call options, and a zero-coupon note from JPMorgan. This Buffered Return Enhanced Note is fairly priced if and only if the market value of the options investors received from JPMorgan equals the market value of the options investors gave JPMorgan plus the interest investors would have received on JPMorgan's straight debt.

JPMorgan's Stock Price



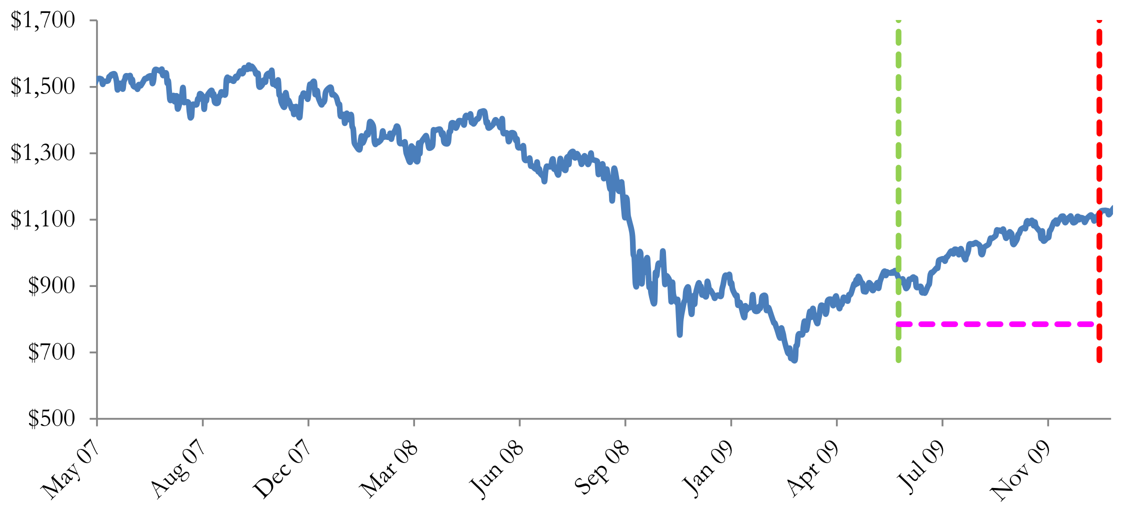
The graph above shows the adjusted closing price of the issuer JPMorgan for the past several years. The stock price of the issuer is an indication of the financial strength of JPMorgan. The adjusted price shown above incorporates any stock split, reverse stock split, etc.

JPMorgan's CDS Rate



Credit default swap (CDS) rates are the market price that investors require to bear credit risk of an issuer such as JPMorgan. CDS rates are usually given in basis points (bps). One basis point equals 0.01%. Higher CDS rates reflect higher perceived credit risk, higher required yields, and therefore lower market value of JPMorgan's debt, including outstanding Buffered Return Enhanced Note. Fluctuations in JPMorgan's CDS rate impact the market value of the notes in the secondary market.

The S&P 500 Index Level

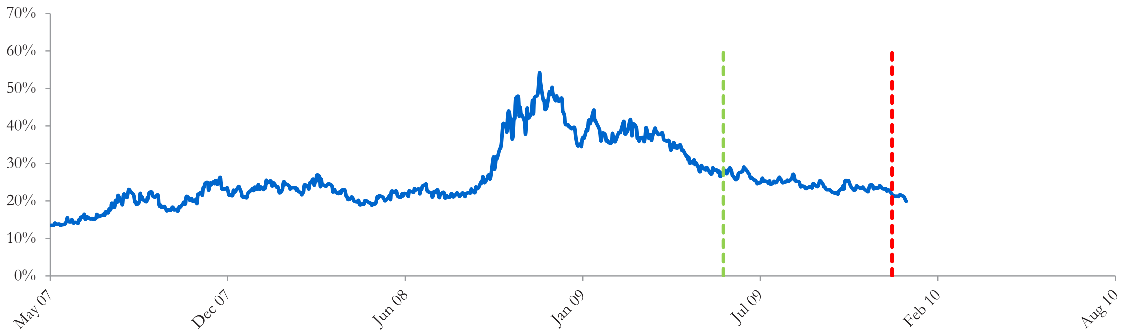


The graph above shows the historical levels of the S&P 500 Index for the past several years. The final payoff of this note is determined by the S&P 500 Index level at maturity. Higher fluctuations in the S&P 500 Index level correspond to a greater uncertainty in the final payout of this Buffered Return Enhanced Note.

Realized Payoff

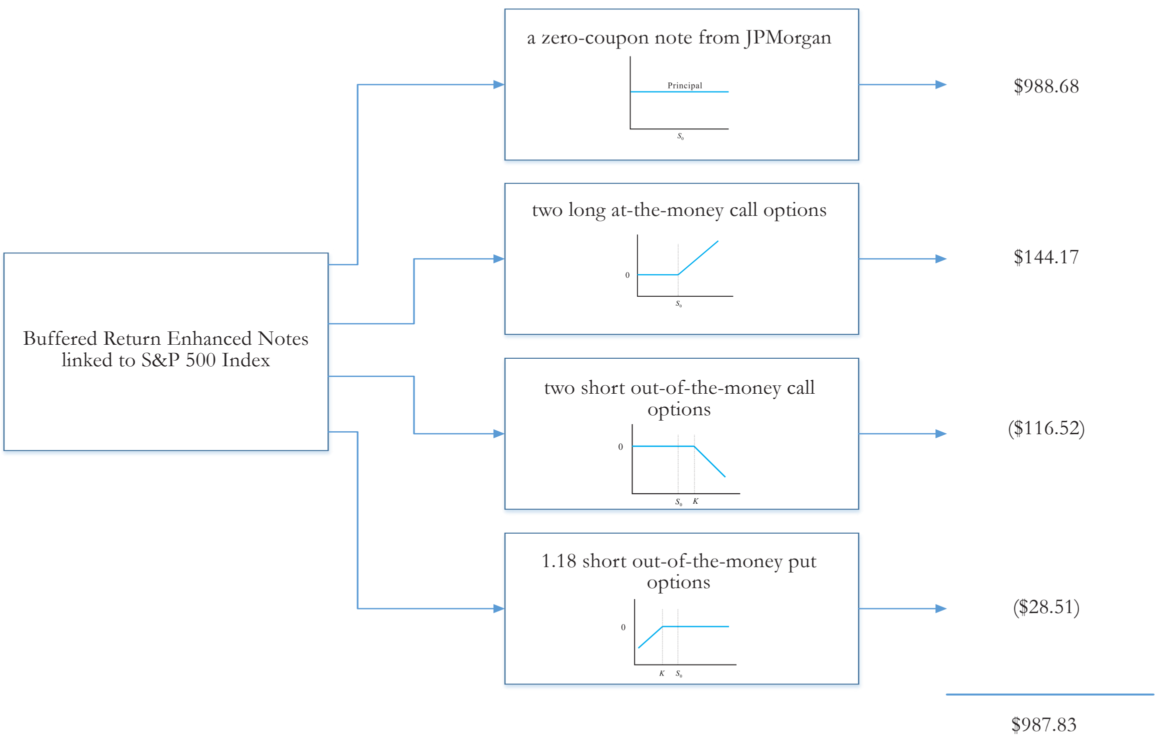
This note matured on December 28, 2009 and investors received $1,070.00 per note.

Reference Asset The S&P 500 Index's Implied Volatility



The annualized implied volatility of the S&P 500 Index on June 15, 2009 was 27.90%, meaning that options contracts on the S&P 500 Index were trading at prices that reflect an expected annual volatility of 27.90%. The higher the implied volatility, the larger the expected fluctuations of the S&P 500 Index level and of the Note's market value during the life of the Notes.

Decomposition of this Buffered Return Enhanced Note



This note can be decomposed into different components, and each component can be valued separately. The chart above shows the value of each component of this Buffered Return Enhanced Note.

1. Delta measures the sensitivity of the price of the note to the the S&P 500 Index level on June 15, 2009.
2. CDS rates can be considered a measure of the probability that an issuer will default over a certain period of time and the likely loss given a default. The lower the CDS rate, the lower the default probability. CDS rate is given in basis points (1 basis point equals 0.01%), and is considered as a market premium, on top of the risk-free rate, that investors require to insure against a potential default.
3. Fair price evaluation is based on the Black-Scholes model of the the S&P 500 Index on June 15, 2009.
4. Calculated payout at maturity is only an approximation, and may differ from actual payouts at maturity.
5. Our evaluation does not include any transaction fees, broker commissions, or liquidity discounts on the notes.