

The Great White Hurricane

"Unseasonably mild and clearing," was the weather forecast going into the *Ides of March* back in the year of 1888. And it was true, as temperatures hovered in the 40s and 50s along the East Coast. However, torrential rains began falling, and on March 12th the rain changed to heavy snow, temperatures plunged, and sustained winds of more than 50 miles per hour blew. The "Great White Hurricane" had begun! In the next 36 hours some 50 inches of snow would blanket New York City and the winds would whip that snow into 40- to 50-foot snowdrifts. Telegraph and telephone lines were snapped, fire stations were immobilized, New Yorkers could not get out of their homes, 200 ships were blown aground, and before the storm was over 400 people would die. The resulting transportation crisis led to the construction of New York's subway system.

We revisit The Great Blizzard of 1888 this morning because of the weather that has crippled the Northeast corridor over the past few weeks. Fortunately, communities are more capable of dealing with such storms today than they were more than a century ago. Still, the loss of productivity is likely going to be impactful in some of the upcoming economic reports. That said, over the long weekend we studied the D-J Industrial Average (DJIA) chart from 1888 and found that March 11 – March 14 marked a bottom for the stock market. Also of interest is that today is session 18 in the envisioned "selling stampede" so often discussed in these missives. For new readers, "selling stampedes" tend to last 17 to 25 sessions, with only one- to three-day counter trend rally attempts before they exhaust themselves on the downside. While it is true that some stampedes have extended for 25 to 30 sessions, it is rare to have one last for more than 30 days. Accordingly, we are getting increasingly interested in stocks again, and have been adding names to our "watch list."

As for Dow Theory, which we have often been asked to comment on over the last few weeks, so far there is no signal, at least as we were taught to interpret it. Indeed, for a "sell signal" to be generated it requires the following set up (as paraphrased by Mark Hulbert):

- 1) The Dow Jones Industrial Average and the Dow Jones Transportation Average must undergo a significant correction from joint new highs.
- 2) In their subsequent rally attempt following that correction, either one or both of the averages must fail to rise above their pre-correction highs.
- 3) Both averages must then drop below their respective correction lows.

Therefore, the stage is set because the DJIA recorded its closing high on January 19th at 10725.43, while the DJTA hit its closing high of 4262.86 on January 11th. Their subsequent lows came simultaneously on February 8th at 9908.39 (DJIA) and 3792.89 (DJTA), respectively. Thus, if the two indices can rally back above their aforementioned "highs," it would reinforce the Dow Theory "buy signal" generated last summer. If, however, they fail to better those highs, and then break below their February lows, a "sell signal" will be rendered. Regrettably, there is no way to anticipate such signals.

We tend to use Dow Theory for the strategic side of the portfolio (read: investing). To that point, the "buy signal" registered last summer remains in force until it is negated. Optimistically, we continue to believe that negation is not in the cards. Indeed, with credit spreads back below pre-Lehman bankruptcy levels, we think there is no reason why the downside vacuum created in the S&P 500 (SPX/1075.51) chart by said bankruptcy cannot be filled to the upside, especially given the improving fundamental backdrop, suggesting targets of 1200 – 1250. Driving that sort of pricing action has been explained in past missives where we have exhorted that the typical economic recovery cycle is for corporate profits to boom, driving an inventory rebuild cycle that fosters capital equipment expenditures. As companies spend money on the capex, people are hired, and then consumption "reboots." Importantly, hiring and consumption come on the backend of the cycle, NOT the front end.

Currently, companies have the greatest profit leverage they have seen in a generation and consequently profits are booming. So far, this has allowed cash to build on corporate America's balance sheets. But with inventories plumbing historically low ratios, the nascent inventory rebuild should gain traction in the months ahead as sales improve. And, sales should indeed improve with stock brokerage accounts now up dramatically from their March 2009 lows accompanied by improving home prices. Moreover, as James Paulsen notes, the fixed-cost portion of household ledgers, which includes debt service and energy costs, topped out at 25% of

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

disposable income and is now down to 22%. Ergo, many consumers are now in a position to return to the shopping malls. And, that increased spending mindset should be reinforced by surging income tax refunds.

Speaking to stock market valuations, while on a trailing 12-month measurement the SPX is neutrally valued at ~18x reported earnings, looking forward shows stocks at ~13x 2010 estimates and ~11x the 2011 forecasts. Moreover, the recent 10% correction has brought the “negative nabobs” back out of the woodwork with a concurrent swoon in investors’ optimism (read that as bullish). Meanwhile, there is more than \$10 trillion on the sideline getting negative “real” returns (inflation-adjusted), some of which monies should eventually find their way back into stocks, particularly stocks with dividends. Inasmuch, we continue to add stocks to our “watch list,” and actually are accumulating some of those names in investment accounts. Additionally, we are getting pretty excited on a trading basis considering it is session 18 in our day-count sequence.

To review some the names that remain on the “watch list:” Walters Energy (WLT), O’Charley’s (CHUX), Select Comfort (SCSS), National Oilwell (NOV), CVS (CVS), Alpha Natural Resources (ANR), Cogent (COGT), Cenovus Energy (CVE), Radiant Systems (RADS), Dine Equity (DIN), North American Energy Partners (NOA), Allstate (ALL), Home Depot (HD), Inergy (NRGY), and last week we added Noble (NE). Noble operates one of the largest offshore rig fleets in the world with 63 mobile offshore drilling units. It has a ton of cash on its balance sheet and a low tax rate since it has moved its headquarters to Switzerland. Trading at attractive valuations, we find these shares compelling. And before I get a hundred emails, yes, we still like Celgene (CELG), which is followed by our research affiliate with an “Overweight” rating.

The call for this week: China is closed for the Chinese New Year this week (The year of the Tiger), so China is not going give us a hint as to if our markets are bottoming like it did last year. Still, we are pretty excited since today is session 18 in the envisioned 17- to 25-session “selling stampede” and we are looking for a bottom. Interestingly, so is the astute Lowry’s service. To wit:

“A well-known market analyst was said to have once remarked that every bull market has at least one pullback that fools investors into thinking a new bear market has begun. To create this deception, these pullbacks need to be severe enough to raise expectations a new bear trend is underway – such as might occur with a correction of 10% or more. But, to be deceptive, such declines should be relatively rare occurrences, which runs counter to the general perception. . . . So, rather than being commonplace, pullbacks of these magnitudes are relatively infrequent. . . . How then, are investors to differentiate between these corrections and the beginnings of a new bear market? One similarity in each of these cases of corrections reaching 10% or deeper is that they typically occurred well into the second stage (the Holding and Upgrading Zone) of the bull market. That is, profit-taking has already been well established, as reflected in a sustained uptrend in our Selling Pressure Index, thus setting the stage for deeper than normal corrections. In the present case, however, the Selling Pressure Index was recording an 18-month low in mid-January when the (*stock*) market correction began. Thus, based on the long history of the Lowry Analysis, the probabilities do not favor a 10% plus correction occurring at this relatively early stage of the uptrend.”

Public companies mentioned in this document.

Company Name	Ticker	Exchange	Recent Closing Price	RJ Rating (if Applicable)	RJ Rating Organization
Allstate Corporation	ALL	NYSE	29.53	1	RJ & Associates
Alpha Natural Resources	ANR	NYSE	44.06	1	RJ & Associates
Celgene Corp	CELG	NYSE	56.89		
Cenovus Energy Inc.	CVE	NYSE	32.99	2	RJ Limited
Cogent Systems	COGT	NASDAQ	10.16	1	RJ & Associates
CVS Caremark Corporation	CVS	NYSE	32.99	1	RJ & Associates
DineEquity, Inc.	DIN	NYSE	27.80	1	RJ & Associates
Inergy L.P.	NRGY	NASDAQ	35.03	1	RJ & Associates
National Oilwell Varco Inc.	NOV	NYSE	43.36	1	RJ & Associates
Noble Corporation	NE	NYSE	40.69	1	RJ & Associates
North American Energy Partners	NOA	NYSE	9.10	1	RJ Limited
O`Charley`s, Inc.	CHUX	NASDAQ	7.46	1	RJ & Associates
Radiant Systems, Inc.	RADS	NASDAQ	11.17	1	RJ & Associates
Select Comfort Corp.	SCSS	NASDAQ	7.45	1	RJ & Associates
The Home Depot Inc.	HD	NYSE	29.00	1	RJ & Associates
Walter Energy Inc.	WLT	NYSE	76.76	2	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 National Oilwell Varco Inc.**

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 792 rated stocks in the Raymond James coverage universe, 51% have Strong Buy or Outperform ratings (Buy), 42% are rated Market Perform (Hold) and 7% 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 13% 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
Celgene Corp	Raymond James & Associates makes a NASDAQ market in shares of CELG.
Cogent Systems	Raymond James & Associates makes a NASDAQ market in shares of COGT.
CVS Caremark Corporation	Raymond James & Associates received non-investment banking securities-related compensation from CVS within the past 12 months.
Inergy L.P.	Raymond James & Associates makes a NASDAQ market in shares of NRGY. Raymond James & Associates received non-securities-related compensation from NRGY within the past 12 months. Raymond James & Associates co-managed a follow-on offering of 4.0 million NRGY shares at \$22.30 per share in March 2009 and a follow-on offering of 5.0 million NRGY shares at \$36.25 per share in January 2010.
O'Charley's, Inc.	Raymond James & Associates makes a NASDAQ market in shares of CHUX.
Radiant Systems, Inc.	Raymond James & Associates makes a NASDAQ market in shares of RADS.
Select Comfort Corp.	Raymond James & Associates makes a NASDAQ market in shares of SCSS.
Walter Energy Inc.	Raymond James & Associates received non-investment banking securities-related compensation from WLT within the past 12 months. Raymond James & Associates co-managed a follow-on offering of WLT shares in June 2008.

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.