



Student Managed Investment Fund

EMR: Buy Recommendation

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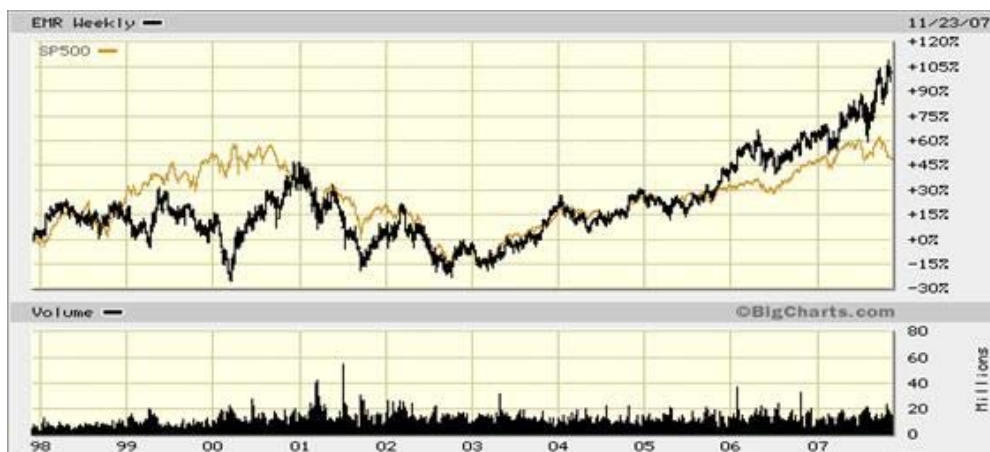
Executive Summary

We recommend buying Emerson Electric Co. (EMR) for the Student Managed Investment Fund (SMIF) based on a number of factors including forecasts, valuations, recent mergers and acquisitions, and the constant increase in technology demand worldwide.

We plan to take this position of 500 shares by selling our remaining position of Mobile Mini (MINI). Also, we estimate a one-year target price of \$61.50.

Our team feels that a company as large as Emerson with its great history and growth would be a lucrative opportunity for the fund. The company has recently broadened its business locations to engage in the emerging markets. Another factor we feel to be a positive point for Emerson is that they have increased their dividend payouts for *50 straight years*.

Next we found Emerson to be undervalued and with the current down tick of the markets we feel that this would be a good time to be in the Emerson business.



As shown above, we can see that as with comparison to the S&P 500, Emerson has *outperformed* the index. Another area we like is that they have shown growth during the sub-prime crisis. At this point in time many companies were directly and indirectly affected, however, Emerson's stock price continued on an *up-tick* and stayed on course.

Emerson is continuing its process and product technologies as well as increasing sales overseas. EMR is growing thru infrastructure expansion in emerging markets, rapid technology development as well as investments in established markets. We believe their solid financial performance will continue to create long term value for the fund. We believe EMR is well positioned to grow not only with the emerging markets but in their already established markets with products and services.

Since 2003 Emerson has been increasing their liquidity ratios. They have started paying off some short term obligations. There has been an increase of 39% from 2006 in their current ratio followed by a 10.57% increase in their quick ratio.

Next, we see the total debt ratio steadily decreasing. This shows a constant increase in revenue where they can focus on paying off some debt. They are currently 17.19% lower than the industry average. Also, their net profit margin has increased over the past five years. Finally, their Z-Score model was 5.06 for 2007. This shows them to be financially distress free as well as safe from bankruptcy. This shows that there is a lot of room for growth as well as the reassurance that the company will continue to stay around for many years to come.

Company Overview

Emerson (NYSE: EMR), incorporated in 1890, is a diversified global technology company that provides products and services for a wide range of industries, commercial markets and end-users, including consumers. Emerson focuses on delivering engineering services in a range of industrial, commercial and consumer markets globally. It operates in five segments: Process Management, Industrial Automation, Network Power, Climate Technologies, and Appliance and Tools.

Recognized widely for its engineering capabilities and outstanding management process, Emerson has more than 128,000 employees and more than 270 manufacturing locations worldwide.

With each of the Emerson Brands in industry-leading positions, Emerson is the one company emerging economies can go to for all their infrastructure solutions, including: process automation, plant optimization, telecommunications infrastructure, reliable network power, climate control, and more. Additionally, established companies looking to develop overseas industry benefit from Emerson's geographic and capability advantages.



Selected Facts

- In 2007, Emerson was ranked No. 115 in the FORTUNE 500, the annual list of America's largest corporations (based on revenue).
- In 2007, Emerson was No. 2 in the electronics industry segment in FORTUNE's "America's Most Admired" company's survey.
- In 2007, Emerson was No. 350 in FORTUNE 500 Global, the magazine's list of the world's largest corporations.
- Emerson was awarded a record 486 patents worldwide in 2005.
- Emerson has more than 270 manufacturing locations, of which approximately 170 are located outside the United States.

Company History

Emerson had modest beginnings. The company began in 1890 by two brothers, Charles and Alexander Meston. They saw a tremendous business opportunity in patenting a reliable electric motor. They commissioned John Wesley Emerson to be their principal investor. The company, then known as Emerson Electric Manufacturing Co., quickly began exploring new uses for the technology of electricity in a variety of household and commercial applications.

In 1892, Emerson sold the first electric fans in America — a product for which the company soon became renowned. As the company grew, it expanded its product line by attaching electric motors to new products such as sewing machines, dental drills, player pianos and power tools.

In 1954, the company's new chief executive, W.R. "Buck" Persons, began a continuing process of diversification. The company rapidly targeted high-growth markets and then made acquisitions to position Emerson favorably within those markets.

Under Charles F. Knight, who was named CEO in 1973, Emerson evolved into a major global enterprise producing technologically advanced products used in such markets as telecommunications, electronics, heating, ventilating and air conditioning, and process controls.

In the 1990s, Emerson continued to upgrade its process and product technologies and increased sales overseas. Under Knight's leadership, the company repositioned itself for growth by launching several initiatives to expand markets and leverage its human and technology resources.

Under the leadership of David Farr, named CEO in October 2000, growth continues to be a top priority. Emerson is seeking to accelerate its growth through infrastructure expansion in the world's developing regions, rapid technological development and investment in fast-expanding markets.

From its humble beginnings in St. Louis, Emerson has grown to become a global leader bringing technology and engineering together, serving its customers throughout the world.

Executives and Directors



David N. Farr

Chairman, Chief Executive Officer and President

David N. Farr has served as CEO of Emerson since October 2000 and was named chairman in September 2004. He is only the third chief executive of Emerson in the past 50-plus years. Under Farr's leadership, Emerson has grown its position in global markets, increased its focus on customer-oriented services and solutions, and invested in industry-leading technologies to enhance its long-term growth and market position. With his management team, Farr has kept the company focused on creating long-term value and maintaining Emerson's solid financial performance relative to growth in sales, earnings and cash flow.



Walter J. Galvin

Senior Executive Vice President and Chief Financial Officer

Walter J. Galvin has served as Emerson's CFO since 1993. He was promoted to senior executive vice president in 2004. He has served as a management member of Emerson's Board of Directors since 2000. Galvin joined Emerson in 1973.



Charles A. Peters

Senior Executive Vice President

As a senior executive vice president at Emerson, Charlie Peters is responsible for helping Emerson businesses and divisions develop innovative global business models and strategies that build the company's capabilities to support and create value through its customer relationships.



Edward L. Monser

Chief Operating Officer

Edward L. Monser has served as chief operating officer (COO) of Emerson since November 2001. As COO, Monser is responsible for Emerson's day-to-day business operations, strategic sourcing, global logistics, and international business activities, which includes acquisitions, business development, investments, and strategic planning.

Recent Headlines

“Westinghouse, Emerson Reach 10-Year Nuclear Power Plant Automation Agreement”

November 14, 2007 - Westinghouse Electric and Emerson Process Management announced a 10-year extension to an existing agreement in which Emerson will provide key technology for automation of nuclear power plants that utilize the important Westinghouse AP1000™ design. The AP1000™ is the only Generation III+ design for nuclear power plants to have received design certification from the Nuclear Regulatory Agency.

“Emerson Electric Posts Higher Fiscal 4th-Quarter Profit on Overall Sales Growth”

November 6, 2007 - Emerson Electric Co. said its fiscal fourth-quarter profit rose 18 percent on sales growth at all of its divisions. For the quarter ended Sept. 30, Emerson earned \$623 million, or 78 cents per share, compared with \$526 million, or 65 cents per share, for the same quarter in 2007. Revenue rose 11 percent to \$6.13 billion from \$5.52 billion in the year-ago period. The results beat Wall Street predictions. Analysts polled by Thomson Financial expected a profit of 75 cents per share on \$6.02 billion in revenue. For the full fiscal year 2007, Emerson earned \$2.14 billion, or \$2.66 per share, compared with \$1.85 billion, or \$2.24 per share, for the same quarter in 2006. Revenue rose to \$22.57 billion from \$20.13 billion the year before.

“Emerson to Acquire Motorola’s Embedded Communications Computing Business”

September 28, 2007 - Emerson and Motorola, Inc announced that the two companies have entered into a definitive agreement under which Emerson will acquire Motorola’s Embedded Communications Computing (ECC) business for \$350 million in cash. Motorola’s ECC business, which had 2006 revenue of approximately \$520 million, will strengthen Emerson’s position in the \$6 billion-and-growing merchant embedded computing industry.

“Emerson Receives Top Industry Honors for Heating, Air Conditioning and Refrigeration Technologies Commission.”

September 7, 2007 - Four climate control products developed by Emerson Climate Technologies, recently received 2007 Dealer Design Awards from an independent panel of heating, air conditioning and refrigeration contractors convened by the industry’s leading news publication, the Air Conditioning, Heating & Refrigeration News. Emerson Climate Technologies received the gold award in the residential controls category for its UltraTech communicating technology for residential air conditioning systems.

“Emerson’s Energy-Saving Technology for Air Conditioning Marks 20 Years”

October 20, 2007 - Twenty years ago, Emerson introduced the Copeland Scroll compressor and revolutionized the air conditioning industry, bringing a new level of energy efficiency and reliability to market. Today, nearly 60 million energy efficient Copeland Scroll compressors have been installed in air-conditioning and refrigeration systems and other applications around the world.

Industry Analysis

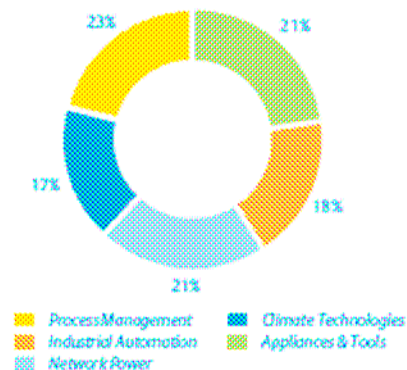
The industrial goods industry is booming world wide. Conglomerates such as Emerson are in a position to reap the benefits of a global marketplace. Emerging markets are seeking solutions for integrated products, infrastructure and support equipment, amongst other products and services. This is why the industry has certainly lent itself to variety – they can provide expertise and specialization in many areas. This kind of diversification has made Emerson able to participate in the growth of emerging markets as well as established economies.

"Emerson is well-positioned for growth as we play a critical role for our customers around the world, offering them the latest innovations to address the trends that continue to shape our world." - CEO David Farr.

Emerson's Business Segments

Emerson operates in five main business segments. They are Process Management, Industrial Automation, Network Power, Climate Technologies and Appliances & Tools. The chart shows the diversification of Emerson – sales by segment are almost equally weighted.

SALES BY SEGMENT



Emerson Process Management

Emerson Process Management is a leading worldwide producer of process management products including control systems and automation software, measurement devices, analytical instrumentation and valves, as well as engineering and project management services for precision control, monitoring and asset optimization of plants that produce power or that process or treat such industries as oil, natural gas and petrochemicals, food and beverages, pulp and paper; pharmaceuticals, and municipal water supplies. Global facilities and expertise make Emerson a leading solutions provider for crucial automation systems in Asia, Latin America, Europe and around the globe.

Emerson Industrial Automation

Emerson Industrial Automation delivers manufacturing solutions designed with leading edge technologies, including mechanical, electrical and ultrasonic, to give customers the most advanced industrial automation possible. Many businesses trust Emerson's systems and components that every single day, nearly everyone in the world comes into contact with goods that were manufactured with the help of Emerson Industrial Automation. In fiscal 2007, United States contributed 41%, Europe contributed 41%, Asia contributed 10% and other regions contributed 8% in this segment.

Emerson Industrial Automation Key Products	
Plastics Joining Equipment	Speed Reducers and Gearmotors
Precision Cleaning Products	Electric Motors
Liquid Processing Equipment	Belt Drives
Materials Testing Equipment and Supplies	Mounted and Unmounted Bearings
AC/DC and Servo Drive Systems	Chain Drives
Brushless Servo Drives	Couplings and Clutches
Fluid Control Devices	Alternators
Electronic Drives	

Emerson Network Power

Never before has the need for uninterrupted power been more critical than in today's network-driven economy. Emerson Network Power has the technology expertise, global reach, and breadth of products and services to build and support an entire power network infrastructure. From power components to climate and power systems, Emerson Network Power solves all of the power reliability needs of a business.

Emerson's Network Power segment designs, manufactures, installs and maintains products, providing grid to chip electric power conditioning, power reliability and environmental control for telecommunications networks, data centers and other critical applications. Products in this segment include power systems, embedded power supplies, precision cooling and inbound power systems, along with 24-hour service. In fiscal 2007, sales by geographic destination for this segment were United States 43%, Europe 20%, Asia 27% and other regions 10%.

Emerson Network Power™ Technology Profile

Total R&D Spent	\$140 million
Total Engineers	1,600
Total Ph.D.s	30
Number of Patents	415

Emerson Climate Technologies

Emerson Climate Technologies offers a broad range of access to the most sophisticated climate control technology available. Emerson's products are used throughout the world in commercial and transport refrigeration systems, residential and commercial air conditioning systems, and industrial and residential ventilation applications. Emerson Climate Technologies is the leading manufacturer of HVAC components in the world, delivering comprehensive solutions for temperature-critical applications across numerous industrial and residential applications.

The segment also digitally controls and remotely monitors refrigeration units in grocery stores and other food distribution outlets for freshness and food safety. In fiscal 2007, sales by geographic destination for this segment were United States 57%, Europe 16%, Asia 17% and other regions 10%.

Emerson Climate Technologies Applications	
Residential Air Conditioning	
Commercial Air Conditioning	
Refrigeration	
• Supermarket	• Convenience Store
• Food Service	• Transport
Industrial	
• Plants	• Process
Heating	
• Residential Furnaces	• Commercial/Industrial Heating
Ventilation	
• Residential	• Industrial Fans
• Ceiling Fans	

Emerson Appliance and Tools

Emerson's Appliance and Tools segment includes a range of products and solutions in motors, appliances and components, tools and storage. Their divisions are recognized around the world for providing both high quality products, and best in class technology. Their product offering includes motors, fans, electric and electromechanical controls, pumps, water valves, gas valves, ignition systems and more. In fiscal 2007, sales by geographic destination for this segment were United States 76%, Europe 13%, Asia 4% and other regions 7%.

Emerson Appliance Solutions Key Platforms	
Cooking	Laundry
Dishwasher	Refrigeration
Water Heater	

Porter's Five Forces Model

Rivalry

There are five main competitors in the Industrial Equipment and Components industry. They include ABB Ltd., General Electric, Hitachi Ltd, Raytheon Co. and Illinois Tool. Emerson's businesses operate in markets that are highly competitive. Emerson competes on product performance, quality, service and/or price across the industries and markets served. Although no single company competes directly with Emerson in all of the product lines, various companies compete in one or more product lines.

Emerson competes with companies that have substantially greater sales and assets than Emerson, as well as many smaller companies. The number of Emerson's competitors varies by product line, and management believes that Emerson has a market leadership position in many of these product lines. Emerson is in a strong financial position, and has the resources available for reinvestment in existing businesses, strategic acquisitions and managing capital structure, all of which will keep it amongst industry leaders.

Threat of Substitute Products

A significant element of the company's competitive strategy is to deliver solutions to customers by manufacturing high quality products at the lowest cost. Therefore, it eliminates much of the propensity of customers to switch to alternative firms. There is also no incentive for the buyer to incur any switching costs associated with changing firms.

Threat of New Entrants

Companies will try to capitalize on strong growth in emerging markets, including Asia and Europe. In response, Emerson controls many important distribution channels, and beneficial relationships with local governments. Emerson has strong and durable barriers to entry including a number of patents, trademarks and licenses as well as important proprietary intellectual property.

Emerson is very proactive in acquisitions, in order to reduce the number of new entrants to the marketplace. They will do this according to business segment. For example, the acquisition of Stratos International to be included in the Business Power network and Damcos Holding in the Process Management segment.

Emerson also has the advantage of economies of scale – the benefits associated with bulk purchasing – which proves difficult for new entrants to compete with. Also, Emerson does not have a high exit barrier – many of their plants are multi-use, and are not specialized, making them salable assets.

Bargaining Power of Suppliers

Emerson has multiple sources of supply for each of its major segments, and is not significantly dependant on any one. This makes it difficult for any particular supplier to demand higher prices. In order to hedge against suppliers demanding higher prices, financial derivative instruments are used.

Emerson exposes itself to market risk related to changes in interest rates, commodity prices and foreign currency. Instruments include forwards, swaps and purchased options to manage these risks. The company does not hold derivatives for trading purposes. Emerson also holds advantage over suppliers because of their large volume of orders. This leverage allows Emerson to retain profit margins.

Emerson realizes the implications of the market, and reacts accordingly. For example, a weaker U.S. dollar would benefit future earnings through favorable translation of non-U.S. operating results and lower commodity prices would benefit future earnings through lower cost of sales.

Bargaining Power of Buyers

Buyers have the advantage of a concentrated industry. There is not much product differentiation, although not all firms compete in the same segments. As such, some customers can put firms under pressure to lower prices. Emerson has market leadership in many of their product lines, which makes it difficult for buyers to dictate the terms.

Emerson addresses this by having a large number of plants all over the globe for production. Rationalization actions have provided the opportunity to shift production to different sites. For example, Emerson has moved certain tool and manufacturing operations from the U.S. to Mexico and China to consolidate facilities and improve profitability.

Strategy Analysis

Emerson is a part of the Industrial Equipment and Components industry. This industry, like many others, is driven by continual technology upgrades and innovation. As a leading engineering company, Emerson's management realizes how future success hinges upon their ability to identify key business opportunities that will expand their global presence, increase energy efficiency, and improve global communications. With that said, Emerson's management focuses on four important strategic initiatives and two core growth incentives. Combined, these initiatives and growth incentives will help Emerson retain their competitiveness and achieve their long term fiscal goals.

Emerson's Four Strategic Initiatives

Business without Borders: Emerson operates as a truly global company able to participate in the growth of emerging economies by delivering the best possible solution regardless of the project or where it resides.

Energy Efficiency: Emerson helps customers extract the most value from available energy resources in the most efficient and cost-effective ways by employing innovative thinking and new technologies.

Communications Revolution: Emerson provides businesses with the resources they need to ensure reliable data, voice, and video transmission from wireless in processing plants to global telecom infrastructures.

Resources for the World: Emerson develops new and more efficient technologies to protect scarce assets and optimize productivity of vital energy resources.

Emerson's Two Core Growth Initiatives

Technology Leadership: Emerson obtains technology leadership through company-wide collaboration. Emerson initiatives that have been launched in recent years include Scroll Compressor Technology and PlantWeb[®]. Scroll Compressor Technology[®] has revolutionized air conditioning and refrigeration equipment. It has also been extended to micro turbines, transport refrigeration, and even medical technology. PlantWeb[®] process automation technology has won critical acclaim with its next generation process control architecture for plant automation. By using smart field devices and Foundation Fieldbus, PlantWeb[®] technology provides customers with high-speed communications networks, real-time production data, better accuracy and high-level diagnostics.

Emerson has also focused on developing e-business strategies in a range of its business and sales operations to achieve cost savings, improve productivity, and to better serve customer needs. These advancements include their Material Information Network which lowers the company's procurement costs by participating in FreeMarkets Internet auctions, and Micro Motion which uses web-based training that substantially reduces the time needed to educate sales representatives about new products, thus decreasing a new product's time to market.

Expanding Markets: A factor that is critical to Emerson's future success and growth is their ability to attract developing nations around the world, offering them effective and innovative solutions vital for growth and expansion. Emerging markets are experiencing tremendous manufacturing, telecommunications, and other infrastructure growth. These burgeoning economies require the most advanced, effective, and efficient solutions to compete in an aggressive global marketplace. Currently, many developing nations are facing key issues which Emerson Brands can address. These issues include the demand for distributed power systems, infrastructure for telecommunications and Internet increases, and industrial automation.

Emerson's Broad Diversification

One of the amazing aspects of Emerson as a whole is the company's ability to successfully diversify their products and services. For example, Emerson operates through eight business platforms. These include Emerson Process Management, Emerson Climate Technologies, Emerson Network Power, Emerson Storage Solutions, Emerson Professional Tools, Emerson Appliance Solutions, Emerson Motor Technologies, and Emerson Industrial Automation. By diversifying broadly, Emerson has significantly reduced its risk to demand fluctuations.

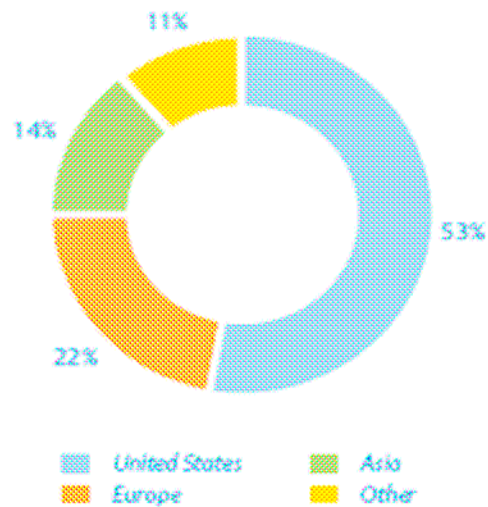
Currently, Emerson has the most comprehensive array of superior technologies in the industry. This includes Emerson's Rosemount® transmitters, Fisher® valves, AMS™ Suite software, and the DeltaV™ and Ovation™ digital automation systems. Additionally, Emerson's Fisher® valves are the standard upon which the oil and gas industry depends for controlling process liquids and gases, air, natural gas, and steam.

Emerson's Global Strategy

While Emerson has a strong domestic presence, they also operate in 150 countries. They show particular interest in emerging economies because they offer the innovative solutions needed by emerging countries. This includes infrastructure solutions, process automation, climate technologies, and reliable network power. From a shareholders perspective these opportunities mean increased growth, and growth, in many cases, translates to more revenue.

“As we continue to invest in our global development, we are better able to serve our customers, as well as enhance Emerson's position as a company of extraordinary financial promise for our shareholders.” - CEO David Farr.

SALES BY GEOGRAPHIC DESTINATION



Emerson's Presence in Latin America

The Latin American manufacturing industry is maintaining their competitive advantage by utilizing Emerson's Industrial Automation™ solutions. These products increase efficiency, and provide the most advanced automated facilities in the world. Latin America is also taking advantage of the Emerson's PlantWeb® technology which dramatically improves industrial process management.

Emerson's Presence in Asia

Emerson's operations in Asia Pacific employ more than 22,000 people. Emerson plans to further increase their presence by establishing more divisions throughout the region. All of Emerson's Brands are able to contribute to some of Asia's most rapidly growing sectors. The exponential growth of network-dependent Asian businesses benefits from the "high nines" reliable power solutions of Emerson Network Power™. Uninterrupted power is crucial for telecommunications, Internet and other networked businesses. Emerson Network Power™ delivers integrated power solutions that include the components, design and implementation.

Recent Technology Initiatives in Asia	
Astec's China Engineering Center in Shenzhen	
Materials Characterization Center in Shanghai Jiao Tong University	
HVAC Engineering and Development Lab in Hong Kong	
Emerson Export Engineering Centre in India	

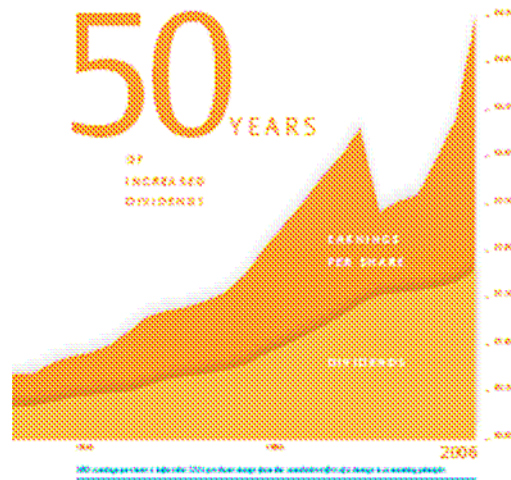
Emerson's Presence in Europe, the Middle East and Africa

Europe, the Middle East and Africa have the largest Emerson presence outside the United States. Operations in the region represent 20 percent of total company sales and 52 percent of international sales. All of the Emerson Brands have a European presence, and European companies are at the forefront of the innovation and technological development. Leading European technologies include, alternators and wind turbines, energy saving systems, precision air-conditioning systems for the telecom industry, automotive technologies, such as power steering and switched reluctance innovations for the hybrid vehicle.

Leading European Technologies	
Alternators	Precision Air-Conditioning Systems
Wind Turbines	Automotive Technologies
Energy Saving Systems	

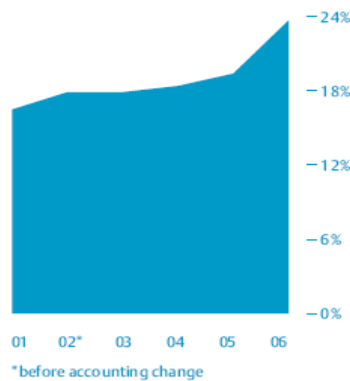
Emerson's Dividend Strategy

For fifty consecutive years, Emerson has increased their dividend per share. The company's most recent increase was fourth quarter 2007. They raised the quarterly cash dividend 14 percent to \$.30 per share. Emerson's ability to continually increase dividends illustrates the company's stability, profitability, and allegiance to shareholders.



Return on Equity

RETURN ON EQUITY



Emerson achieved a high level of return on average stockholders' equity in 2006, reaching 23.7 percent for this important measure of performance.

A key metric used to measure managements effectiveness is return on equity. In 2006, return on equity was 23.7 percent. Emerson's return on equity shows that it is able to reinvest its earnings more efficiently than 90% of its competitors in the Industrial Goods industry. Typically, companies that have higher return on equity values are more attractive to investors.

Relative Industry Valuation

The graph and chart below compares Emerson's stock performance to the DJ Electrical Components & Equipment index and the DJ U.S. Total Market index. Emerson has outperformed both the DJ Electrical Components & Equipment index and the DJ U.S. Total Market index respectively over the past five years. Additionally, Emerson's recent performance is impressive in comparison to the industries performance.



For example, year-to-date, Emerson has outperformed the DJ Electrical Components & Equipment index by 8.96% and the DJ U.S. Total Market index by 20.31%. As for the Emerson's long term past performance, the company has maintained a consistent lead when compared to these two major indices. For example, Emerson has outperformed the DJ Electrical Components & Equipment index by 8.46% and the DJ U.S. Total Market index by 36.79%.

Past Performance:	Emerson	Electrical Components & Equipment	DJ U.S Total Market Index
3 Months	16.92%	4.28%	-0.76%
6 Months	17.07%	0.07%	-5.71%
Year-to-Date	21.93%	12.97%	1.62%
12 Months	21.97%	9.15%	2.81%
2 Years	48.28%	30.23%	15.59%
5 Years	104.80%	96.34%	68.01%

Financials

Forecasted Income Statement

Emerson Electric Co.						
Consolidated Income Statements (In thousands)						
For the years ended September 30 2008*, 2007, 2006, 2005, 2004, and 2003						
	Sept-08*	Sept-07	Sept-06	Sept-05	Sept-04	Sept-03
Operating Revenue	24829	22572	20133	17305	15615	13958
Net Sales	24829	22572	20133	17305	15615	13958
Cost of Goods Sold	15907	14461	13012	11150	10070	9077
Cost of Revenue	15838	14335	12965	11122	10049	9060
Excise Taxes Payments						
Depreciation & Amortization	69	63	47	28	21	17
Depreciation Amortization of Intangibles	69	63	47	28	21	17
Amortization of Acquisition Costs					0	0
Gross Income	8922	8111	7121	6155	5545	4881
Selling, General & Admin Expense	5052	4593	4099	3595	3281	2935
Selling, General & Admin Exp	5052	4593	4099	3595	3281	2935
Other Operating Expenses	122	111	115	118	97	130
Other Operating Expense						
Other, Net	122	111	115	118	97	130
Operating Inc Before Unusual Items	3748	3407	2907	2442	2167	1816
Unusual Expense (Income)	91	83	84	110	132	195
Impairment Assets Held for Use		11		0	3	54
Impairment Assets Held for Sale						
Other Unusual Expense (Income)	91	83	84	110	129	141
Operating Income After Unusual Items	3656	3335	2823	2332	2035	1621
Interest/Investment Income (Expense), Net	(251)	(228)	(207)	(209)	(210)	(231)
Interest Expense, Net			(225)	(243)	(234)	(246)
Interest Expense	(287)	(261)	(225)	(243)	(234)	(246)
Interest Capitalized						
Interest/Investment Income	(36)	(33)	(18)	(34)	(24)	(15)
Interest Income			(18)	(34)	(24)	(15)
Investment Income						
Other Income (Expense), Net	81	74	68	26	27	24
Gain (Loss) on Sale of Assets	81	74	68	26	27	24
Income Before Income Taxes	3406	3107	2684	2149	1852	1414
Income Taxes	1068	971	839	727	595	401
Income After Income Taxes	2338	2136	1845	1422	1257	1013

Net Income Before Extraordinaries	2338	2136	1845	1422	1257	1013
Extraordinaries				0	0	76
Accounting Change					0	0
Discontinued Operations				0	0	76
Extraordinary Items						
Tax on Extraordinary Items						
Net Income After Extraordinaries	2338	2136	1845	1422	1257	1089
Income Avail to Common Excl Extraords	2338	2136	1845	1422	1257	1013
Income Avail to Common Incl Extraords	2338	2136	1845	1422	1257	1089
Dilution Adjustment				0	0	0
Diluted Net Income	2338	2136	1845	1422	1257	1089

* Forecast

Forecasted Balance Sheet

Emerson Electric Co.						
Consolidated Balance Sheets (In thousands)						
For the years ended September 30 2008*, 2007, 2006, 2005, 2004, and 2003						
	Sept-08*	Sept - 07	Sept - 06	Sept - 05	Sept - 04	Sept - 03
Assets						
Cash & Short Term Investments	1292	1008	810	1233	1346	696
Cash						
Cash & Equivalents	1292	1008	810	1233	1346	696
Short Term Investments						
Receivables, Net	4157	4260	3716	3256	2932	2650
Accounts Receivable, Net	4157	4260	3716	3256	2932	2650
Accounts Receivable, Gross	4257	4346	3790	3332	3010	2732
Provision for Doubtful Accounts	(101)	(86)	(74)	(76)	(78)	(82)
Inventories	2366	2227	2222	1813	1705	1558
Finished Goods	946	884	887	711	693	628
Work In Progress						
Raw Materials	1420	1343	1335	1102	1012	930
Other Current Assets	688	570	582	535	433	596
Other Current Assets	688	570	582	535	433	596
Total Current Assets	8502	8065	7330	6837	6416	5500
Property, Plant, & Equipment, Net	3920	3431	3220	3003	2937	2962
Property, Plant, & Equipment, Gross	9462	8434	7889	7356	7119	6864
Buildings	1855	1683	1536	1426	1402	1341
Land & Improvements	236	199	188	185	184	178
Machinery & Equipment	6996	6138	5811	5442	5284	5129
Construction in Progress	376	414	354	303	249	216
Accumulated Depreciation	(5542)	(5003)	(4669)	(4353)	(4182)	(3902)
Goodwill, Net	7037	6412	6013	5479	5259	4942
Intangibles, Net	579	715	633	467	353	251
Long Term Investments	443	203	280	364	347	475
Affiliate Companies						
Other Long Term Investments	443	203	280	364	347	475
Long Term Notes Receivable						
Other Assets	1523	1772	1196	1077	1049	1064
Deferred Charges						
Pension Benefits	1291	1567	1037	925	883	843
Other	231	205	159	152	166	221
Total Assets	20982	19680	18672	17227	16361	15194

Liabilities

Short Term Debt	901	404	898	970	902	391
Notes Payable/ST Debt	901	404	898	970	902	391
Current Portion LT Debt/Cap Leases						
Accounts Payable & Accrued Payables	2373	2501	2305	1841	1629	1397
Accounts Payable	2373	2501	2305	1841	1629	1397
Accrued Payables						
Accrued Expenses	2314	2337	1933	1839	1695	1513
Other Current Liabilities	252	304	238	281	113	116
Income Taxes Payable	252	304	238	281	113	116
Total Current Liabilities	5840	5546	5374	4931	4339	3417
Long Term Debt	3255	3372	3128	3128	3136	3733
Long Term Debt	3255	3372	3128	3128	3136	3733
Capital Lease Obligations						
Deferred Income Tax	714	519	724	567	528	503
Minority Interest	184	191	176	142	126	114
Other Liabilities	1355	1280	1116	1059	994	967
Reserves						
Pension Benefits	830	747	624	661	591	665
Discontinued Operations						
Other Long Term Liabilities	525	533	492	398	403	302
Total Liabilities	11348	10908	10518	9827	9123	8734
Shareholders' Equity						
Common Equity	9634	8772	8154	7400	7238	6460
Common Stock	350	477	238	238	238	238
Common Stock	350	477	238	238	238	238
Limited Partner						
Additional Paid-In Capital	117	31	161	120	87	65
Retained Earnings	13866	12536	11314	10199	9471	8889
Treasury Stock - Common	(5119)	(4654)	(3865)	(3092)	(2470)	(2346)
Other Equity	420	382	306	(65)	(88)	(386)
Cumulative Translation Adjustment	420	382	306	(65)	(88)	(386)
Total Shareholders' Equity	9634	8772	8154	7400	7238	6460
Total Liabilities & Shareholders' Equity	20982	19680	18672	17227	16361	15194

* Forecast

Statement of Cash Flows

Emerson Electric Co.
Consolidated Statement of Cash Flows (In thousands)
For the years ended September 30 2008*, 2007, 2006, 2005, 2004, and 2003

	Sept - 07	Sept - 06	Sept - 05	Sept - 04	Sept - 03
Operating Activities					
Net Income	2136	1845	1422	1257	1089
Depreciation/Depletion	656	607	562	557	534
Depreciation	656	607	562	557	534
Non-Cash Items	87	212	93	80	(158)
Other Non-Cash Items	87	212	93	80	(158)
Changes in Working Capital	137	(152)	110	322	266
Accounts Receivable		(246)	(261)	(134)	8
Inventories		(274)	8	(8)	161
Other Assets		36	(44)	202	12
Accounts Payable		324	161	123	57
Accrued Expenses		71	77	114	24
Taxes Payable		(63)	169	25	4
Other Changes, Net	137				
Other Operating, Net	137				
Net Cash from Operating Activities	3016	2512	2187	2216	1731
Investing Activities					
Capital Expenditures	(681)	(601)	(518)	(400)	(337)
Purchase of Fixed Assets	(681)	(601)	(518)	(400)	(337)
Acquisition/Sale of Business	(189)	(615)	(378)	(317)	33
Acquisition of Business	(295)	(752)	(366)	(414)	(6)
Sale of Business	106	137	(12)	97	39
Net Cash from Investing Activities	(870)	(1216)	(896)	(717)	(304)
Financing Activities					
Cash Dividends Paid	(837)	(730)	(694)	(675)	(661)
Common Dividends	(837)	(730)	(694)	(675)	(661)
Preferred Dividends					
Sale/Repurchase of Stock, Net	(853)	(862)	(668)	(121)	11
Common Stock, Net	(853)	(862)	(668)	(121)	11
Issuance/Reduction of Debt, Net	(309)	(171)	(54)	(93)	(503)
Short Term Debt, Net	(800)	89	320	(106)	(1232)
Long Term Debt, Net	491	(260)	(374)	13	729
Issuance of LT Debt	496	6	251	29	746
Reduction of LT Debt	(5)	(266)	(625)	(16)	(17)
Other Financing Activities, Net	5	32	15		
Net Cash from Financing	(1994)	(1731)	(1401)	(889)	(1153)

Activities

Foreign Exchange Effects	46	12	(3)	40	41
Net Change in Cash	198	(423)	(113)	650	315
Cash - Beginning Balance	810	1233	1346	696	381
Cash - Ending Balance	1008	810	1233	1346	696

Supplemental

Cash Interest Paid		214	247	233	245
Cash Taxes Paid		820	600	380	310

Forecasted Financial Ratios

Emerson Electric Co.						
Consolidated Financial Ratios (In thousands)						
For the years ended September 30 2008*, 2007, 2006, 2005						
	2008*	2007	2006	2005	Industry	S&P 500
Liquidity Ratios						
Current Ratio	1.46X	1.45X	1.36X	1.39X	1.64X	1.74X
Quick Ratio	1.05X	1.05X	0.95X	1.02X	1.01X	1.24X
Utilization (Efficiency) Ratios						
Inventory Turnover	6.72X	6.49X	5.86X	6.15X	8.07X	12.14X
Days' Sales in Inventory	54.29 Days	56.21 Days	62.33 Days	59.35 Days	45.23 Days	30.07 Days
Receivables Turnover	5.97X	5.30X	5.42X	5.31X	3.05X	10.60X
Days' Sales in Receivables	61.11 Days	68.89 Days	67.37 Days	68.68 Days	119.67 Days	34.43 Days
Total Asset Turnover	1.18X	1.15X	1.08X	1.00X	0.57X	0.96X
Financial Leverage Ratios						
Total Debt Ratio	54.08%	55.43%	56.33%	57.04%	72.62%	40.70%
Debt-Equity Ratio	1.18X	1.24X	1.29X	1.33X	2.82X	0.73X
Coverage Ratios						
Times Interest Earned Ratio	12.74X	12.78X	12.55X	9.60X	15.55	13.26
Profitability Ratios						
Gross Profit Margin	35.93%	35.93%	35.37%	35.57%	39.34%	45.19%
Operating Profit Margin	15.09%	15.09%	14.44%	14.11%	15.04%	19.5%
Net Profit Margin	9.41%	9.46%	9.16%	8.22%	11.45%	13.36%
Return on Assets	11.14%	10.85%	9.88%	8.25%	6.33%	8.72%
Return on Equity	24.26%	24.35%	22.63%	19.22%	23.84%	21.63%
Return on Common Equity	24.26%	24.35%	22.63%	19.22%	23.84%	21.63%
Du Pont Analysis	24.26%	24.35%	22.63%	19.22%	23.84%	21.63%
Market Value Ratios						
Earnings Per Share	\$3.02	\$2.71	\$2.29	\$1.73		
Price-Earnings Ratio	20.39X	19.63X	18.29X	20.73X	18.82X	20.08X
Market-to-Book Ratio	4.95X	4.78X	8.28X	7.97X	3.62X	4.31X
Financial Distress Prediction						
Z-Score Model	5.36	5.06	6.40	6.01		

* Forecast

2006 Financial Ratios

	Emerson	ABB Ltd.	Hitachi Ltd.	Raytheon	Illinois Tool Works Inc.
Liquidity Ratios					
Current Ratio	1.45X	1.50X	1.14X	1.57X	2.37X
Quick Ratio	1.05X	1.15X	0.79X	0.68X	1.70X
Cash Ratio	0.18X	0.41X	0.12X	0.52X	0.25X
Utilization (Efficiency) Ratios					
Inventory Turnover	6.49X	4.43X	5.36X	3.33X	6.74X
Days' Sales in Inventory	56.21 Days	90.83 Days	70.38 Days	93.82 Days	57.09 Days
Receivables Turnover	5.30X	3.73X	4.48X	82.08X	6.01X
Days' Sales in Receivables	68.89 Days	105.10 Days	83.19 Days	2.64 Days	66.28 Days
Total Asset Turnover	1.15X	1.07X	1.02X	0.89X	1.11X
Profitability Ratios					
Gross Profit Margin	35.93%	29.63%	21.90%	19.43%	34.33%
Operating Profit Margin	15.09%	12.88%	2.64%	9.64%	16.46%
Net Profit Margin	9.46%	8.75%	0.30%	5.91%	11.74%
Return on Assets	10.85%	9.38%	0.31%	5.24%	13.07%
Return on Equity	24.35%	34.25%	1.33%	10.84%	20.32%
Return on Common Equity	24.35%	34.25%	1.33%	10.84%	20.32%
Du Pont Analysis	24.35%	34.25%	1.33%	10.84%	20.32%
Market Value Ratios					
Price-Earnings Ratio	19.63X	26.49X	74.22X	21.56X	16.75X
Market-to-Book Ratio	4.78X	7.51X	0.98X	2.18X	3.18X

Ratio Analysis

Financial ratios are measurements of a firm determined by using financial statements. These ratios are useful for an investor especially when comparing the ratios of a firm to past ratios or when comparing the ratios to a firms' competitors. There are six ratio areas to measure liquidity, efficiency, leverage, coverage, profitability, and market value. One last area that an investor may look at is at the financial position, in terms of distress, of a company.

Liquidity ratios are ratios that measure the ability of a firm to pay off its short term obligations. The higher the ratios are than one, the better the ability of a company to pay off its short term obligations. Two liquidity ratios are the current ratio and the quick ratio.

The **current ratio** measures the firms' ability to pay off its short term debt. This is found by dividing current assets by current liabilities. Emerson's current annual current ratio, up for the third consecutive year, is 1.45 for 2007. This ratio has increased primarily due to increases in cash & equivalents and accounts receivable, which together amount to a 39% increase from 2006.

The **quick ratio** measures the firms' ability to pay off its short term debt with its most liquid assets. This is found by taking current assets, un-accounting inventories because it is the least liquid asset, and dividing by current liabilities. Emerson's current annual quick ratio is 1.05 times for 2007. This is a 10.75% increase from the previous year and 4% higher when compared to the industry.

Efficiency ratios measure how well the company is using its assets to generate sales. Five efficiency ratios are the inventory turnover ratio, the days' sales in inventory ratio, receivables turnover ratio, days' sales in receivables ratio, and the total asset turnover ratio.

The **inventory turnover ratio** measures how many times a company sells and replaces its inventory over a certain period of time. The inventory turnover ratio is found as cost of goods sold divided by inventory. Emerson's inventory ratio for 2007 is 6.49 times and it was 5.86 times for 2006. This means that Emerson generated \$0.63 more in sales for each dollar invested in inventories in 2007. The industry inventory turnover ratio average is 8.07 times and the average for the S&P 500 is 12.14 times; Emerson trails both. A high inventory turnover ratio is great because it means that the company is selling off its inventory, however, a high ratio may also indicate that the company may be losing new potential customers due to possible inventory shortages.

The **days' sales in inventory ratio** measures how many days inventory sits as stock before it is sold. The ratio is found by dividing 365 days by the inventory turnover ratio. Emerson improved by 6.12 days from last year meaning that Emerson is selling off its inventory a little faster. Emerson's current days' sales in inventory ratio is 56.21 days for 2007.

The **accounts receivable turnover ratio** measures how well a firm can extend credit and collect debts. The accounts receivable turnover ratio is found by dividing credit sales by accounts receivable. Emerson's current accounts receivable turnover ratio for 2007 is 5.30 times, which is higher than the industry average of 3.05 times but lower than the S&P 500 average of 10.60 times. A high number is good because it means that the company is extending credit to its customers, however, too high a number may indicate that a company is denying credit extensions to customers with good credit.

The **days' sales in receivables ratio** measures how fast a company collects on its credit sales. This ratio is found by dividing 365 days by the accounts receivable turnover ratio. Emerson's current day's sales in receivable ratio for 2007 is 68.89 days, which is 50.79 days lower than the industry average. This means that Emerson collects on its credit sales 50.79 days faster than its competitors.

The **total asset turnover ratio** measures how well a company uses all of its assets to generate sales. This ratio is found by dividing sales by total assets. Emerson's current total asset turnover ratio for 2007 is 1.15 times, up by 6.37% from the previous year. Emerson's total asset turnover ratio also shows the company is more efficient when compared to the industry average, 0.57times, and the S&P 500 average, 0.96 times.

Financial leverage ratios measure how well a company can meet its financial obligations. Two financial leverage ratios are the total debt ratio, and the debt-to-equity ratio.

The **total debt ratio** measures a company's financing of assets through debt. This is calculated by dividing total debt by total assets. Emerson's current total debt ratio for 2007 is 55.43%, down from 56.33% in 2006. Emerson's current total debt ratio is also 17.19% lower than the industry average.

The **debt-to-equity ratio** compares a company's total equity with debt. This is found by dividing total debt by total equity. Emerson's current debt-to-equity ratio for 2007 is 1.24 times; a 3.6% decrease from 2006. The industry average is 2.82 times. This means that the industry uses over twice as much debt than they do equity, when compared to Emerson.

Coverage ratios measure how well a company can meet its financial obligations by comparing its assets to its liabilities. The more the assets cover the liabilities, the better it is for the company. One coverage ratio is the times interest earned ratio.

The **times interest earned ratio** measures a company's ability to pay off its debt before interest and taxes. This ratio is calculated as earnings before interest expense and taxes divided by the total interest expense. Emerson's current times interest earned ratio is 12.74 times for 2007, up from 12.78 times in 2006. This means that Emerson is able to pay off its interest expense twelve times over.

Profitability ratios measure the company's earnings to its expenses and costs for a specific period of time. The higher the ratios are, the better the company's profitability. Three profitability ratios are the net profit margin, the return on total assets, and the return on equity. All three of these ratios have increased for Emerson for the last five years.

The **net profit margin** is a measure of the profit a company ends up with after paying off all costs and expenses. Emerson's current net profit margin is 9.46%, up from 9.16% in 2006 and up from 7.80% in 2003.

The **return on total assets** compares the profit of a company to its assets. This ratio is calculated by dividing earnings available to common stockholders by total assets. Emerson's current return on assets is 10.85%, up from 9.88% in 2006 and 7.17% in 2003. This means that Emerson now earns 10.85 cents on each dollar invested in assets as compared to 9.88 cents in 2006 and 7.17 cents in 2003.

The **return on common equity** measures the common stockholders' investments return in the firm. Emerson's current return on common equity is 24.26%, up from 22.63% in 2006 and 16.86% in 2003. Emerson's current return on common equity is also higher when compared to the industry average, 23.84%, and the S&P 500 average, 21.63%. Emerson's current return on common equity of 24.26% means that the company earns 24.26 cents on each dollar of common stock equity.

Market value ratios compare the market price of a company to certain accounting value. Two market value ratios are the price-earnings ratio and the market-to-book ratio.

The **price-earnings ratio** measures how expensive one share of a company is and the growth expectancy of a company. Emerson's current price-earnings ratio is 19.63 times, up from 18.29 times in 2006. Emerson's current price-earnings ratio is higher than the industry average (18.62 times), but lower than the S&P 500 (20.08 times). This means that Emerson is undervalued when compared to

the S&P 500, but it is also expected to grow more when compared to its competitors.

The **market-to-book ratio** compares a firm's current market value to its book value. This is found by dividing the market price per share of common stock by the book value per share of common stock. Emerson's current market-to-book ratio is 4.78 times in 2007; higher than the industry average, 3.62 times, and the S&P 500, 4.31 times. A higher market-to-book ratio suggests that Emerson has been more successful in creating value for its stockholders when compared to its competitors and the market.

Financial-distress is when a company cannot pay off its obligations to its creditors. If all goes bad, the worst that can happen to an investor in a company is for the firm to go bankrupt. Therefore, a potential investor in a firm should determine how well a company is in terms of paying off its obligations and not falling into financial distress. The z-score model measures that.

After calculating the **z-score model**, a company may be placed into one of three groups. If a firm's score is lower than 1.81, it means it can be predicted that the firm will be bankrupt within one year. If a firm's score falls between 1.81 and 2.675, it means the firm is probably under some financial distress, and bankruptcy is possible. If a firm's score is higher than 2.675, it means that the firm is under no financial distress and is free from possible bankruptcy. Emerson's z-score is 5.06 in 2007, and it has been over 5 since 2003. This means that Emerson is a distress-free and bankruptcy-free firm.

When it comes down to any of the six ratio areas of liquidity, efficiency, leverage, coverage, profitability, and market value Emerson either outperforms the industry average, the S&P 500, or its own past ratios. This suggests that Emerson is a very good company to be investing in. Additionally, the fact that Emerson is under no financial distress means they are a very healthy firm.

Stock Valuation

Capital Asset Pricing Model

$$K_e = R_f + \beta_e [E(R_m) - R_f]$$

Beta 0.93

Historical Geometric Mean Return For Common Stocks	11.00%
Historical Long-Term Government Bond Geometric Mean Return	5.30%
Historical Risk Premium (.11-.053)	5.70%

As of November 16, 2007

10 Year Bond Rate 4.18%

$4.18\% + .93 * (.11 - .053)$ 9.48%

Constant Growth Model

$$V_0 = [D_0 * (1+g) / (K_e - g)] \quad D_0 = (.263 + .263 + .263 + .3) = \$1.09$$

Value Line's Dividend Growth Rate

Projected = 7.50%

$$\$1.09(1+7.5\%) / (9.48\% - 7.5\%) = \$59.10$$

Emerson Electric (NYSE - EMR)

Valuation	2003	2004	2005	2006	2007	2008*	Average
EPS	1.29	1.50	1.73	2.29	2.71	3.02	
P/E	20.36	20.65	20.73	18.29	19.63		19.93
CFPS	1.84	2.16	2.49	3.05	3.50	3.90	
P/CFPS	14.31	14.33	14.42	13.75	15.21		14.40
SPS	16.57	18.61	21.07	25.02	28.55	31.00	
P/SPS	1.59	1.66	1.70	1.68	1.86		1.70

Estimated Sales 9.50%

Estimated Cash Flow 11.00%

Estimated Earnings 12.50%

Projected Share Price:

P/E Approach 67.638045 = $35.94 * 3.12(1 + .125)$

P/CF Approach 62.341392 = $25.76 * 3.9(1 + .11)$

P/S Approach 57.674809 = $3.03 * 31(1 + .095)$

Average 62.551415

Market Price (11/16/07): \$54.97

Value Line Numbers

Emerson Electric (NYSE - EMR)							
Valuation	2003	2004	2005	2006	2007	2008*	Average
EPS	1.21	1.49	1.78	2.24	2.63	3.00	
P/E	20.90	20.50	18.70	17.80	17.20		19.02
CFPS	1.84	2.16	2.49	3.05	3.50	3.90	
P/CFPS	13.74	14.14	13.37	13.07	12.92		13.45
SPS	16.57	18.61	21.07	25.02	28.55	31.00	
P/SPS	1.53	1.64	1.58	1.59	1.58		1.59
Estimated Sales	9.50%						
Estimated Cash Flow	11.00%						
Estimated Earnings	12.50%						
Projected Share Price:							
P/E Approach	64.1925		=		19.02*3*(1+.125)		
P/CF Approach	58.225444		=		13.45*3.9*(1+.11)		
P/S Approach	53.805194		=		1.59*31*(1+.095)		
Average	<u>58.741046</u>						
Market Price (11/16/07):	\$54.97						

Target Price*One Year Target Price*

Estimated Earnings Per Share (2008) X
 Estimated Price to Earnings Ratio (2008) = \$61.50

Risk Factors

Currency Fluctuations:

Since Emerson is a global firm, a large portion of their sales are generated overseas. Along with that comes the risk of currency fluctuations where changes in the relative values of currencies occasionally occur. Significant decreases could hurt profits.

Acquisitions:

Acquisitions are a key part of Emerson's strategic business plan. There is always the possibility that acquisitions do not work out. An unsuccessful attempt at integrating personnel and assets is always a key risk factor when dealing with acquisitions. Certain deals may look good on paper, but turn out to be failures when implemented. For instance, when integrating personnel certain employees may not get along with other employees, which can create a hostile environment. That is not good for business. Another risk with acquisitions is that the previous owners did not disclose valuable information, which could end up hurting the company in the future. Acquisition pricing is another factor. If the pricing of products is way off it can hurt sales tremendously.

Environmental Regulation:

Emerson has been identified as the 56th largest corporate producer of air pollution in the United States. Emerson is currently involved in legal proceedings and claims that deal with product liability and environmental factors. It's a risk that comes along with the business that Emerson operates in. Legal cases could potentially hurt them if they are found liable. Future claims could also materialize. If Emerson decides not to comply within the law substantial costs could be incurred including clean up fees and fines.

Foreign and Domestic Production Facilities:

Emerson has production facilities throughout the world with a majority of them being located outside the United States. Certain unforeseen events such as natural disasters, labor strikes, war, political unrest, and terrorist activities may disrupt operations. A disruption in operations can hinder financial results. Sudden changes in laws and policies in such countries can also have a negative affect.

Customers:

Most of Emerson's customers are involved in cyclical businesses; where demand can vary greatly, which in turn affects revenue. Emerson itself is a cyclical company and such companies are sensitive to the state of the economy. This means a significant macroeconomic downturn can hurt them and their customers simultaneously.

Technology:

Most of Emerson's key business products are technological ones. When dealing with technological products there is always the chance that certain product lines can become obsolete by a large improvement in technology. If such an event were to occur it will hurt sales.

Market Interest Rates:

Emerson has a substantial amount of debt so they are exposed to changes in interest rates.

New Products

There is no guarantee that new products can be introduced successfully and their operating results depend largely on such products. At first, customers may not approve of new products. The business Emerson operates in is affected by technological changes. With technological changes come shifts in customer demand, which result in unpredictable and volatile sales.

Derivatives:

Emerson does not hold onto derivatives for trading purposes. Instead, they use them to manage the risks that come with interest costs, commodity prices, and currency exchanges. They use a combination of buying options, forward exchange contracts, commodity swaps, and interest rate swaps to help minimize the impact of currency, interest, and commodity price fluctuations on transactions.

Commodities:

The main raw materials brought on a large scale are steel, copper, cast iron, electronics, aluminum and brass, and plastics. Emerson has a diverse network of suppliers for each of those raw materials, but significant shortages and/or price increases could affect the prices they charge to customers. Consequently, sales are driven by the prices of those major commodities.

Investment Drivers

Drivers can be anything that affects a company's earnings or the stock price. Every company has its own unique drivers depending on the industry they are in and they are usually qualitative, not quantitative.

New Products and Services:

Emerson is targeting a large portion of their investments and products towards China. "An estimated 80% of China's new homes are heated and cooled by energy-efficient heat pump technologies." Emerson will be there to accommodate China. It was reported, "People around the world are becoming increasingly concerned with their individual energy usage and its impact on the environment. Emerson is working to help China improve overall efficiency standards and consume less power." It was also reported that within the next 2 years, in China there will be "1 billion new voice and data communicators." Furthermore, "by 2030 the world's power demands will grow to nearly 200% of current global capacity." Emerson specializes in such areas and an increase in the world's demand, especially China's, can prove to be profitable for them.

Diversification:

Emerson thrives on the fact they are a diversified company. They deal in 5 different segments, which include Process Management, Industrial Automation, Network Power, Climate Technologies, and Appliance Tools. The 2006 sales for each segment were 23%, 18%, 21%, 17%, and 21% respectively. Such diversification helps deal with risk factors especially economic downturns.

Acquisitions:

Although acquisitions come with risk they can also drive sales upwards. As evidenced by their huge amount of goodwill, Emerson has been actively involved in buying and investing in companies. Within the last year they bought a Motorola unit for \$350 million in cash and Startos, both telecommunication companies. They also bought Lionville Systems, a healthcare business. Marine Valve Supplier, which supplies valve remote controls and tank monitoring equipment to the marine and shipbuilding industries, was also bought by Emerson. These acquisitions will play a key role in the sales and profits of Emerson. If they all succeed the company should see a lot of potential earnings in the near future.

Contracts:

Emerson has recently won contracts to digitally automate BP's Purified Terephthalic Acid plant expansion and the Fujian Refining and Ethylene Joint Venture Project, both located in China. Such contracts help drive the companies Process Management division.

Technical Analysis

(EMR) – 2 Year Snapshot



The basic chart for Emerson Electric in a snapshot displays overall how well the stock has performed the past 2 years. Without any knowledge of the company it is easy to understand that it has constantly grown in a steady upward trend. Over the last two years with very little fluctuation the stock has increased. In a long term stand point this stock has low volatility and low risk. It would be in the SMIFs' best interest to acquire this stock now.

Bollinger Bands



To provide you with a relative definition of the high and low we can look at the Bollinger Bands to determine how this stock has performed. This chart displays the performance of EMR over the last year. The Bollinger Bands consists of two bands: the upper (which is two standard deviations above the mean) and the lower which is (two standard deviations below). Because standard deviation is a measure of volatility, Bollinger Bands adjust themselves to the market conditions. When the markets become more volatile the bands widen and during less volatile periods, the bands contract. If the price moves within upper and lower bands, then Bollinger Band analysis may not be a reliable method to determine when the best time to buy the stock. However, once the price penetrates the band then return back to the previous levels, it is considered as the right time to open a position. You can see within the chart that the price has recently penetrated the upper band and returned to its original price establishing that this is a good time to buy this stock.

Standard 200 day moving average



The 200-day moving average is believed to be the dividing line between a stock that is technically healthy and one that is not. A stock that is trading above its 200 Day Moving Average is in a long term uptrend. This is considered to be a healthy indication. A healthy stock will generally have a rising 200 Day Moving Average. EMR has consistently stayed above the 200 Day Moving Average which implies it is a very healthy stock.

Parabolic SAR



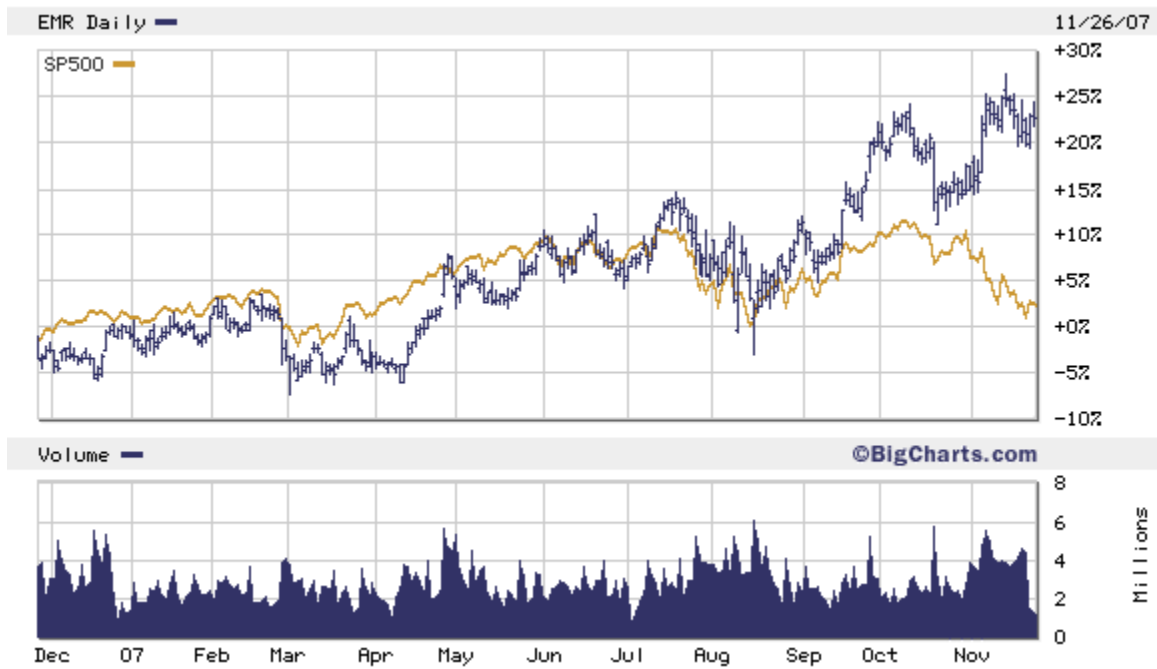
The Parabolic SAR is calculated almost independently for each trend in the price. When the price is in an uptrend, the SAR appears below the price and converges upwards towards it. Similarly, on a downtrend, the SAR appears above the price and converges downwards. According to this chart Emerson's stock has recently shown rapid acceleration in November. It climaxed and dropped ending the trend. Historically after each small recession the company has continued to perform well and now would be an excellent time to catch the next wave.

RSI



The Relative Strength Index (RSI) is a financial technical analysis showing price strength by comparing upward and downward close-to-close movements and determining whether the stock is over bought or over sold. Within the spectrum of 75 (being overbought and over valued) and 30 (being oversold and undervalued) Emerson lies just above 50. Since this number lies within the middle of the spectrum it does not hinder the decision and due to the other determining factors, a buy for this stock is still imperative.

EMR VS S&P500



This comparison to S&P500 is very important to the technical analysis of this stock. This displays the safety of the stock and how diversified Emerson is. Even with the market being so volatile Emerson has managed to continually grow and produce a positive outlook for the future.

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Disclosure

Analyst Certification

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