RAYMOND JAMES

Investment Strategy
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"Name That Tune?!"

"L.A. proved too much for the man," to steal a lyric from Gladys Knight, for after not having as much as a hangnail for nearly 12 years, I contracted a head cold in L.A. about two weeks before I left for Europe. While I thought I was rid of that cold, apparently it wasn't meant to be. Actually, I didn't feel all that bad during my 2½ weeks in Europe, except for being exhausted given the hectic schedule (a city a day seeing accounts), but evidently that was not really the case either. When I returned to Florida I still didn't feel bad, again except for being exhausted, so after a day's rest I left for Raymond James' National Conference to give a keynote speech and visit with our financial advisors. Even in that endeavor I felt pretty well. However, when I returned to St. Petersburg late Friday (7/15/11) I didn't feel so good and decided to take my temperature. Sure enough it was 102° and I was off to bed after taking two aspirin. The next morning it was still 102°, so I walked down the street to see one of my doctors (it's really nice when your docs are neighbors). After about 20 minutes of examination Steve told me I had bronchitis that was on the verge of pneumonia. He continued, "You can either take this Cipro, along with the Mucinex I am going to give you, and stay in bed for a week, or I am putting you in the hospital!" Enough said, easy choice . . .

After sleeping for nearly three days, by Tuesday I was bored enough to try and catch up with the world. Therefore, I turned on the tube only to find there was nothing on about business or the stock market; I sang to myself, "Baby I'm amazed!" Amazed because given the threat of a U.S. default, and subsequent sovereign debt rating downgrade, the media was replete with News Corporation's phone hacking scandal. Indeed, ten of my business channels (Fox Business, CNBC World, CSPAN 3 and 2, CRNTV, Bloomberg, CNBC, MSNBC, Fox, and CNN) carried the Murdochs' testimony before Parliament, and televised it for hours. The rest of the "so called" business channels were following the release of Casey Anthony, pondering when it would happen and where she was going. With the Knack's song "Frustrated" playing in the background, I turned to the only station somewhat "newsy." That station was CSPAN, which was broadcasting our Congressional leaders' discussions about the debt ceiling; and boy, was that a mistake. If I thought my temperature was high as I started to watch the charade, it had to risen to 110° about an hour later. To be sure, I urge you to spend a few hours watching our Congress at "work" and if the word "dysfunctional" doesn't come to mind I would be very surprised.

Now "Dysfunctional" is a song by Tech N9ne with the opening line, "Don't you bring me nothing stupid if you don't want me to lose it." And, I just about "lost it" watching Congress. Now, before I get a thousand emails, I took the test to determine whether I am a Democrat, Republican, or Libertarian; the result was Libertarian, although the gentleman running under the Libertarian Party Banner certainly doesn't represent my views, nor does he understand the way economies work. Unfortunately, neither do most members of Congress. Take the Republicans, I know the mantra of a Federal Balanced Budget Amendment sounds great, but it would cripple the Federal government's ability to conduct fiscal policy. Consider this; in the 2008/2009 "financial fiasco" if we had a Balanced Budget Amendment "the powers that be" would not have been able to institute the various "bailout programs" that prevented our economy from spiraling into a depression with a concurrent 20%+ unemployment rate. So much for the Cut, Cap and Balance Bill, although without the Balanced Budget Amendment said Bill does make some sense. That said, while the bill in its entirety would have been bad for our country, Americans should still be outraged by the un-American way Senator Harry Reid "killed" that bill without any discussion or debate.

Turning to the Democrats, hereto the rhetoric is disingenuous. Manifestly, in a struggling economic recovery I think it is irresponsible to scare retirees, veterans, and folks on disability with the statement, "I cannot guarantee that those checks go out on August 3 if we haven't resolved this issue [debt ceiling], because there may simply not be the money in the coffers to do it." Hearing such a statement would cause any recipient of those funds to do the rational thing; hunker down and quit spending, worried about not receiving government checks in August. Clearly, that could exacerbate the current economic soft-spot, as well as impact consumer sentiment figures. Moreover, it is Economics 101 that you don't raise taxes in a nascent economic recovery. When things improve, Americans have historically proven to be pretty generous about paying more taxes, but not when things are sketchy. Further, raising taxes on just the "rich" doesn't accomplish squat! You must increase taxes on the middle-class as well as the rich to have any impact. Additionally, families of four living in most major metropolitan areas, and making $250,000 a year, are not "rich" after paying federal, state, and city taxes. I don't know what the right income level is to be "rich," maybe it's an annual income of $1,000,000, but it is certainly not $250,000.

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Meanwhile, The Court of the Crimson King met over the weekend and to quote the lyrics from one of King Crimson's songs, "I talk to the wind [but] the wind does not hear." Similarly, our elected leaders seem to be "talking to the wind." In fact, I am again reminded of what President Clinton said to us three months ago over dinner. To wit, "What's currently going on is a food fight whereby our elected leaders are arguing their political views rather than the facts!" Ladies and gentlemen, that's exactly what's happening and the citizenry ought to be outraged, but unfortunately that "outrage" has gone missing; indeed, "Baby I'm Amazed."

For whatever reason, last week the stock market danced to Timbuk3's song, "The Future's So Bright, I Gotta Wear Shades," as the S&P 500 (SPX/1345.02) bounced off of our 1295 downside "fail safe" level last Monday and closed the week better by 2.19%. The rally lifted the SPX back into our long-standing upside "bullish trigger" zone and if it can finally clear that zone should support a move into the 1400s. Indeed, it is the fourth time since early May the SPX has attempted to decisively surmount this obviously important attractor/repellor level. Yet, the 4.0% rally from last Monday's intraday low into Thursday's intraday high has once again left the SPX overbought on a short-term basis. Nevertheless, earnings continue to be the driver of the stock market's buoyancy and earnings remain robust as 73% of the 345 U.S. companies that have reported 2Q11 earnings have beaten estimates. That sequence is why industry analysts expect SPX earnings in 2012 to target $115E. I, however, am a bit more sanguine, believing we will not see much profit margin improvement from this year's 9.4% level. Still, my below consensus estimates gives the SPX plenty of upside even if one haircuts the median market P/E multiple from 16x to 14x. Moreover, there are many individual stocks that should have more upside than the market indices. Some of our fundamental analysts' favorite MLPs and REITs demonstrate this point.

While many participants were shy of committing some capital toward select names during the May/June swoon, many of those names have rallied smartly while the major averages have basically traded sideways. Two examples are REIT Associated Estates Realty (AEC/$18.27) and MLP EV Energy Partners (EVEP/$64.42); both are rated Strong Buy by the covering analyst here at Raymond James. And for those investors listening to The Clash's song "Should I Stay or Should I Go," I invite you to consult our Options Department, our Closed-End Fund/ETF Research Department, or myself to explore different hedging opportunities to hopefully insulate portfolios for a possible "debt ceiling" decline.

The call for this week: Last week saw the U.S. Dollar Index decline by ~2.6% and gold tag a new all-time high of $1610.70 (basis April Futures). The real star of the week, however, was Sugar's Surge of 7.87%. This week the equity markets will put on "rabbit ears" listening for the Rolling Stones' song "Out of Time." As for me, I can't imagine the President would want to go down in history as the Captain whose watch saw America lose its AAA status. Accordingly, I would continue to cautiously favor the upside, on a risk-adjusted basis, for if the debt ceiling is not raised we see another downside "hit." And this morning it looks like another "hit," at least on a short-term basis, as our elected leaders continue to "talk to the wind." Remember, our first support level is 1316 – 1320; our second is 1292 – 1296.

P.S. – I'm on limited duty again this week for health reasons, so "Catch Us If You Can" (*Dave Clark Five, 1965*)

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