"Cognitive Dissonance"

Cognitive dissonance is the discomfort caused by holding conflicting cognitions (e.g., ideas, beliefs, values, emotional reactions) simultaneously. An example would be—believing that lying is bad (first cognition) and then being forced to lie (second cognition). With that in mind, I like this story by William A. Kent from “The Journal of Personality and Social Psychology:”

“At two race tracks interviewers questioned 69 horse players on their way TO the $2 window and 72 others on their way FROM the window. The interviewers asked all bettors to rate their chances of winning on a scale of 1 to 10. The result was that the bettors returning from placing their bets had significantly MORE confidence in their choices than those interviewed BEFORE their bets were made. Thus, bettors facing doubts as to whether they had bet on the right horse relieved their tension by believing even more after the fact that they had done the right thing.”

From a psychology point of view, the aforementioned quote suggests that in order to reduce the anxiety of decision making, people perceive things in ways that may or may not be logical. Simply stated, people talk the way they bet. From a stock market perspective this means that the interpretation of economic and market news varies in direct relationship to the investor’s bullish, bearish, or cautious market position. At the race track if too many participants bet on the same horse, the betting odds on that horse go down. In other words, if the horse is “heavily bet” he becomes the favorite and therefore even if he wins the payout is small. Q.E.D., popularity reduces the reward. Similarly in the stock market if too many participants put their money on the same stock, and it becomes a market favorite, driving the price even higher, the upside potential is diminished. Hereto, popularity reduces the potential reward. Just listen to what Benjamin Graham has to say about this in his book titled “The Intelligent Investor:”

“The intelligent investor realizes that stocks become more risky, not less, as their prices rise—and less risky, not more, as their prices fall. The intelligent investor dreads a bull market, since it makes stocks more costly to buy. And conversely (so long as you keep enough cash on hand to meet your spending needs) you should welcome a bear market, since it puts stocks back on sale.”

Graham goes on to note, “The value of any investment is, and always must be, a function of the price you pay for it.” This is directly opposed to the Jeremy Siegel school of thought that suggests 7%+ per annum returns over the long-term are a “divine right.” My main point is that “cognitive dissonance,” once recognized, should probably be bet against. To wit, when everybody bets on the same horse, stock, or market direction, it often pays to go against the crowd. In our business we call this strategy “contrary opinion” investing. While Ben Graham states it much more eloquently, we have often referred to this type of strategy as “buying the flop,” except in this case we are not referring to the card game “Texas Hold ‘em,” but as legendary investor Jim Rogers puts it – buy panic and sell euphoria.

Over the past few weeks the economy, and therefore the stock market, has been contemplating “cognitive dissonance” as certain economic readings softened while other strengthened. To wit, it is now well advertised that same-store sales at some of the casual dining restaurants have weakened, as have sales at select department stores. Meanwhile, small fiberglass boat sales were better by 7.8% in June and up a whopping 17.3% for 2Q12. Then there is Harley Davidson (HOG/$43.95/Strong Buy), whose motorcycle sales improved by low double-digits in the same quarter. So, people are not buying food and clothes, but they are purchasing boats and motorcycles?! To me, it’s déjà vu all over again because this is exactly what has happened for the past two years. Recall, the equity markets have peaked in the May/June timeframe for the past two years and then fallen into double-digit declines on worries of recession. Concurrently, analysts cut their earnings estimates and investors throttled back on stocks. Yet, by the fourth quarter the recession didn’t show up, analysts had to raise their earnings estimates, and the stock market rose. I think that is how it is going to play again this year.

Does that mean the current decline, and subsequently range-bound stock market, is behind us? Quite frankly, at this point I don’t know. But as repeatedly stated, while I am fairly convinced the June low of 1278.18 on the S&P 500 (SPX/1356.78) was the daily/intermediate-term cycle low, the tape action since then has been spasmodic, leaving the SPX range-bound between the 1280–1290 support zone and the 1360–1366 overhead resistance zone. Given such choppyiness it is difficult to discern any trend either for the “longs” or the “shorts.” I did, however, enter last week believing the 1335 – 1345 near-term support level would contain any decline. That resolve was subsequently tested on Thursday with the SPX’s close of 1334.76, which is why I stated in Friday morning’s verbal strategy comments:

Please read domestic and foreign disclosure/risk information beginning on page 3 and Analyst Certification on page 3.
“So the SPX needs to gather itself together pretty quickly or the equity markets will have lost their collective ‘upside mojo’ with the implication for the potential of a long and boring summer of a trading range stock market.” I went on to conclude, “I really thought there was a good chance the SPX was going to make a decisive/sustained breakout above the 1360 – 1366 zone and blast off to the previous reaction high of 1422. But, unless something positive happens quickly, evidence will mount that the SPX is instead going to waffle for an extended period of time.”

From my mouth to God’s ears for the “beached whale” became unstuck at JP Morgan (JPM/$36.07/Outperform), our need for some inflation was answered by the higher than expected PPI (+0.1%), the University of Michigan consumer sentiment report was not as bad as feared (+72.0), crude oil rose, rumors swirled about a Chinese stimulus package, and the stock market’s focus on “cognitive dissonance” took a decided turn toward the sunny side of the street. The result lifted the D-J Industrial Average (INDU/12777.09) by ~204 points and left me breathing a sigh of relief. That said, until the SPX can decisively break above 1366, and stay there, I continue to think the best strategy is to slowly keep accumulating some of the non-stock market correlated stocks mentioned in these missives. Names for consideration that are favorably rated by our fundamental analysts and have decent dividend yields, include: Allstate (ALL/$33.87/Strong Buy), Covanta (CVA/$17.01/Strong Buy), Johnson & Johnson (JNJ/$68.61/Outperform), Plum Creek Timber (PCL/$40.56/Outperform), Rayonier (RYN/$46.23/Strong Buy), and Stonemor (STON/$26.65/Outperform).

The call for this week: JP Morgan’s 17% profit increase served as the *causa proxima* for Friday’s Dow Delight because it suggests our banking complex is in better shape than most people think. That’s why I told CNBC’s Maria Bartiromo late Friday afternoon that the most important earnings to watch in this reporting season are the banking sector’s earnings. To reiterate, I think we are going through the same recession “head fake” we have experienced for the past two summers. If correct, when it becomes apparent that no recession is on the horizon, analysts will again have to raise earnings estimates (like they have had to do for the past two years) with a concurrent raise due for the equity markets. As scribed in the recent edition of *The Economist* (as paraphrased):

*America’s economy is once again reinventing itself. The U.S. economy has repaired [itself] quickly in the last three years. Home prices are among the world’s most undervalued (19% below fair value). U.S. banks [are] among the best capitalized in the world. Consumer debt loads are down. Exports are extremely strong. [And] energy, long the U.S.’ “Achilles Heel,” is now turning into an advantage with the shale gas boom.*
Important Investor Disclosures

Raymond James & Associates (RJA) is a FINRA member firm and is responsible for the preparation and distribution of research created in the United States. Raymond James & Associates is located at The Raymond James Financial Center, 880 Carillon Parkway, St. Petersburg, FL 33716, (727) 567-1000. Non-U.S. affiliates, which are not FINRA member firms, include the following entities which are responsible for the creation and 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 Euro Equities, SAS, 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.

**Additional Information:**

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, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 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 12-18 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 12-18 months.

**Market Perform (MP3)** Expected to perform generally in line with the S&P 500 over the next 12 months.

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

**Suspended (S)** The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.
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.

Suspended (S) The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.

Raymond James Euro Equities, SAS rating definitions

Strong Buy (1) Expected to appreciate, produce a total return of at least 15%, and outperform the Stoxx 600 over the next 6 to 12 months.

Outperform (2) Expected to appreciate and outperform the Stoxx 600 over the next 12 months.

Market Perform (3) Expected to perform generally in line with the Stoxx 600 over the next 12 months.

Underperform (4) Expected to underperform the Stoxx 600 or its sector over the next 6 to 12 months.

Suspended (S) The rating and target price have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and target price are no longer in effect for this security and should not be relied upon.

In transacting in any security, investors should be aware that other securities in the Raymond James research coverage universe might carry a higher or lower rating. Investors should feel free to contact their Financial Advisor to discuss the merits of other available investments.

Rating Distributions

<table>
<thead>
<tr>
<th>Coverage Universe Rating Distribution</th>
<th>Investment Banking Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>RJA</td>
<td>RJA</td>
</tr>
<tr>
<td>Strong Buy and Outperform (Buy)</td>
<td>53%</td>
</tr>
<tr>
<td>Market Perform (Hold)</td>
<td>39%</td>
</tr>
<tr>
<td>Underperform (Sell)</td>
<td>8%</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>JPMorgan Chase &amp; Co.</td>
<td>Raymond James &amp; Associates received non-investment banking securities-related compensation from JPM within the past 12 months.</td>
</tr>
<tr>
<td></td>
<td>Raymond James &amp; Associates received non-securities-related compensation from JPM within the past 12 months.</td>
</tr>
<tr>
<td>StoneMor Partners L.P.</td>
<td>Raymond James &amp; Associates makes a market in shares of STON.</td>
</tr>
<tr>
<td></td>
<td>Raymond James &amp; Associates received non-investment banking securities-related compensation from STON within the past 12 months.</td>
</tr>
<tr>
<td></td>
<td>Raymond James &amp; Associates received non-securities-related compensation from STON within the past 12 months.</td>
</tr>
</tbody>
</table>

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 (London Branch) and Raymond James Financial International Limited (RJFI): This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in the FSA rules or persons described in Articles 19(5) (Investment professionals) or 49(2) (High net worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) or any other person to whom this promotion may lawfully be directed. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is therefore not intended for private individuals or those who would be classified as Retail Clients.

For clients of Raymond James Investment Services, Ltd.: This report is for the use of professional investment advisers and managers and is not intended for use by clients.

For purposes of the Financial Services Authority requirements, this research report is classified as independent with respect to conflict of interest management. RJA, RJFI, and Raymond James Investment Services, Ltd. are authorised and regulated by the Financial Services Authority in the United Kingdom.

For clients in France:

This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in “Code Monétaire et Financier” and Règlement Général de l’Autorité des Marchés Financiers. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is therefore not intended for private individuals or those who would be classified as Retail Clients.

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.

For Latin American clients:
Registration of Brazil-based Analysts: In accordance with Regulation #483 issued by the Brazil Securities and Exchange Commission (CVM) in October 2010, all lead Brazil-based Research Analysts writing and distributing research are CNPI certified as required by Art. 1 of APIMEC’s Code of Conduct (www.apimec.com.br/supervisao/codigodeconduta). They abide by the practices and procedures of this regulation as well as internal procedures in place at Raymond James Brasil S.A. A list of research analysts accredited with the APIMEC can be found on the webpage (www.apimec.com.br/certificacao/ProfissionaisCertificados).
Non-Brazil-based analysts writing Brazil research and or making sales efforts with the same are released from these APIMEC requirements as stated in Art. 20 of CVM Instruction #483, but abide by recognized Codes of Conduct, Ethics and Practices that comply with Articles 17, 18, and 19 of CVM Instruction #483.

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.