RAYMOND JAMES

Investment Strategy
Published by Raymond James & Associates

Jeffrey D. Saut, (727) 567-2644, Jeffrey.Saut@RaymondJames.com **June 21, 2010**
Investment Strategy

Random Musing From a Summer Vacation

Well, I'm back from the first consecutive two weeks of R&R I have taken in a decade. So what's happened in my absence? Well, the economic Chernobyl in the Gulf continues; and, if it wasn't so tragic, it would actually be funny for it was none other than Richard Nixon who first uttered the phrase "energy independence." At the time, our country was importing roughly 30% of its crude oil needs. Eight Presidents, and 18 Congresses, later we are importing more than 60% of our needs. Disgustingly, over the past 40 years the country's energy policies have been aimed at anything but "energy independence." And here they go again, as last week President Obama appointed a group of men and women to "study the causes of the Gulf of Mexico spill and make recommendations for the future of off-shore drilling." Amazingly, this group consists of environmentalists and academics, but doesn't include ANYONE from the oil industry!

Meanwhile, stock market analysts continue to attempt to quantify BP's (BP/$31.76/Market Perform) liability for the Gulf tragedy. To this point, I was on TV late last week with an analyst who opined that since BP has created a $20 billion claims-fund the situation is now quantifiable. While I am certain this gentleman is smarter than me, I am also sure I have seen more cycles than he. Indeed, I remember Chernobyl, Bhopal, Three Mile Island, etc., and let me assure you such events always cost more, and take longer, than forecast. Consider this: what if oil guru Matt Simmons is right and there is more oil beneath the Gulf's surface than people think? Also consider what happens if said oil makes it into the "loop current" and subsequently travels up the eastern coast. Scarily, here is what Mr. Simmons said on TV last week (as paraphrased):

Matt Simmons was on Bloomberg earlier, adding some additional perspective to his original appearance on the station, in which he initially endorsed the nuclear option as the only viable way to resolve the oil spill. Simmons refutes even the latest oil spill estimate of 45,000 – 60,000 barrels per day, and in quoting research by the Thomas Jefferson research vessel, which was compiled late on Sunday, quantifies the leak at 120,000 bpd. What is scarier is that according to the Jefferson the oil lake underneath the surface of the water could be covering up to 40% of the entire Gulf of Mexico. Simmons also says that as the leak has no casing, a relief well will not work, and the only possible resolution is, as he said previously, to use a small nuclear explosion to convert the rock to glass. Simmons concludes that as punishment for BP's arrogance and stupidity the government "will take all their cash." Now if only our own administration could tell us the truth about what is really happening in the Gulf . . .

Verily, if only our own elected representatives could tell us the truth! Let's see, we've gotten a Healthcare Bill that was "pushed through" via thuggery tactics, a jobs bill that created very few jobs, proposed financial reform crafted by elected officials that have never run a business let alone have a grasp of basic economics, and now we've got a Gulf tragedy that should have elicited a massive response in the first week following the *Deepwater Horizon* horror. However, what we got is a slow-footed response that would not even set aside the Jones Act and allow non-U.S. flag ships, which were offered and had the capability of capturing 90% of the oil spewing into the Gulf, to sail into U.S. waters and address the situation, driven by political fears of upsetting various labor unions. Ladies and gentlemen, I am not speaking to the difference between Republicans and Democrats, but rather the burgeoning lack of common sense inside the beltway. I mean, how in the world can someone be elected to Congress that thinks an additional 8,000 U.S. soldiers in Guam will cause the entire island to capsize?! Wake up America, common sense is fleeing the D.C. beltway. And if you don't believe me, listen to legendary business man Steve Wynn in this clip from CNBC (http://www.cnbc.com/id/15840232/?video=1506508223&play=1).

No wonder the stock market has stutter-stepped recently as it contemplates the lack of common sense permeating our Nation's capital. Also worth considering is just how much business is being "brought forward" into 2010 on worries that tax rates will be higher next year. Despite what our elected nimnods think, people are indeed rational. According to a 2004 U.S. Treasury Department report, "high income taxpayers accelerated the receipt of wages, and year-end bonuses, from 1992 to 1993 (by) over $15 billion in order to avoid the effects of anticipated increase(s) in the top tax-rate from 31% to 39.6%." To be sure, if people think tax rates will be higher next year than they are currently, those folks will shift production/income out of next year into this year to every extent possible. Potentially alarming, spurred by the prospect of increased taxes, rising prices, higher interest rates, and more governmental regulations, participants could be shifting income, and demand, into 2010 from 2011. Regrettably, if true, this increases the chances of a double-dip recession in 2011, an event we have argued against until now. Manifestly, the mid-term November elections will have a dramatic impact on events going forward (IMO). If the progressives/liberals secure a "win" (in

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

November), I think it presents a HUGE headwind for the economy and the stock market as job-killing agendas like Cap and Trade prevail. However, if there is a swing to a more fiscally responsible Congress, I think it would have positive ramifications for the economy and the various markets. Accordingly, the upcoming elections are likely the most important of my lifetime.

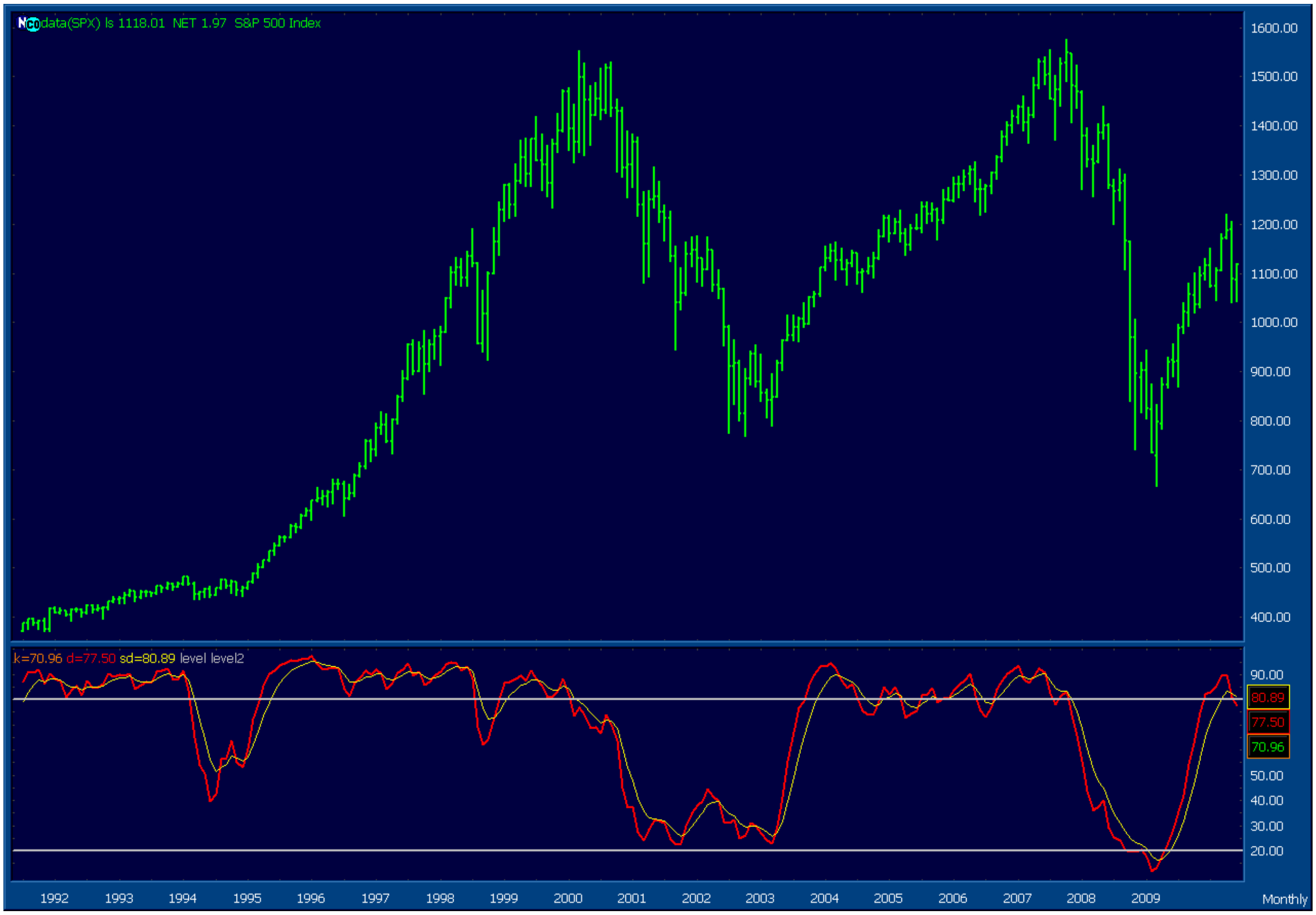
Speaking to the stock market, since entering 2010 one of my mantras has been, "I think the trick this year will be to keep the out-sized profits we made from the anticipated bottom of March 2009." Most recently, during the entire month of April 2010, I advised participants to raise cash and hedge portfolios to the downside. Following the "flash crash" (May 6), over the subsequent weeks, I recommended selling those downside hedges given the extreme oversold readings registered in that mini-crash. Since then, I have suggested that just like a heart-attack patient doesn't get right off the gurney and run the 100-yard dash, the equity markets are unlikely to do the same. Accordingly, I continue to believe we have time to selectively recommit the cash raised in April to favorably positioned stocks. And, "selectivity" is the watchword because in addition to the Dow Theory "sell signal," which was registered in the May Mauling, my proprietary intermediate trading indicator is also on a "sell signal" as can be seen in the nearby chart (the red bars indicate caution). Further, the attendant monthly chart of the S&P 500 (SPX/1117.51) shows the monthly stochastic indicator counsels for caution as it appears to have turned down. Therefore, as repeatedly stated in these missives, "The essence of investment management is the management of RISKS, not the management of RETURNS. Well-managed portfolios start with this precept." And, we continue to invest, and trade, accordingly.

The call for this week: The current debate *de jour* centers on whether what we have experienced since the March 2009 "bottom" is just a rally in an ongoing bear market or the beginning of a new secular bull market. Plainly, this is not an unimportant question, for the difference is whether you become more invested on weakness or less invested on strength. As for me, since the initial Dow Theory "sell signal" of September 1999, I have opined that the equity markets were likely going to be in a trading range characterized by numerous tactical bull and bear markets. My strategy, therefore, has been to attempt to determine where there is a secular bull market and tilt the investment account (80% of the portfolio) accordingly. Since the 4Q01, I have been adamant that there is a secular bull market in "stuff stocks" (energy, agriculture, metals, water, electricity, cement, etc.), preferably "stuff stocks" with a yield, as well as a bull market in emerging and frontier markets. I still feel that way despite my near-term caution. For the other 20% of the portfolio (the trading account), I have recommended a more dynamic approach in an attempt to take advantage of the various mini-bull/bear market "swings." The most recent example of this strategy was the recommendation to layer downside hedges, and "bets" on increased volatility, into portfolios during the entire month of April as protection for the "long" positions in the investment account. Currently, those hedges have been shed, leaving the trading account flat. And, this morning that looks to be at least partially correct given the Chinese news, albeit still half wrong since the trading account is indeed flat. Nevertheless, I'm back and hopefully can get in step with the various markets this week.

P.S. – I have jury duty tomorrow so there will be no verbal strategy comments.

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

S&P 500 (Monthly chart) with Stochastic Indicator



Charts courtesy of Thomson Reuters

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

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.

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 (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 801 rated stocks in the Raymond James coverage universe, 54% have Strong Buy or Outperform ratings (Buy), 40% are rated Market Perform (Hold) and 6% are rated Underperform (Sell). Within those rating categories, 21% 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 15% 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.

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.

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