Structured Products Research Report

Report Prepared On: 10/25/12

Structured Product Details

Name	Trigger Yield Optimization Notes linked to Apache Corp.
Issue Size	$4.17 million
Issue Price	$1,000
Term	12 Months
Annualized Coupon	12.00%
Pricing Date	September 23, 2011
Issue Date	September 28, 2011
Valuation Date	September 24, 2012
Maturity Date	September 28, 2012
Issuer	JPMorgan
CDS Rate	103.41 bps
Swap Rate	0.85%
Reference Asset	Apache Corp.'s stock
Initial Level	$82.73
Conversion Price	$82.73
Trigger Price	$62.05
Dividend Rate	0.72%
Implied Volatility	44.91%
Delta[1]	0.39
Fair Price at Issue	$955.32
Realized Return	12.65%
CUSIP	46636T572
SEC Link	www.sec.gov/Archives/edgar/data/19617/000089109211006486/e45459_424b2.htm

Trigger Yield Optimization Notes linked to Apache Corp.

Description

JPMorgan issued $4.17 million of Trigger Yield Optimization Notes linked to Apache Corp. on September 28, 2011 at $1,000 per note.

These notes are JPMorgan-branded single observation reverse convertibles. Single observation reverse convertibles pay periodic interest coupons and at maturity convert into shares of the reference security if the price of the reference security at the notes' maturity is below the trigger price determined when the notes were issued.

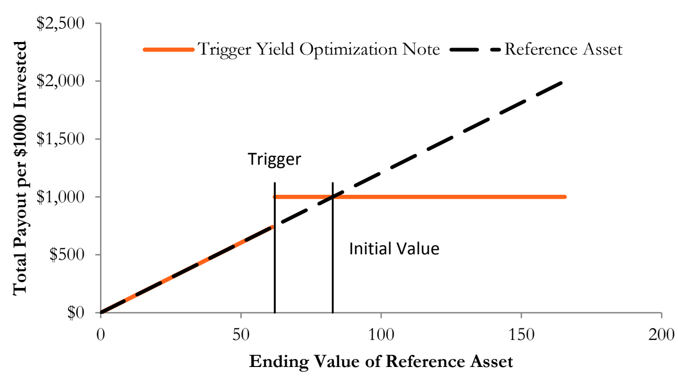
These 12-month notes pay monthly coupons at an annualized rate of 12.00%. In addition to the monthly coupons, on September 28, 2012 investors will receive the market value of 12.09 shares of Apache Corp.'s stock if on September 24, 2012 Apache Corp.'s stock closes below $62.05 (75% of Apache Corp.'s stock price on September 23, 2011). Otherwise, investors will receive the $1,000 face value per note.

Valuation

This JPMorgan single observation reverse convertible linked to Apache Corp.'s stock can be valued as a combination of a note from JPMorgan and a short European out-of-the-money cash-or-nothing put option, and a short European out-of-the-money put option on Apache Corp.'s stock. For reasonable valuation inputs this note was worth $955.32 per $1,000 when it was issued on September 28, 2011 because investors were effectively being paid only $100.24 for giving JPMorgan options which were worth $144.92.

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 Apache Corp.'s stock price (horizontal axis). For comparison, the dashed line shows the payoff if you invested in Apache Corp.'s stock 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.

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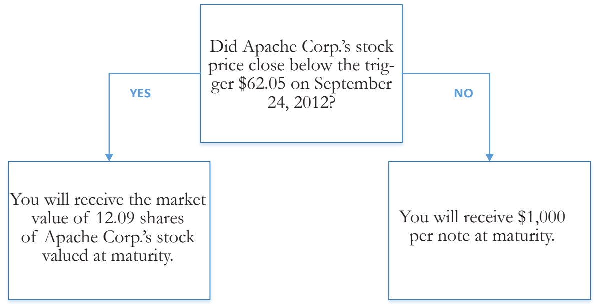
Principal Payback Table

Apache Corp.'s Stock	Note Payoff
$0.00	$0.00
$8.27	$100.00
$16.55	$200.00
$24.82	$300.00
$33.09	$400.00
$41.37	$500.00
$49.64	$600.00
$57.91	$700.00
$66.18	$1,000.00
$74.46	$1,000.00
$82.73	**$1,000.00**
$91.00	$1,000.00
$99.28	$1,000.00
$107.55	$1,000.00
$115.82	$1,000.00
$124.10	$1,000.00

Maturity Payoff Diagram



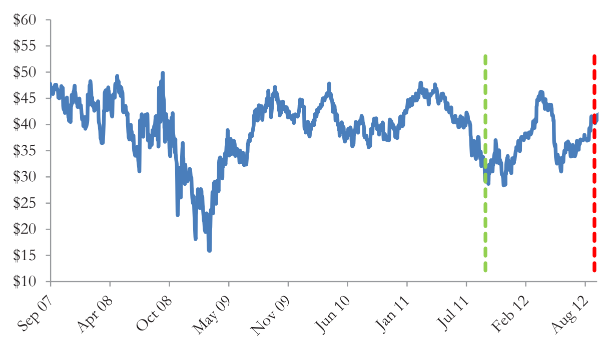
The contingent payoffs of this Trigger Yield Optimization Note.

Analysis

This single observation reverse convertible's 12.00% coupon rate is higher than the yield JPMorgan paid on its straight debt but, in addition to JPMorgan's credit risk, investors bear the risk that they will receive shares of Apache Corp.'s stock when those shares are worth substantially less than the face value of the note at maturity.

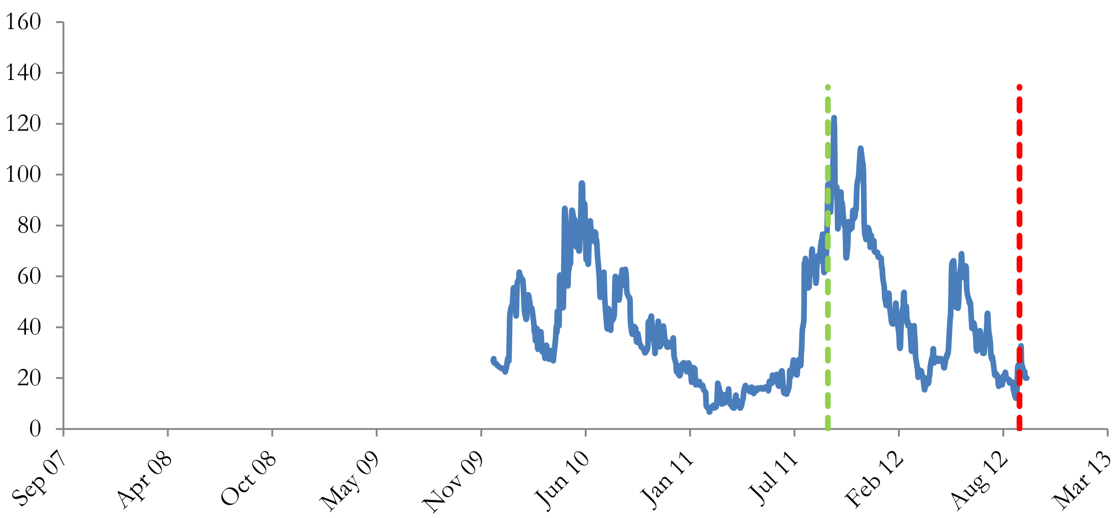
Investors purchasing these reverse convertibles effectively sell put options to JPMorgan and post the note's issue price as collateral to secure satisfaction of the investors' obligations under the option contracts. JPMorgan pays investors a "coupon" that is part payment for the put options and part interest on the investors' posted collateral. This reverse convertible is fairly priced if and only if the difference between the reverse convertible's "coupon rate" and interest paid on JPMorgan's straight debt equals the value of the put option investors are giving to JPMorgan. Whether this reverse convertible is suitable or not is identically equivalent to whether selling put options on the reference stock at the option premium being paid by JPMorgan was suitable for the investor.

JPMorgan's Stock Price



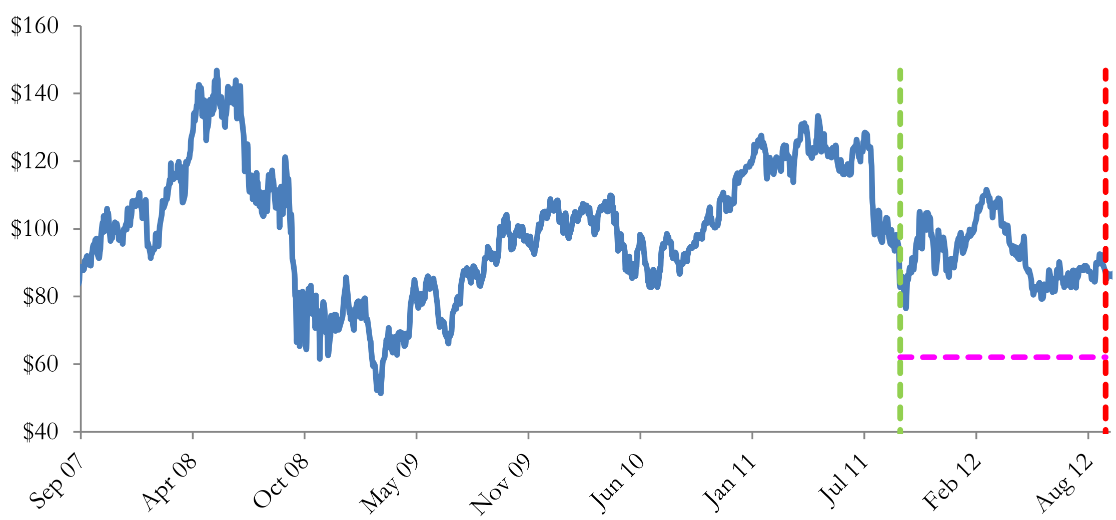
The graph above shows the adjusted closing price of the issuer JPMorgan for the past several years. The stock price of the issuer is an indication of the financial strength of JPMorgan. The adjusted price shown above incorporates any stock split, reverse stock split, etc.

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 Trigger Yield Optimization Note. Fluctuations in JPMorgan's CDS rate impact the market value of the notes in the secondary market.

Apache Corp.'s Stock Price

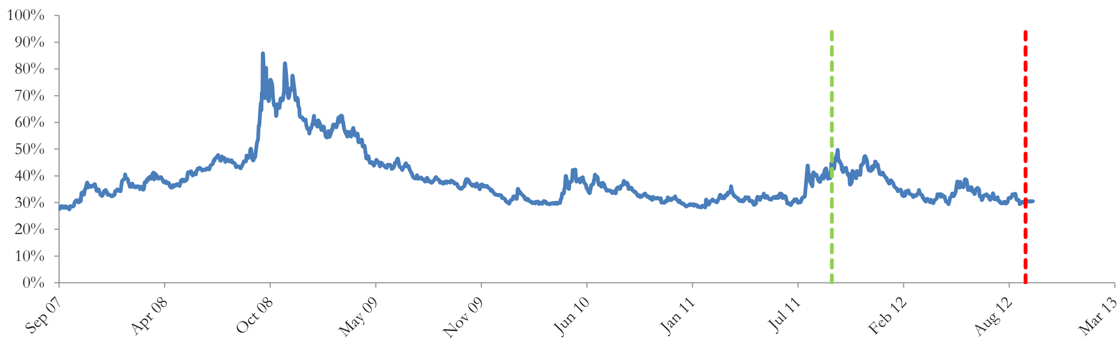


The graph above shows the historical levels of Apache Corp.'s stock for the past several years. The final payoff of this note is determined by Apache Corp.'s stock price at maturity. Higher fluctuations in Apache Corp.'s stock price correspond to a greater uncertainty in the final payout of this Trigger Yield Optimization Note.

Realized Payoff

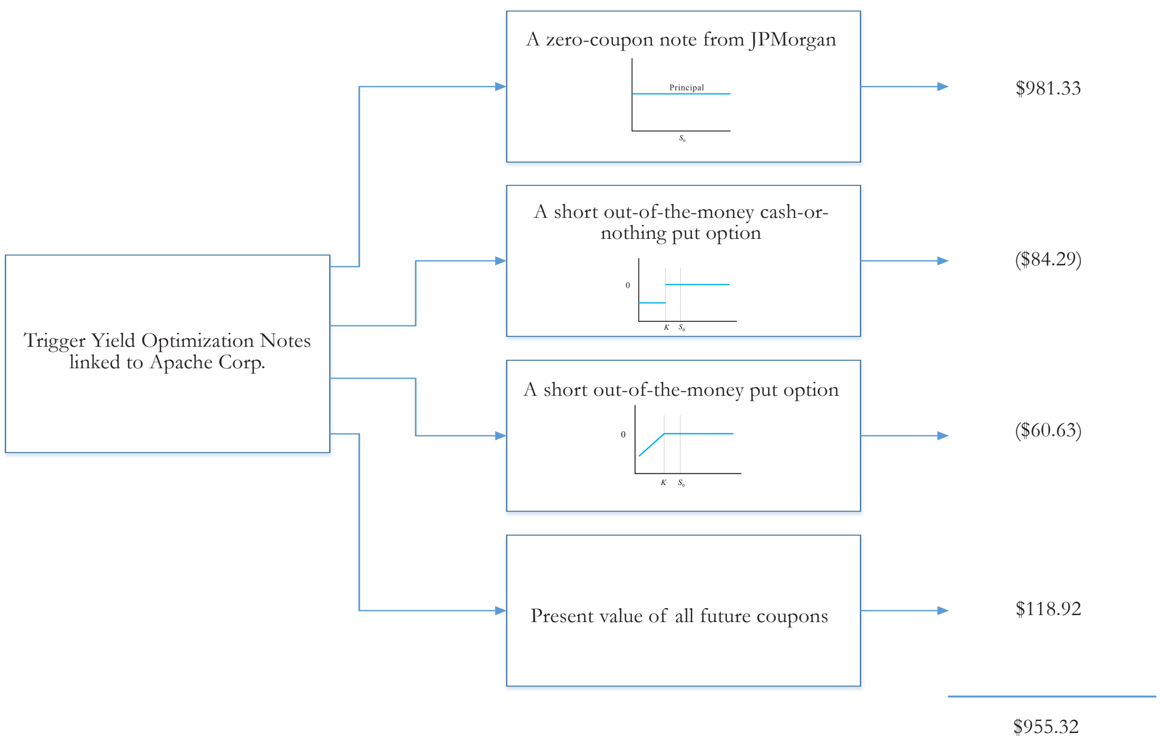
This note matured on September 28, 2012 and investors received $1,000.00 per note.

Reference Asset Apache Corp.'s Stock's Implied Volatility



The annualized implied volatility of Apache Corp.'s stock on September 23, 2011 was 44.91%, meaning that options contracts on Apache Corp.'s stock were trading at prices that reflect an expected annual volatility of 44.91%. The higher the implied volatility, the larger the expected fluctuations of Apache Corp.'s stock price and of the Note's market value during the life of the Notes.

Decomposition of this Trigger Yield Optimization 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 Trigger Yield Optimization Note.

1. Delta measures the sensitivity of the price of the note to the Apache Corp.'s stock price on September 23, 2011.
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 Apache Corp.'s stock on September 23, 2011.
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.