

Mr. Market

"Ben Graham, my friend and teacher, long ago described the mental attitude toward market fluctuations that I believe to be most conducive to investment success. He said that you should imagine market quotations as coming from a remarkable accommodating fellow named Mr. Market who is your partner in private business. Without fail, Mr. Market appears daily and names a price at which he will either buy your interest or sell you his.

Even though the business that the two of you own may have economic characteristics that are stable, Mr. Market's quotations will be anything but. For, sad to say, the poor fellow has incurable emotional problems. At times he feels euphoric and can see only the favorable factors affecting the business. When in that mood, he names a very high buy-sell price because he fears that you will snap up his interest and rob him of imminent gains. At other times he is depressed and can see nothing but trouble ahead for both the business and the world. On these occasions he will name a very low price, since he is terrified that you will unload your interest on him.

Mr. Market has another endearing characteristic: he doesn't mind being ignored. If his quotation is uninteresting to you today, he will be back with a new one tomorrow. Transactions are strictly at your option. Under these conditions, the more manic-depressive his behavior, the better for you. But, like Cinderella at the ball, you must heed one warning or everything will turn into pumpkins and mice: Mr. Market is there to serve you, not to guide you. It is his pocketbook, not his wisdom, that you will find useful. If he shows up someday in a particularly foolish mood, you are free to either ignore him or take advantage of him, but it will be disastrous if you fall under his influence. Indeed, if you aren't certain that you understand and can value your business far better than Mr. Market, you don't belong in the game. As they say in poker, 'If you've been in the game 30 minutes and you don't know who the patsy is, you're the patsy.'"

. . . Warren Buffett

We revisit Warren Buffet's "Mr. Market" quip this morning because of a few emails I received regarding last week's missive. My emailers were upset with the reference to Berkshire Hathaway's stock performance. To wit:

"Since 1965 the S&P 500's compounded annual gain (including dividends) was ~9.3% for a compounded return of 5,430%. Over that same timeframe Berkshire's annual compounded return was 20.3%, or 434,057%. Consistency was the key to Berkshire's outperformance for over those 44 years the S&P 500 suffered 11 down years, six of which were double-digit declines. Berkshire, however, had only two negative years, neither of which were double-digits. Such risk-adjusted investing has always characterized Warren Buffet for he maintains it isn't his best ideas that gave him his tremendous track record. It was having a smaller number of bad ideas that resulted in a permanent loss of capital."

Obviously, Warren Buffet doesn't measure himself according to fluctuations in Berkshire's share price. Importantly, he measures himself by growth in book value, which is admittedly less volatile than share price. To be sure, Mr. Market is manic-depressive. "At times he feels euphoric and can see only the favorable factors affecting the business. At other times he is depressed and can see nothing but trouble ahead for both the business and the world." That manic-depression surfaced in 2008 when Berkshire's shares lost an eye-popping 50% of their value. However, Berkshire's book value declined by a mere 9.6%. Still, that stock price performance brought about catcalls that the "old man" (read: Warren Buffet) had lost his touch. We recall similar cries in the late 1990s when Mr. Buffet was cast as a buffoon, who just didn't "get it," because he was hoarding cash and shunning Internet stocks. Subsequently, the S&P 500 peaked in the spring of 2000 (@1553) and over the next seven years only gained ~0.008% (to 1565). Meanwhile, the "buffoon" grew his book value by nearly 80% and Berkshire's share price improved by 268%. As Benjamin Graham noted, "In the short run the stock market is a voting machine, but in the long run it is a weighing machine." Ladies and gentlemen, over the long-term, the fate of *every* stock is ultimately driven by the operating results of the underlying business. This is determined by BOOK VALUE, EARNINGS, and CASH FLOWS. Accordingly, measuring Berkshire's performance on those metrics makes more sense than measuring on its share price.

[Please read domestic and foreign disclosure/risk information beginning on page 4 and Analyst Certification on page 4.](#)

As the insightful Puru Saxena's writes:

"Over the past 140 years, the return from American stocks has almost mirrored the growth in corporate earnings. During times of high volatility and great economic uncertainty, it pays to remember that stocks represent partial stakes in operating businesses. Therefore, as long as the businesses you own are producing satisfactory results, it is best to ignore the market's *temporary* appraisal of your holdings. It is worth noting that during secular bull-markets, stocks outperform bonds and cash. Conversely, during secular bear-markets, they produce disappointing returns (like they did in 2008). Fortunately, secular bear-markets do *not* happen very often and they are always followed by lengthy and powerful bull-markets."

And that, folks, is the real question. Are we in a new secular bull market, or just a tactical rally within a trading range stock market that we have envisioned since the Dow Theory "sell signal" of September 1999? Regrettably, while we would like to believe it is a new secular "bull market," we are sticking with the strategy that it is a tactical rally within an ongoing "range bound" stock market. If we are wrong, our accounts should experience good returns. If we are right, said accounts should still achieve decent total returns, on a risk-adjusted basis, given our emphasis on dividend paying stocks.

Speaking of dividends, the iShares Trust DJ Select Dividend Index Fund (DVY/\$45.36) broke out to a new recovery high last week, as can be seen in the nearby chart. We like dividends and would note that since 1926 dividends have accounted for roughly 44% of the stock market's total return. Dividends also tend to give investors the "margin of safety" Benjamin Graham spoke of in the last chapter of his book "The Intelligent Investor." This week a number of stocks in Raymond James' universe of stocks will go ex-dividend. Some of the names we have recommended include: Home Depot (HD); NTELOS (NTLS); Allstate (ALL); Leggett & Platt (LEG); and Family Dollar (FDO). Meanwhile, CenturyTel (CTL) went ex-dividend last Friday and its share price was reduced accordingly. We think that reduction affords an attractive entry point. We also continue to think small capitalization Japanese stocks are in aggregate one of the world's cheapest investments. Selling below book value, and at a price-to-sales ratio of 0.40, we believe the risk/reward ratio is attractive. Hereto, we favor dividends and are using Wisdomtree's Japan Small Cap Dividend Fund (DFJ/\$40.73).

The call for this week: One year ago we stated that the bottoming process that began in October 2008 was complete and we were "all in." We won't have that same opportunity this year for we're at the Raymond James 31st Annual Institutional Investors Conference with more than 300 presenting companies and some 700 portfolio managers. Consequently, these will likely be the only strategy comments for the week. Nevertheless, it still appears that the new year's "selling stampede" ended with the "hammer lows" recorded on February 4th and 5th, and, we tilted accounts accordingly. Meanwhile, March, April, and May are seasonally the strongest months of the year for the S&P 500 (SPX/1138.70). Combine that with the fact that the breadth figures have been stronger than the SPX's actual price rise, and that positive 4Q09 earnings and revenue surprises have exceeded 70%, and we see no reason to alter our 1200 – 1250 intermediate-term price target. That said, the SPX has expended a lot of energy, rallying rally back to the 1140 – 1150 overhead resistance zone, so it would not surprise us to see the markets stall for awhile before trending higher. As for the recent spate of softening economic reports, it feels like consumers are merely reacting to a winter that is now legend. Our sense is the stormy February data will abate with Spring. Evidently Warren Buffet thinks so as well given his recent statement, "We got past Pearl Harbor (and) we will win the war. It's going slightly our way."



Public companies mentioned in this document.

Company Name	Ticker	Exchange	Recent Closing Price	RJ Rating (if Applicable)	RJ Rating Organization
Allstate Corporation	ALL	NYSE	32.14	1	RJ & Associates
CenturyLink	CTL	NYSE	33.38	2	RJ & Associates
Family Dollar Stores Inc.	FDO	NYSE	35.47	2	RJ & Associates
Leggett & Platt	LEG	NYSE	20.61	2	RJ & Associates
NTELOS Holdings Corp.	NTLS	NASDAQ	17.43	2	RJ & Associates
The Home Depot Inc.	HD	NYSE	31.80	1	RJ & Associates

Notes: Prices are as of the most recent close on the indicated exchange and may not be in US\$. See Disclosure section for rating definitions. Stocks that do not trade on a U.S. national exchange may not be approved for sale in all U.S. states.

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 covering analyst and/or research associate owns shares of the common stock of The Home Depot Inc. and Leggett & Platt.**

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

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 (SB1) Expected to appreciate and produce a total return of at least 25.0% over the next twelve months.

Outperform (MO2) Expected to appreciate and produce a total return of between 15.0% and 25.0% over the next twelve months.

Market Perform (MP3) Expected to perform in line with the underlying country index.

Underperform (MU4) 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 795 rated stocks in the Raymond James coverage universe, 52% have Strong Buy or Outperform ratings (Buy), 42% are rated Market Perform (Hold) and 6% are rated Underperform (Sell). Within those rating categories, 23% 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; 13% of the Market Perform (Hold) rated companies are or have been clients and 12% 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.

Company Name	Disclosure
Leggett & Platt	Raymond James & Associates received non-investment banking securities-related compensation from LEG within the past 12 months.
NTELOS Holdings Corp.	Raymond James & Associates makes a NASDAQ market in shares of NTLN. Raymond James & Associates or one of its affiliates owns more than 1% of the outstanding shares of NTELOS Holdings Corp.

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.

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.