**Jeffrey D. Saut,** (727) 567-2644, Jeffrey.Saut@RaymondJames.com
**Investment Strategy**

**January 19, 2010**

## "Neverland?!"

> "Washington, D.C. is not considered a city noted for theatrical productions. Most of the central city empties out after work heading for the suburbs, and much of the downtown area is virtually deserted after dark. There are good bars, restaurants and hotels, but that seems to be the extent of nighttime activities. There was one play that did have a lengthy run in Washington. J.M. Barrie's 'Peter Pan' starring Sandy Duncan as 'The Boy Who Never Grew Up' had the longest run at the time of any play produced in the nation's capitol. In an interview, Ms. Duncan was asked why the play had lasted as long as it did. Her answer was, 'I think it's because people in this town relate easily to fantasy.' I saw the play with Mary Martin in the title role. At each performance the actress playing Peter Pan turns to the audience and says, 'Do you believe in fairies? If you believe, clap your hands!' The last line is repeated until the house is clapping wildly."
>
> . . . Ray DeVoe, The DeVoe Report (2003)

I recalled Ms. Duncan's comments last week, about people easily relating to fantasy inside the D.C. beltway, as I sat in front of a camera waiting to do a segment on network TV. While I waited, the voices of the members of the Financial Crisis Inquiry Commission (FCIC) resonated in my ear. While it's true they are not currently members of Congress, most of them have been in politics at one time or another, and all of them were appointed to the FCIC by our Congressional leaders. Accordingly, most of them are just as political as Congress. There was one member of the commission, however, who was/is truly qualified (IMO) to opine on what caused the financial fiasco. Brooksley Borne, a name likely unknown to anyone outside of my business, warned of the pending crisis when she was chairperson of the Commodity Futures Trading Commission (CFTC) in the late 1990s, but her warnings were ignored by our Congressional leaders and therefore by the regulators responsible to Congress. And that, ladies and gentlemen, is the real story behind the financial crisis.

Indeed, as I sat there listening I found myself screaming at the cameraman, "Tell the producer to put me on the air." My rants were driven by the clearly political ramblings of most of the commission's members as they engaged in the normal Washington Waltz of the "blame game." To be sure, having lived/worked inside the beltway I have seen this "beltway bamboozle" before as politicians point their collective fingers at everyone but themselves, to pander to an uninformed public about who was responsible for something. The reality is that it was Congress who fell asleep in bed with a lit cigarette by telling regulators to "lax up" on the rules already on the books that would have prevented the financial institutions from leveraging their balance sheets 50, 60, 70 to one, which was the real cause of the problem. It was also our Congressional nimnods, which in the interest of trying to put a roof over everybody's head, told various agencies to "lax up" on mortgage requirements permitting people who couldn't afford the driveway, let alone the roof, to buy houses they couldn't afford. Verily, we have met the enemy; the enemy is our politicians (both Republicans and Democrats, alike). And, the lack of outrage by the nation's uninformed electorate is a very sad commentary on the state of our union.

Like our Congressional cheerleaders in "Neverland" (read: Capitol Hill), Wall Street's cheerleaders were at it again last week chanting "I believe" in an attempt to further levitate stocks. Hereto, however, the current difference between perception and reality is somewhat far afield by our pencil. As our friends at the celebrated GaveKal organization deduce, there are basically two options confronting the U.S. equity markets; and, the valuation disparities between the two have rarely been so great.

Option Number 1) "Global growth is just extremely strong and investors remain far too defensively positioned. This would explain the very sharp rally in cyclicals in recent weeks, the rebound in shipping, ports, logistics, materials etc. Of course, if global growth is now much stronger than most expect, a 'bad cop' will at some point have to show up at the party to tell the hosts to keep the volume down. Right now, the G7 central banks seem most unlikely to fulfill that role, focused as they are on preventing another Japan. In our view, this means that the 'bad cop' might have to be the long end of the bond market, though interestingly the yield curve is already about as steep as it has been in 20 years."

**Please read domestic and foreign disclosure/risk information beginning on page 3 and Analyst Certification on page 3.**

© 2010 Raymond James & Associates, Inc., member New York Stock Exchange/SIPC. All rights reserved.

Option Number 2) "Markets in recent weeks have just been running on fumes, driven by year end window dressing/new year repositioning. We should thus be wary of reading too much into market signals. In fact, the effort to catch up to recently winning trades (i.e., to drive deep cyclicals aggressively higher) may now be stalling. In that regard, (the) pullback in commodities and equity markets following China's (interest rate) announcement(s) is interesting."

While we too have been cheerleaders since the March 2009 "lows," as we entered the new year we have become more cautious, but not bearish. Like GaveKal, the two options present a strategy quandary. If the central banks start to provide less liquidity, or the U.S. dollar continues to strengthen, or China has begun a monetary tightening cycle, then option 2 is likely the right strategy, suggesting participants overweight technology, healthcare, consumer staples, and select emerging and frontier markets. However, if option 1 remains in force, deep cyclicals, transports, materials, energy, and emerging/frontier markets should be the vehicles of portfolio outperformance. Interestingly, emerging and frontier markets seem to be the winners no matter which option plays, although even here we are cautious.

In addition to the two options, we continue to worry about the rising potential for a geopolitical event and/or a sovereign debt default. Moreover, while in the longer term we still think earnings are going to look pretty good, in the near term we are somewhat concerned. Recently, 4Q09 earnings estimates for the S&P 500 (SPX/1136.03) have been reduced by some 20%. Although we are not predicting it, if those reduction fears extrapolate into participants' psyche for all of 2010, it implies that instead of achieving the current 2010 consensus EPS estimate of ~$78, the earnings number would be closer to ~$62 with attendant reductions in 2010 yearend price targets. While we think the 4Q09 earnings reductions are simply an anomaly caused by corporations attempting to get earnings back in line with what auditors will agree with for yearend purposes, it could give the equity markets a "pause for cause" when combined with the other worries we cite. Hence, we remain cautious.

**The call for this week:** The solar eclipse came and went in "Neverland" between 11:06 a.m. and 2:00 p.m. last Friday with an attendant stock slide that should have stopped participants out of our remaining index recommendations. And, despite all the "Tinkerbell clapping," the SPX is virtually no higher now than it was after the "opening day" rally on January 4th. Moreover, the number of stocks above their 10-day moving averages (DMAs) continues to shrink, which is the type of action typically seen preceding a stock market correction. Also, the 25-day put/call ratios are at levels consistent with short-term negative conditions, while Friday's close left the SPX below its recent reaction lows, not to mention below its 10-DMA. Then there is "Dr. Copper," the metal with a Ph.D. in economics, which recently recorded a 12-month rolling rate of return in excess of 150%. Historically such a "copper cropper" has marked a "trading top" in copper and telegraphed caution for the equity markets. All of this raises the question, "Is this the week participants quit clapping their hands and Tinkerbell falls back to earth?"

© 2010 Raymond James & Associates, Inc., member New York Stock Exchange/SIPC. All rights reserved.

International Headquarters:
The Raymond James Financial Center | 880 Carillon Parkway | St. Petersburg, Florida 33716 | 800-248-8863
RAYMOND JAMES

## Important Investor Disclosures

**Raymond James** is the global brand name for Raymond James & Associates (RJA) and its non-US affiliates worldwide. Raymond James & Associates is located at The Raymond James Financial Center, 880 Carillon Parkway, St. Petersburg, FL 33716, (727) 567-1000. Affiliates include the following entities, which are responsible for the distribution of research in their respective areas. In Canada, Raymond James Ltd., Suite 2200, 925 West Georgia Street, Vancouver, BC V6C 3L2, (604) 659-8200. In Latin America, Raymond James Latin America, Ruta 8, km 17, 500, 91600 Montevideo, Uruguay, 00598 2 518 2033. In Europe, Raymond James European Equities, 40, rue La Boetie, 75008, Paris, France, +33 1 45 61 64 90.

This document is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident of or located in any locality, state, country, or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. The securities discussed in this document may not be eligible for sale in some jurisdictions. This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. **Investors should consider this report as only a single factor in making their investment decision.**

Investing in securities of issuers organized outside of the U.S., including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of, the U.S. Securities and Exchange Commission. There may be limited information available on such securities. Investors who have received this report may be prohibited in certain states or other jurisdictions from purchasing the securities mentioned in this report. Please ask your Financial Advisor for additional details.

The information provided is as of the date above and subject to change, and it should not be deemed a recommendation to buy or sell any security. Certain information has been obtained from third-party sources we consider reliable, but we do not guarantee that such information is accurate or complete. Persons within the Raymond James family of companies may have information that is not available to the contributors of the information contained in this publication. Raymond James, including affiliates and employees, may execute transactions in the securities listed in this publication that may not be consistent with the ratings appearing in this publication.

Additional information is available on request.

### Analyst Information

**Registration of Non-U.S. Analysts:** The analysts listed on the front of this report who are not employees of Raymond James & Associates, Inc., are not registered/qualified as research analysts under FINRA rules, are not associated persons of Raymond James & Associates, Inc., and are not subject to NASD Rule 2711 and NYSE Rule 472 restrictions on communications with covered companies, public companies, and trading securities held by a research analyst account.

**Analyst Holdings and Compensation:** Equity analysts and their staffs at Raymond James are compensated based on a salary and bonus system. Several factors enter into the bonus determination including quality and performance of research product, the analyst's success in rating stocks versus an industry index, and support effectiveness to trading and the retail and institutional sales forces. Other factors may include but are not limited to: overall ratings from internal (other than investment banking) or external parties and the general productivity and revenue generated in covered stocks.

The views expressed in this report accurately reflect the personal views of the analyst(s) covering the subject securities. No part of said person's compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report. In addition, said analyst has not received compensation from any subject company in the last 12 months.

### Ratings and Definitions

**Raymond James & Associates (U.S.) definitions**

**Strong Buy (SB1)** Expected to appreciate and produce a total return of at least 15% and outperform the S&P 500 over the next six months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.

**Outperform (MO2)** Expected to appreciate and outperform the S&P 500 over the next 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12 months.

**Market Perform (MP3)** Expected to perform generally in line with the S&P 500 over the next 12 months and is potentially a source of funds for more highly rated securities.

**Underperform (MU4)** Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.

**Raymond James Ltd. (Canada) definitions**

© 2010 Raymond James & Associates, Inc., member New York Stock Exchange/SIPC.

International Headquarters:
The Raymond James Financial Center | 880 Carillon Parkway | St. Petersburg, Florida 33716 | 800-248-8863

**Strong Buy (SB1)** The stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months.

**Outperform (MO2)** The stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months.

**Market Perform (MP3)** The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.

**Underperform (MU4)** The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

**Raymond James Latin American rating definitions**

**Strong Buy (1)** Expected to appreciate and produce a total return of at least 25.0% over the next twelve months.
**Buy (2)** Expected to appreciate and produce a total return of between 15.0% and 25.0% over the next twelve months.
**Hold (3)** Expected to perform in line with the underlying country index.
**Underperform (4)** Expected to underperform the underlying country index.

**Raymond James European Equities rating definitions**

**Strong Buy (1)** Absolute return expected to be at least 10% over the next 12 months and perceived best performer in the sector universe.
**Buy (2)** Absolute return expected to be at least 10% over the next 12 months.
**Fair Value (3)** Stock currently trades around its fair price and should perform in the range of -10% to +10% over the next 12 months.
**Sell (4)** Expected absolute drop in the share price of more than 10% in next 12 months.

**Rating Distributions**

Out of approximately 785 rated stocks in the Raymond James coverage universe, 49% have Strong Buy or Outperform ratings (Buy), 44% are rated Market Perform (Hold) and 7% are rated Underperform (Sell). Within those rating categories, 24% of the Strong Buy- or Outperform (Buy) rated companies either currently are or have been Raymond James Investment Banking clients within the past three years; 12% of the Market Perform (Hold) rated companies are or have been clients and 14% of the Underperform (Sell) rated companies are or have been clients.

**Suitability Categories (SR)**

For stocks rated by Raymond James & Associates only, the following Suitability Categories provide an assessment of potential risk factors for investors. Suitability ratings are not assigned to stocks rated Underperform (Sell). Projected 12-month price targets are assigned only to stocks rated Strong Buy or Outperform.

**Total Return (TR)** Lower risk equities possessing dividend yields above that of the S&P 500 and greater stability of principal.

**Growth (G)** Low to average risk equities with sound financials, more consistent earnings growth, possibly a small dividend, and the potential for long-term price appreciation.

**Aggressive Growth (AG)** Medium or higher risk equities of companies in fast growing and competitive industries, with less predictable earnings and acceptable, but possibly more leveraged balance sheets.

**High Risk (HR)** Companies with less predictable earnings (or losses), rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and risk of principal.

**Venture Risk (VR)** Companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, and a substantial risk of principal.

## Raymond James Relationship Disclosures

Raymond James expects to receive or intends to seek compensation for investment banking services from the subject companies in the next three months.

**Additional Risk and Disclosure information, as well as more information on the Raymond James rating system and suitability categories, is available at rjcapitalmarkets.com/SearchForDisclosures_main.asp. Copies of research or Raymond James' summary policies relating to research analyst independence can be obtained by contacting any Raymond James & Associates or Raymond James Financial Services office (please see raymondjames.com for office locations) or by calling 727-567-1000, toll free 800-237-5643 or sending a written request to the Equity Research Library, Raymond James & Associates, Inc., Tower 3, 6th Floor, 880 Carillon Parkway, St. Petersburg, FL 33716.**

International securities involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

© 2010 Raymond James & Associates, Inc., member New York Stock Exchange/SIPC. All rights reserved.

Small-cap stocks generally involve greater risks. Dividends are not guaranteed and will fluctuate. Past performance may not be indicative of future results.

***Investors should consider the investment objectives, risks, and charges and expenses of mutual funds carefully before investing. The prospectus contains this and other information about mutual funds. The prospectus is available from your financial advisor and should be read carefully before investing.***

*For clients in the United Kingdom:*

**For clients of Raymond James & Associates (RJA) and Raymond James Financial International, Ltd. (RJFI):** This report is for distribution only to persons who fall within Articles 19 or Article 49(2) of the Financial Services and Markets Act (Financial Promotion) Order 2000 as investment professionals and may not be distributed to, or relied upon, by any other person.

**For clients of Raymond James Investment Services, Ltd.:** This report is intended only for clients in receipt of Raymond James Investment Services, Ltd.'s Terms of Business or others to whom it may be lawfully submitted.

For purposes of the Financial Services Authority requirements, this research report is classified as objective with respect to conflict of interest management. RJA, Raymond James Financial International, Ltd., and Raymond James Investment Services, Ltd. are authorized and regulated in the U.K. by the Financial Services Authority.

*For institutional clients in the European Economic Area (EEA) outside of the United Kingdom:*

This document (and any attachments or exhibits hereto) is intended only for EEA institutional clients or others to whom it may lawfully be submitted.

*For Canadian clients:*

Review of Material Operations: The Analyst and/or Associate is required to conduct due diligence on, and where deemed appropriate visit, the material operations of a subject company before initiating research coverage. The scope of the review may vary depending on the complexity of the subject company's business operations.

This report is not prepared subject to Canadian disclosure requirements.

**Proprietary Rights Notice:** By accepting a copy of this report, you acknowledge and agree as follows:

This report is provided to clients of Raymond James only for your personal, noncommercial use. Except as expressly authorized by Raymond James, you may not copy, reproduce, transmit, sell, display, distribute, publish, broadcast, circulate, modify, disseminate or commercially exploit the information contained in this report, in printed, electronic or any other form, in any manner, without the prior express written consent of Raymond James. You also agree not to use the information provided in this report for any unlawful purpose.

This report and its contents are the property of Raymond James and are protected by applicable copyright, trade secret or other intellectual property laws (of the United States and other countries). United States law, 17 U.S.C. Sec.501 et seq, provides for civil and criminal penalties for copyright infringement.

© 2010 Raymond James & Associates, Inc., member New York Stock Exchange/SIPC. All rights reserved.


**International Headquarters:**
The Raymond James Financial Center | 880 Carillon Parkway | St. Petersburg, Florida 33716 | 800-248-8863