

## "Losses?!"

Most people acknowledge that losses will happen regardless of the type of business venture. A light bulb manufacturer knows that two out of three hundred bulbs will break. A fruit dealer knows that two out of one hundred apples will rot. Losses per se don't bother them; unexpected losses and losing on balance does. Acknowledging that losses are part of business is one thing; taking and accepting those losses in the markets is something else entirely. In the markets, people tend to have difficulty actively (as opposed to passively as in the case of the fruit dealer and the bulb manufacturer) taking losses (i.e., accepting and controlling losses so that the business venture itself doesn't become a loser). This is because all losses are treated as failure; in every other area of our lives, the word loss has negative connotations. People tend to regard the words loss, wrong, bad, and failure as the same, and win, right, good and success as the same. For instance, we lose points for wrong answers on tests in school. Likewise, when we lose money in the market we think we must have been wrong.

... "What I Learned Losing a Million Dollars," by Jim Paul and Brendan Moynihan

What determines your stock market performance is not how you manage your winners, but how you manage your losers. Indeed, everyone knows how to win, but few know how to lose! Yet the secret to making money in the market is knowing how to lose; or how to control your losses. Listen to the pros:

"I'm always thinking about losing money as opposed to making money. Don't focus on making money; focus on protecting what you have." – Paul Tudor Jones

"The majority of unskilled investors stubbornly hold onto their losses when the losses are small and reasonable. They could get out cheaply, but being emotionally involved and human, they keep waiting and hoping until their loss gets much bigger and costs them dearly." – William O'Neil

One investor's two rules of investing:

- 1) Never Lose Money
- 2) Never forget rule No. 1 – Warren Buffett

All of those pros have different market philosophies. They have contradictory strategies for making money. Some are traders; some are value players; some are growth-stock advocates; others are emerging-growth seekers; etc., etc., etc. But the message is clear – "Learning how not to lose money is more important than learning how to make money!"

Last week "losing" came back in focus on the Street of Dreams as all three of the major market indices posted their largest weekly declines since the first week of June. Of the three, the NASDAQ Composite (COMP/4457.86) fared the worst with a 2.94% "hit," while the S&P 500 (SPX/1428.59) suffered a 2.21% slide and the D-J Industrials (INDU/13328.85) lost 2.07%. Why such paltry declines have caused a massive return to "fear" in the stock market is a mystery to me because such market pullbacks are pretty common. Indeed, according to Ned Davis Research, since 1928 there have been 294 "dips" in the SPX of 5% or more. Ninety four of them were moderate corrections of 10% or more, 43 were severe declines of 15% or greater, and 25 of them were classified as bear markets (20%+). Further, since the SPX has not experienced as much as a 5% fade in 93 trading sessions, the third-longest such stint since 2002, one is certainly due. In fact, we warned of such in mid-September in a report titled, "The Philosophy of Tops." Since then the major indices have struggled.

Sticking with the technicals, the SPX and INDU have pulled back to their respective 50-day moving averages and are holding them. Unfortunately, the COMP has decisively broken below its 50-DMA (read: negative). The COMP's weakness is attributable to the heavy weighting of technology stocks that populate the index. Because the technology sector has the largest weighting (20%) of the 10 macro sectors, with only 29% of the tech stocks above their 50-DMAs is it any wonder the overall stock market is struggling? Plainly the tech sector is having issues, probably because the tech stocks have the most exposure to Euroquake. The tech trauma has left that sector pretty oversold and likely within 3-5% of a bottom. Part of tech's problem has been the weakness in Apple

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

(AAPL/\$629.71/Outperform), which has also decisively broken below its 50-DMA; yet, as the brainy folks at the Bespoke organization note:

“As shown (see chart on page 3), breaks below the 50-day have historically not been bad for Apple. Typically the stock bounces back pretty quickly. In the month following 50-day breaks, AAPL has averaged a gain of 1.84% (median 3.05%). Over the next three months, AAPL has averaged a gain of 9.29% (median 8.31%).”

Meanwhile, as our markets struggle the major European markets are holding up rather well despite the Euroquake worries. In last week's letter I wrote, “When markets ignore bad news, that's good news.” Said quote applies to markets abroad, as well as here. In past missives I have suggested one of the better ways to increase international equity exposure is using the MFS International Diversification Fund (MDIDX/\$13.69), managed by my friend Thomas Melendez, who I will be “breaking bread” with later this week. Also, in last week's verbal strategy comments I opined that China is looking attractive again. In fact, the iShares FTSE China 25 Index Fund (FXI/\$36.38) is up about 14% since the beginning of September and last week accomplished another upside breakout in the charts (see chart on page 3).

Turning to the economy, despite my sense that corporate America has stepped to the sidelines until there is more clarity on the Presidential election and the fiscal cliff with a resultant softening in economic statistics, of the nine economic indicators released last week seven came in above expectations. Offsetting that are earnings expectations because for every one company announcing they expect better than anticipated profits, there were more than four companies warning about their upcoming 3Q12 earnings. This week will get a tidal wave of earnings reports, as well as some significant economic reports (Retail Sales, CPI, Industrial Production, Philly Fed, Leading Economic Indicators, Existing Home Sales, etc.). Accordingly, it will be interesting this week if the SPX will hold in the 1420 – 1430 zone, or if we will fall to the major support zone of 1400 – 1420.

In conclusion, in last Monday's missive I suggested one of the better ways to gain exposure to the financials was via the FBR SmallCap Financial fund (FBRSX/\$19.36) managed by my friend David Ellison. That statement caused a number of requests for individual stocks favorably rated by our fundamental analysts. Screening our research universe for such names that are under \$10 per share produced these names: Bank America (BAC/\$9.12/Strong Buy); Huntington Bancshares (HBAN/\$6.93/Strong Buy); and KeyCorp (KEY/\$8.33/Outperform).

**The call for this week:** Last week the COMP broke below its 50-DMA, but the INDU and SPX did not, potentially setting the stage for downside non-confirmation. Moreover, it was a pretty strange week. Take Thursday's action, most of the major averages were flat to down for the session, but advancing stocks beat declining stocks by a ratio of 2-to-1! Still, the mood on Wall Street has deteriorated, as confirmed by Friday's high CBOE Put/Call Ratio. So, while the universal spin is that the stock market has made a major top, the pullback has produced a fairly oversold and extremely pessimistic condition. Meanwhile, there remains a full load of internal energy to power stocks higher as long as 1390 on the SPX is not breached. Clearly, I don't believe that will happen.

P.S. – I am recording this Sunday because I will be in Michigan all week speaking at conferences and seeing accounts.

### Apple (AAPL) Breaks Below 50-DMA\* Last Ten Years

Date	Price	Consecutive Days			
		Above 50-DMA	Next Week % Chg	Next Month % Chg	Next 3 Months % Chg
1/16/2002	10.39	61	11.69	8.85	22.28
2/19/2002	11.31	21	4.64	7.29	9.37
12/2/2002	7.59	25	-2.83	-1.84	-3.69
9/25/2003	10.22	102	0.69	10.62	-0.10
11/7/2003	11.25	25	-4.62	-9.42	2.13
4/30/2004	12.89	81	3.45	12.18	22.50
7/12/2004	14.57	33	9.71	6.42	34.04
4/1/2005	40.89	152	6.97	-11.45	-9.98
1/26/2006	72.33	142	-0.32	-5.31	-4.11
12/21/2006	82.90	108	2.34	2.99	15.15
8/9/2007	126.39	109	-7.39	7.20	47.40
11/12/2007	153.76	45	6.63	24.76	-15.84
1/4/2008	180.05	30	-4.09	-32.24	-13.42
6/12/2008	173.26	57	4.41	-2.09	-11.90
12/4/2009	193.32	187	0.70	8.93	15.36
1/22/2010	197.75	21	-2.88	1.47	36.96
5/7/2010	235.86	49	7.61	3.11	10.27
3/15/2011	345.43	132	-1.22	-3.77	-3.76
8/8/2011	353.21	25	8.55	8.76	13.32
9/30/2011	381.32	27	-3.02	3.98	6.21
11/9/2011	395.28	22	-2.66	-0.87	24.83
4/24/2012	560.28	85	3.90	0.90	7.25
10/5/2012	652.59	49	?	?	?
		Average	1.92	1.84	9.29
		Median	1.52	3.05	8.31
		% Positive	59.1%	63.6%	63.6%
Avg. for All Periods			0.56	2.50	7.50

\*Only closes below 50-DMA after not doing so in prior month.

Source: Bespoke Investment Group.

### iShares FTSE China 25 Index Fund



Source: MarketQ

## 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. (RJL), Suite 2100, 925 West Georgia Street, Vancouver, BC V6C 3L2, (604) 659-8200; In Latin America, Raymond James Latin America (RJLatAm), Ruta 8, km 17, 500, 91600 Montevideo, Uruguay, 00598 2 518 2033; In Europe, Raymond James Euro Equities, SAS (RJEE), 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.**

For clients in the United States: 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, 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

	Coverage Universe Rating Distribution				Investment Banking Distribution			
	RJA	RJL	RJ LatAm	RJEE	RJA	RJL	RJ LatAm	RJEE
<b>Strong Buy and Outperform (Buy)</b>	52%	64%	28%	51%	19%	39%	0%	0%
<b>Market Perform (Hold)</b>	41%	33%	62%	35%	8%	22%	2%	0%
<b>Underperform (Sell)</b>	7%	3%	11%	14%	0%	50%	0%	0%

#### 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, at least 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
Apple Inc.	Raymond James & Associates makes a market in shares of AAPL.
Bank of America Corporation	Raymond James & Associates makes a market in shares of BAC. Raymond James & Associates provided investment banking services to Bank of America Corporation within the past 12 months. Raymond James & Associates received non-investment banking securities-related compensation from BAC within the past 12 months.
Huntington Bancshares Inc.	Raymond James & Associates makes a market in shares of HBAN.
KeyCorp	Raymond James & Associates received non-investment banking securities-related compensation from KEY within the past 12 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/Disclosures/index](http://rjcapitalmarkets.com/Disclosures/index). 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](http://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, 6<sup>th</sup> 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.

Raymond James International and Raymond James Euro Equities are authorized by the Autorité de Contrôle Prudentiel in France and regulated by the Autorité de Contrôle Prudentiel and the Autorité des Marchés Financiers.

*For Canadian clients:*

This report is not prepared subject to Canadian disclosure requirements, unless a Canadian analyst has contributed to the content of the report. In the case where there is Canadian analyst contribution, the report meets all applicable IROC 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](http://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/Profissionais\\_Certificados](http://www.apimec.com.br/certificacao/Profissionais_Certificados)).

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.