Jeffrey D. Saut, (727) 567-2644, Jeffrey.Saut@RaymondJames.com
January 25, 2010
Investment Strategy

"You`ve Got Mail"

It's been said that if you tell 100 people something bad is going to happen 50 of them will hate you immediately, and if you are right, the other 50 will hate you as well. Over the years I have found that axiom devastatingly true and last week was no exception. Indeed, shortly after releasing my strategy report last Tuesday I received a number of emails. This one was typical:

"Mr. Saut: In my life I do not believe I have encountered a larger burst of hot air than regularly shows up in your weekly so called commentary. More importantly, every time you have gotten bearish since your admittedly good 'call' of the market's bottom last March, the stock market has rallied. The beginning of 2010 is just the latest example. Why don't you get another job?!"

Over the years I have learned that such emails tend to coincide with "inflection points;" and maybe last week's malicious mail will again prove that point. For the record, however, while it's true I have gotten cautious a number of times since the March "lows," I have never turned bearish. Indeed, getting cautious at the beginning of May 2009 was a pretty good "call," especially since during the first week of July we wrote that the cautionary period was over and it felt like stage two of the rally was about to begin. Getting cautious at the end of September (3Q09), worried that the vacuum created by the July to September "melt up" might get "filled" to the downside with the start of the new quarter, was a "bad call" that we had to quickly correct. Similarly, turning cautious coming into 2010 looked wrong-footed, at least until last week.

Nevertheless, we clung to our new year's cautionary stance since history shows that the first few weeks of the year are littered with examples of head fakes, both to the upside as well as the downside. In past letters we mentioned the biggest upside head fake chronicled in our notes was 1973 when the DJIA rallied to a new all-time high of 1051.70 during the first three weeks of the year, only to peak and begin a slide that would leave the senior index at 851.90 by August. To be sure, leaning against "conventional wisdom" is a lonely stance that often evokes "hate mail," but as Yale University's investment guru David Swensen writes:

> "Contrarian investing poses extraordinary challenges under the best of circumstances. . . . Unfortunately, overcoming the tendency to follow the crowd, while necessary, proves insufficient to guarantee investment success. . . . While courage to take a different path enhances the chances for success, investors face likely failure unless a thoughtful set of investment principals undergirds their courage."

Then there is this from legendary investor Seth Klarman:

> "Risk control to us is a careful aligning of interests, a proper balance in our investing between greed and fear, experienced and collaborative senior management and investment teams that have worked together for quite some time, a consistent and disciplined investment approach where every opportunity is individually and meticulously evaluated on its fundamentals, a strict sell discipline, **a willingness to hold cash when opportunity is scarce**, a complete avoidance of recourse leverage, and a healthy level of fear."

Speaking to this "willingness to hold cash" point, readers of our work know that we too are unafraid to hold cash. Indeed, we consider cash an asset class because to assume that the investment, or trading, opportunity "sets" that present themselves today are as good (or better) than any that will present themselves next week, next month, next quarter, etc. is naïve. And to take advantage of those future opportunity "sets," you need to have some cash. Accordingly, in last week's strategy report we wrote:

"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 S&P 500 is virtually no higher now than it was after the rally of January 4th."

Consequently, trading accounts should have been back in cash early last week, thus avoiding the late week wilt. Still, our phones rang off the hook Thursday afternoon with the ubiquitous question, "After this two-day drubbing is it time to buy stocks?" In response to those queries, we had this to say in Friday's verbal strategy comments:

> "Never on a Friday – is a mantra that has served us well over the years, implying that markets in a downtrend rarely bottom on a Friday. Verily, participants usually brood about their losses over the weekend and show up Monday morning in 'sell mode.' And, I don't know if it's a Grecian default, a Chinese rate rape (read: monetary

Please read domestic and foreign disclosure/risk information beginning on page 4 and Analyst Certification on page 4.

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

tightening cycle), a dollar delight that is causing an unwinding of the U.S. dollar carry-trade, a geopolitical gotcha', etc.; something is lurking out there that trumped what should have been a decent rally attempt on Scott Brown's victory. I mean Senator-elect Brown even won 61% of the Kennedy stronghold Hyannis Port for gosh sakes! So the fact that we didn't even get the hint of a rally from the 'Massachusetts Massive' is worrisome. Now I am certainly not predicting it, but I remember July 1998 when the DJIA peaked around 9338 and began to slide. That Dow slide turned into a mini-crash and NOBODY knew why. And then b-a-n-g, out of the blue came Long Term Capital Management that almost ended financial life as we knew it. Accordingly, we remain cautious."

One good thing about market declines is that they give us a chance to see which stocks hold up better than others. Those stocks go on our "watch list" for potential future purchase, or for additional purchase if we already own them. Some of the names, all of which are rated Strong Buy by the respective fundamental analyst team, that held up include: NCI, Inc. (NCIT/$30.04); O'Charley's (CHUX/$7.41); Radiant Systems (RADS/$11.29); Select Comfort (SCSS/$6.80); Cogent (COGT/$10.97); Phase Forward (PFWD/$15.65); Stanley (SXE/$27.74); Dine Equity (DIN/$24.33); Wintrust Financial (WTFC/$34.77); CVS (CVS/$33.24); and Nuance (NUAN/$16.12).

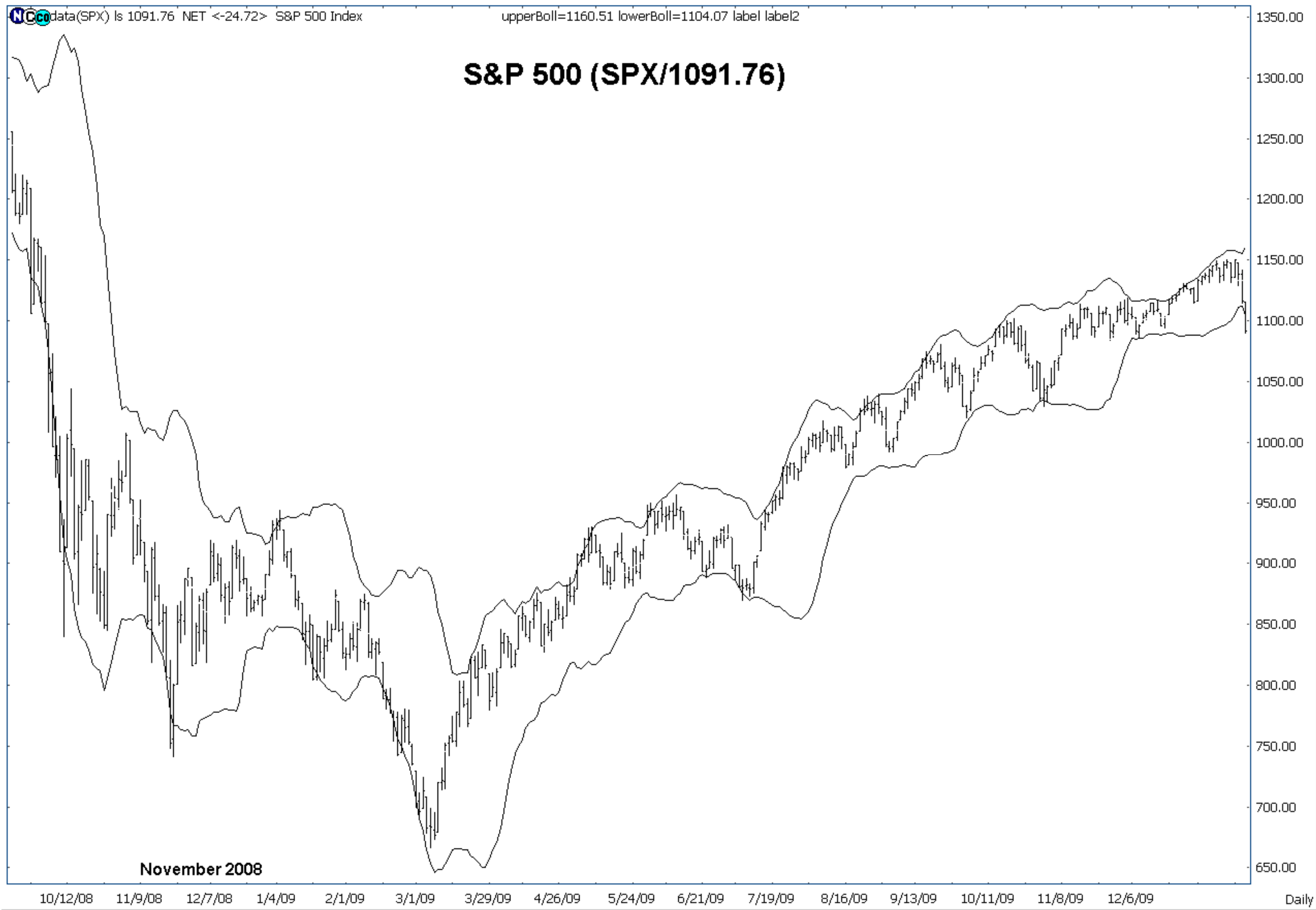
One stock that did not hold up was A-Power (APWR/$12.31/Outperform), which declined 25% for the holiday-shortened week. As our fundamental analyst wrote last Thursday:

> "A-Power announced a 5.8 million share private placement, with proceeds totaling $83 million. The deal was priced at $14.37 per share, a ~15% discount relative to yesterday's close. Additionally, the company issued warrants adding up to nearly 2.9 million shares. . . . Collectively, the placement represents approximately 22% dilution based on the current shares outstanding (15% of this being immediate, and the rest upon warrant exercise), and accordingly, we are reducing our EPS estimates for 2010 and 2011. . . . We are also reducing our target price from $20.00 to $17.00, based on ~13x our new 2011 EPS estimate, which we view as conservative given our three-year earnings CAGR assumption of at least 25%. With the conversion of its notes (issued last June) on December 31, leaving essentially no debt, we believed A-Power had gotten all its ducks lined up in a row when it comes to its balance sheet. As such, this private placement struck us as a major surprise, especially considering the hefty size of the deal. . . . Notwithstanding (the) disappointing news, we remain positive on A-Power's leverage to the robust long-term growth potential of the Chinese wind market, the world's largest."

The call for this week: They don't call 'em surprises because you expect them; and, clearly A-Power's announcement was a complete surprise. It does, however, demonstrate why we never recommend buying an entire position all at once, but rather tranching "in" using three or four purchases. Speaking to the equity markets, for the first time since the March 2009 "lows" the S&P 500 (SPX/1091.76) has experienced three consecutive 1% downside days. The result has left the SPX below its 50-day moving average (1114). It has also left all of the macro sectors pretty oversold and therefore probably set for a rally attempt. That view is buttressed by the fact that the SPX is below its lower Bollinger Band for the first time since November 2008, as can be seen in the nearby chart. However, just like a heart attack patient doesn't get right up off of the gurney and run the 100-yard dash, we think the equity markets will need time to convalesce after an initial recoil rally. As the Lowry's service writes, "Attempting to gauge how long a correction might persist, and what losses it might entail, is generally an exercise in futility." Plainly, we agree and merely hope we will be able to identify when the next rally "leg" begins within this ongoing cyclical bull market.

© 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®



Source: Thomson Reuters.

© 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.

© 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

Raymond James Ltd. (Canada) definitions

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 791 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.

© 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 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.

Company Name	Disclosure
A-Power Energy Generation Systems, Ltd.	Raymond James & Associates makes a NASDAQ market in shares of APWR.
Cogent Systems	Raymond James & Associates makes a NASDAQ market in shares of COGT.
CVS Caremark Corporation	Raymond James & Associates received non-investment banking securities-related compensation from CVS within the past 12 months.
NCI, Inc.	Raymond James & Associates makes a NASDAQ market in shares of NCIT.
	Raymond James & Associates provided investment advisory services to NCI, Inc. in June 2007.
Nuance Communications, Inc.	Raymond James & Associates makes a NASDAQ market in shares of NUAN.
	Raymond James & Associates co-managed a follow-on offering of NUAN shares in December 2007.
O`Charley`s, Inc.	Raymond James & Associates makes a NASDAQ market in shares of CHUX.
Phase Forward	Raymond James & Associates makes a NASDAQ market in shares of PFWD.
Radiant Systems, Inc.	Raymond James & Associates makes a NASDAQ market in shares of RADS.
Select Comfort Corp.	Raymond James & Associates makes a NASDAQ market in shares of SCSS.
Wintrust Financial Corporation	Raymond James & Associates makes a NASDAQ market in shares of WTFC.

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.

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.

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

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