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SECURITIES LITIGATION & CONSULTING GROUP

Structured Products Research Report

Report Prepared On: 05/22/13

Reverse Exchangeable Notes linked to Bank of America

Structured Product Details

Name	Reverse Exchangeable Notes linked to Bank of America
Issue Size	$185,000
Issue Price	$1,000
Term	12 Months
Annualized Coupon	7.50%
Pricing Date	March 25, 2013
Issue Date	March 28, 2013
Valuation Date	March 24, 2014
Maturity Date	March 27, 2014
Issuer	JPMorgan
CDS Rate	15.69 bps
Swap Rate	0.73%
Reference Asset	Bank of America's stock
Initial Level	$12.40
Trigger Price	$9.92
Conversion Price	TBD
Dividend Rate	0.32%
Implied Volatility	31.26%
Delta[1]	0.46
Fair Price at Issue	$950.10
CUSIP	48126DC31
SEC Link	www.sec.gov/Archives/edgar/data/19617/000095010313002014/dp37230_424b2-ps1220.htm

Description

JPMorgan issued $185,000 of Reverse Exchangeable Notes linked to Bank of America on March 28, 2013 at $1,000 per note.

These notes are JPMorgan-branded reverse convertibles. Reverse convertibles pay periodic interest coupons and at maturity convert into shares of the reference security if the price of the reference stock at the notes' maturity is below its price when the notes were issued and had closed below a specified "trigger" during the term of the notes.

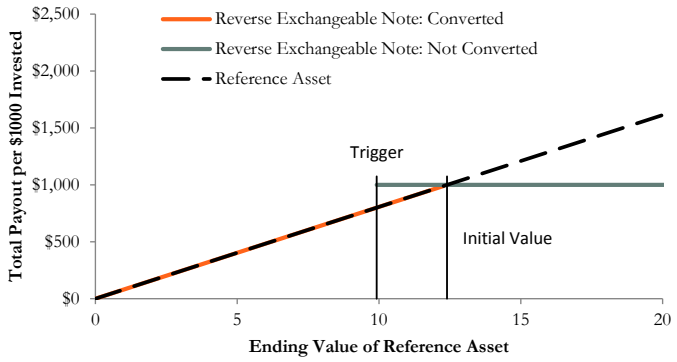
These 12-month notes pay monthly coupons at an annualized rate of 7.50%. In addition to the monthly coupons, at maturity on March 27, 2014 investors will receive the market value of 80.65 shares of Bank of America's stock if on March 24, 2014 Bank of America's stock price closes below $12.40 (Bank of America's stock price on March 25, 2013) and had ever closed at or below $9.92 during the term of the notes. Otherwise, investors will receive the $1,000 face value per note.

Valuation

This JPMorgan reverse convertible linked to Bank of America's stock can be valued as a combination of a note from JPMorgan and a short down-and-in, at-the-money put option on Bank of America's stock. For reasonable valuation inputs this note was worth $950.10 per $1,000 when it was issued on March 28, 2013 because investors were effectively being paid only $66.13 for giving JPMorgan an option which was worth $116.03.

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 Bank of America's stock price (horizontal axis). For comparison, the dashed line shows the payoff if you invested in Bank of America'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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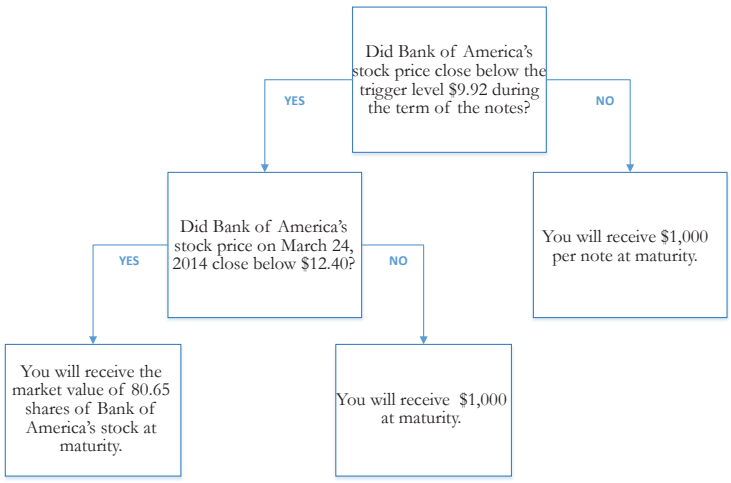
Principal Payback Table

Bank of America's Stock	Converted Note Payoff	Non-Converted Note Payoff
$0.00	$0.00	
$1.24	$100.00	
$2.48	$200.00	
$3.72	$300.00	
$4.96	$400.00	
$6.20	$500.00	
$7.44	$600.00	
$8.68	$700.00	
$9.92	$800.00	$1,000.00
$11.16	$900.00	$1,000.00
$12.40	**$1,000.00**	**$1,000.00**
$13.64	$1,000.00	$1,000.00
$14.88	$1,000.00	$1,000.00
$16.12	$1,000.00	$1,000.00
$17.36	$1,000.00	$1,000.00
$18.60	$1,000.00	$1,000.00

Maturity Payoff Diagram



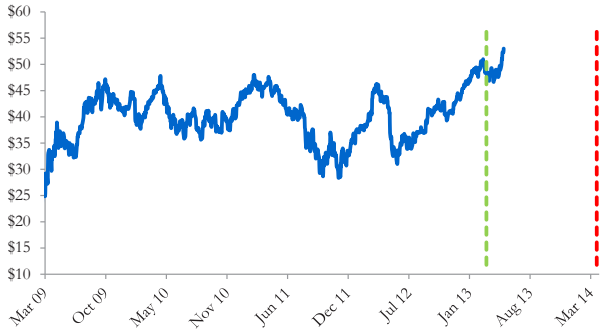
The contingent payoffs of this Reverse Exchangeable Note.

Analysis

This reverse convertible's 7.50% 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 Bank of America's stock when they are worth substantially less than the face value of the note at maturity.

Investors purchasing 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 excess of the reverse convertible's "coupon rate" above the interest JPMorgan pays on its straight debt equals the value of the put option investors are giving to JPMorgan. Whether the reverse convertible is suitable or not is 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

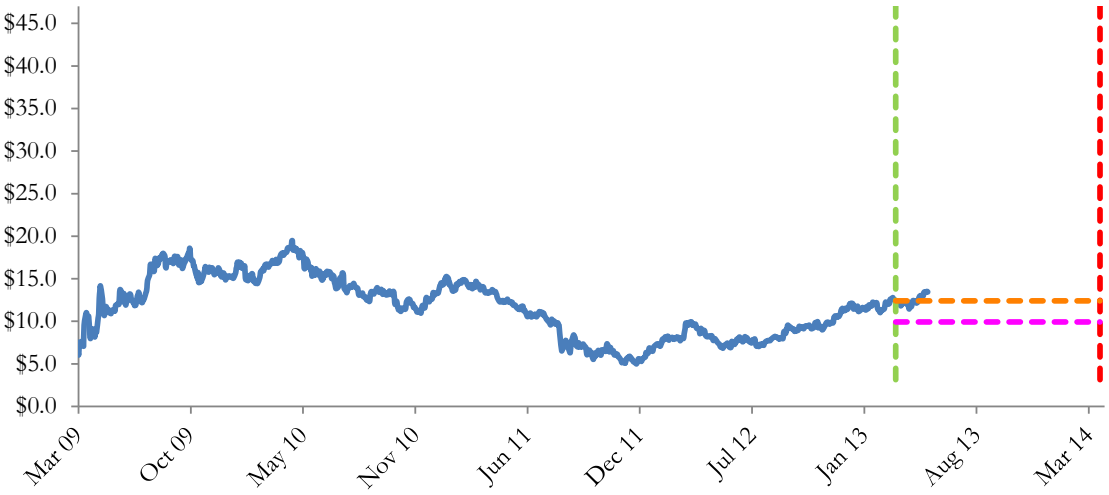


The graph above shows the adjusted closing price of the issuer JPMorgan for the past several years. The stock price of the issuer is an indication of the financial strength of JPMorgan. The adjusted price shown above incorporates any stock split, reverse stock split, etc.

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 Reverse Exchangeable Note. Fluctuations in JPMorgan's CDS rate impact the market value of the notes in the secondary market.

Bank of America's Stock Price

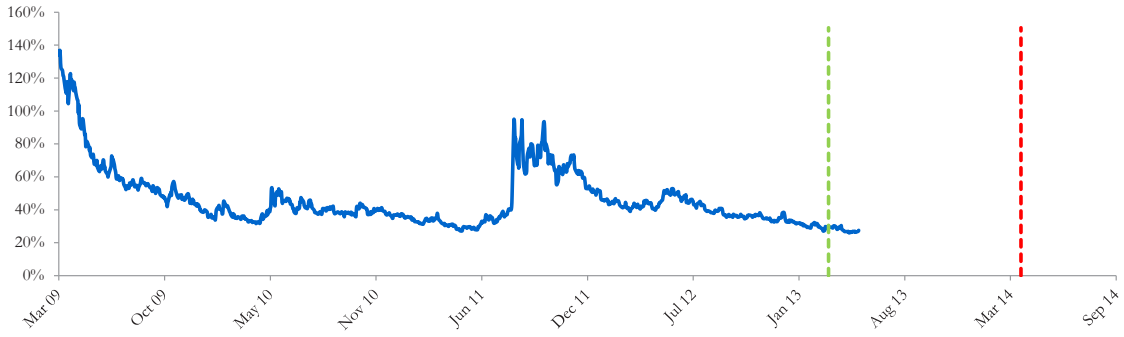


The graph above shows the historical levels of Bank of America's stock for the past several years. The final payoff of this note is determined by Bank of America's stock price at maturity. Higher fluctuations in Bank of America's stock price correspond to a greater uncertainty in the final payout of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

Realized Payoff

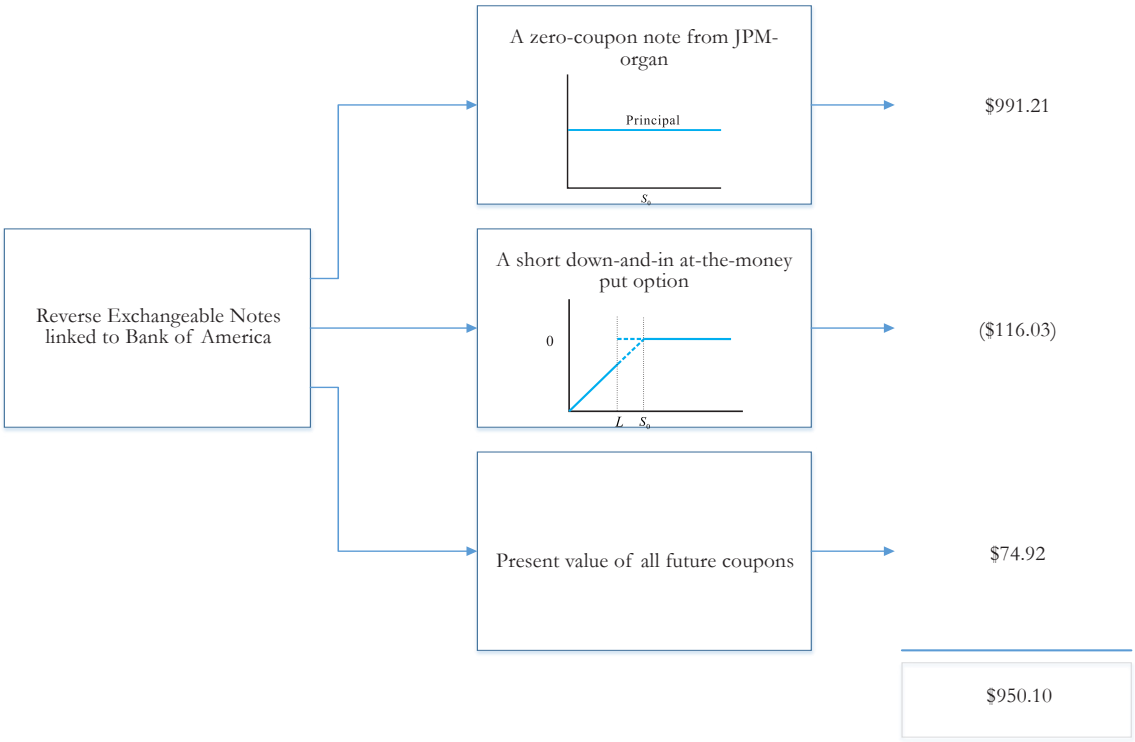
This product will mature on March 27, 2014.

Reference Asset Bank of America's Stock's Implied Volatility



The annualized implied volatility of Bank of America's stock on March 25, 2013 was 31.26%, meaning that options contracts on Bank of America's stock were trading at prices that reflect an expected annual volatility of 31.26%. The higher the implied volatility, the larger the expected fluctuations of Bank of America's stock price and of the Note's market value during the life of the Notes.

Decomposition of this Reverse Exchangeable 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 Reverse Exchangeable Note.

1. Delta measures the sensitivity of the price of the note to the Bank of America's stock price on March 25, 2013.
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 Bank of America's stock on March 25, 2013.
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.