

**Weekly Market Recap**

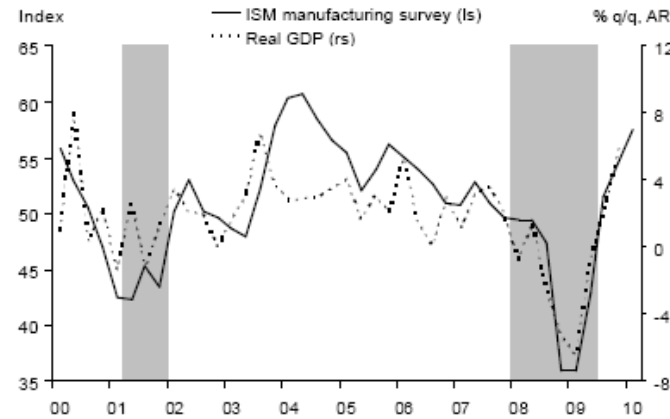
**March 8, 2010**

**Last Week**

- Stocks turned in a strong week, responding particularly favorably to Friday's jobs report.
- Major market indices advanced to their highest levels since January 20, though volume was noticeably light
  - In fact, volume was 8% below the prior week (which itself was fairly anemic), and 46% below the year-ago level
- The Dow climbed 241 points, or 2.3%
  - 27 of the 30 Dow stocks turned in gains for the week
  - The top 5 performers for the week were Boeing (+7.6%), Disney (+6.3%), American Express (+5.3%), Alcoa (+4.1%) and Caterpillar (+3.8%)
  - Underperformers for the week were **Walmart** (+0.1%, despite announcing an 11% dividend increase), IBM (+0.1%), **McDonald's** (-0.3%), **Microsoft** (-0.3%) and **Pfizer** (-0.4%)
- The S&P 500 has advanced six days in a row, and logged a 3.1% gain for the week
  - Basic Materials were the clear leader, +5.3% on the week (steel, coal, and paper products all turned in big performances)
  - Meanwhile, Telecom was the week's significant underperformer, rising just 0.7%
- The Nasdaq Composite rose 3.9%
- The Russell 2000 small cap index closed at a devilish 666, turning in nearly twice the performance of most major indices, up some 6% on the week
- Transports accelerated 1.5%
- Utilities powered up by 2.9%
- Overseas markets also had a strong week, with France's 5.4% and Germany's 5.0% advance leading the way among major markets
- Oil had a strong week, up 2.3%, closing at \$81.50 per barrel
- Gold ended the week 1.5% higher, at \$1,135 per ounce
- Interest rates climbed following Friday's jobs report, with the yield on the 10-year Treasury rising to 3.68%, a nine basis point increase on the week
- The FDIC closed four banks on Friday (one apiece in Utah, Maryland, Illinois, and Florida), bringing the year-to-date total to 26
- Similar to last week, merger and acquisition activity was robust:
  - RiskMetrics sold itself to MSCI for \$1.5B
  - Japanese drug maker Astella Pharmaceuticals offered \$3.5B for OSI Pharma, thus far rebuffed
  - Dow Chemical sold its Styron unit to Bain Capital for \$1.6B
  - Press reports indicate Pfizer has bid \$4B for German generic drug manufacturer Ratiopharm
  - Novell's largest shareholder, Elliott Associates, offered \$5.75/share for the shares it doesn't already own. Novell's stock raced to \$6, its highest level in 18 months
  - And over the weekend, MetLife announced it is acquiring AIG's ALICO insurance unit for \$15.5 billion

- Company buybacks reached their highest level since February 2008, according to Trimtab
- Unlike the prior week, economic news came in stronger than expected for the most part
  - The ISM non-manufacturing index rose to 53, two points higher than expected, and its highest level since December 2007. Deutsche Bank's economists think this augurs well for further GDP growth

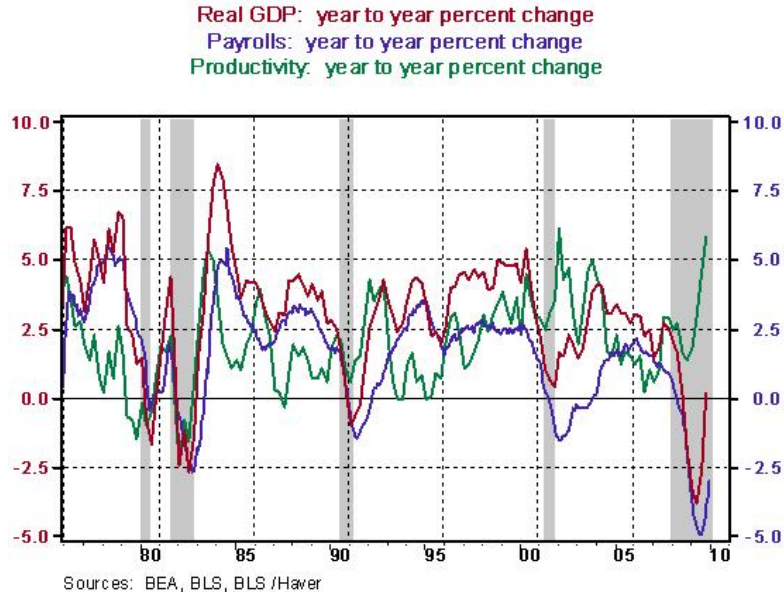
**The recent acceleration in the ISM survey tells us that real GDP growth has solid momentum**



Source: BEA, ISM & DB Global Markets Research

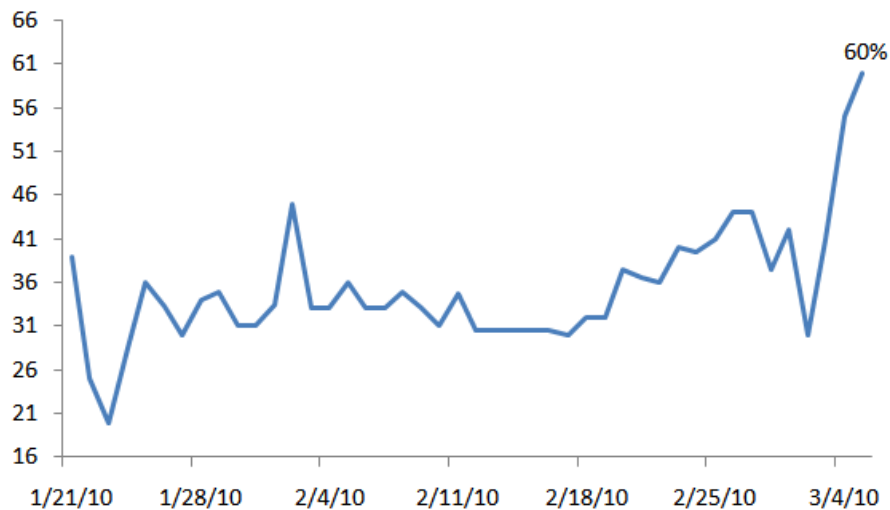
- The Fed's Beige Book indicated that economic activity is expanding in nine of the Fed's 12 regions
- Non-farm productivity was revised higher, to +6.9%
- Initial jobless claims were 469,000, a sequential improvement
- Challenger, Gray and Christmas revealed that layoffs for the month were 42,090, the fewest since 2006
- Friday's jobs report showed February non-farm payrolls dropped just 36,000, despite warnings earlier in the week from the Obama Administration that snowstorms would likely distort (hurt) the reported figure. Instead, the report came in better than the consensus forecast, and various economists are opining that the job market is actually substantially healthier than indicated, if the data were adjusted for the weather
  - Senate Majority Leader Harry Reid took some heat Friday for commenting that "only 36,000 people lost their jobs today, which is really good." We don't know if those comments were taken out of context, or whether Washington is that out of touch with Main Street (or both)
  - Temporary employment again rose (often hailed as a leading indicator, as employers are more likely to first hire temps, before adding full-timers)
  - The unemployment rate held steady at 9.7%
  - But U-6 unemployment (which includes those that are under-employed) rose to 16.8%, matching the cycle high
  - December's non-farm payrolls data was revised to -109,000, better than the -150,000 previously reported
  - Average hourly earnings rose 0.1% sequentially and 1.9% year-over-year, nothing to write home about, but those data points in particular could have been adversely impacted by the month's snowstorms
- There are plenty of Vs for those in the v-shaped recovery camp, as shown on the right-hand side of the accompanying chart

Chart 3



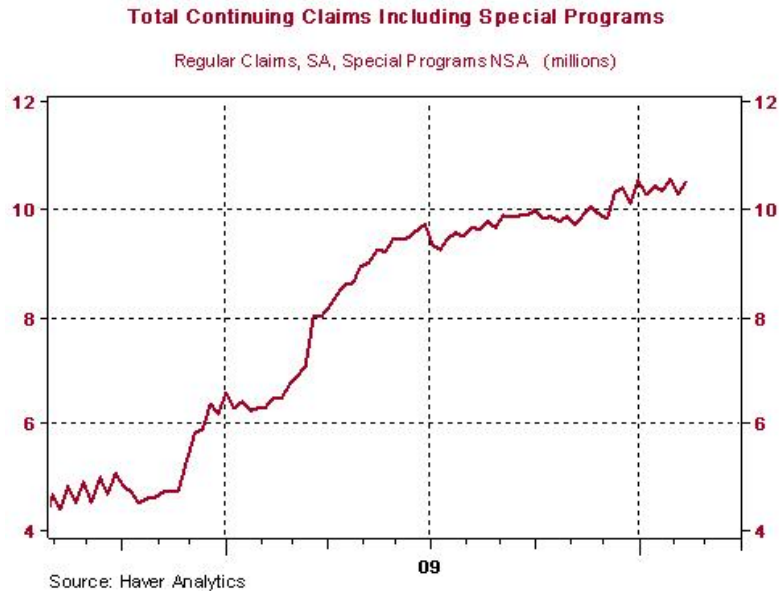
- January consumer credit rose 2.4% annualized, its first increase in a year. Revolving (credit card) debt fell 2.3%, while non-revolving debt rose 5%
- On the negative side of the economic ledger, pending home sales fell 7.6%
- And February new vehicle sales annualized at just 10.4 million units, a still-anemic level (near a 27-year low, and below the level of vehicles scrapped)
  - Again, winter weather may be to blame
  - Ford outsold GM for the first time since 1998
  - Toyota sales fell 9%, and its market share fell to 2005 levels, on the heels of multiple product recalls
- Monetary authorities around the globe gradually appear to be removing some of the “juice” that was injected into the economy a year ago
  - The Bank of Canada shifted its monetary policy bias to “neutral” from its previous stance that suggested economic risks were tilted to the downside
  - In an expected move, Australia’s central bank hiked its short-term lending rate to 4% (compares to the U.S. at 0.25%), saying rates remain “lower than average”
  - Japan bucked the trend, with Japanese stocks rising sharply Friday on news that the Bank of Japan would consider further monetary easing, as that country continues to battle deflation
- Congress continues to consider a wide range of legislation. President Obama implored legislators to bring healthcare reform for an “up or down” vote
- Democrats and Republicans continue to debate how to move forward on healthcare reform
  - Bookmaker Intrade now pegs odds that healthcare reform passes at roughly 60%, nearly twice the likelihood expected just a couple weeks ago (chart courtesy Bespoke)
  - Democratic leadership, however, have not articulated a timeline for a vote
  - The situation remains fluid and the content of any finalized bill could be much leaner than the original version that originally moved through Congress
  - And Senator Orrin Hatch (R-Ut) has warned that using the “reconciliation” process to jam legislation through “would be an assault to the democratic process”

### Intrade Odds for "Obamacare" to Become Law by 6/30/2010



- President Obama signed the Travel Promotion Act, which is designed to stimulate tourism in the United States. The program will be funded, in part, by ... imposing a \$10 fee on foreign visitors. We thought we had learned in Economics 101 that higher prices reduce demand, but we could be mistaken
- Speaking of fee increases, the U.S. State Department announced it intends to hike passport application and renewal fees by 35%, since current fees apparently do not fully cover costs. So it is going to get a wee bit more expensive to travel. In the meantime, the Department says it is geared up for an onslaught of applications, as citizens race to beat the new, higher fees
  - We will go out on a limb in predicting that governments of all shapes and sizes will be enacting many "fee increases," since anything labeled as a "tax hike" is generally considered political suicide
- Meanwhile, the administration has proposed a program dubbed Cash for Caulkers, which would provide tax credits for various home-improvement projects. Has Congress already forgotten about how Cash for Clunkers worked out?
- The House of Representatives also passed a \$15 billion bill aimed at providing tax credits to employers that hire additional workers
- The non-partisan Congressional Budget Office announced President Obama's budget would generate larger deficits than previously estimated -- \$1.2 trillion larger over the next decade. What's a trillion dollars amongst friends?
- Senator Jim Bunning (R-Ky) held up legislation that would extend federal unemployment benefits, saying he couldn't move forward until Congress found a way to pay for the \$10 billion program. That principled stand lasted approximately 48 hours, until Bunning caved to members of his own party. The Senate passed the 30-day benefits extension, and sent it to President Obama for his signature. Seems to be an important issue for the record number of Americans collecting unemployment benefits, as shown in the accompanying chart

Chart 5



- The U.S. Treasury auctioned off its Bank of America warrants for \$1.54 billion
- Citi CEO Vikram Pandit testified on Capitol Hill, responding to a Congressional Oversight Panel about the steps his company has made to de-lever and pay back taxpayer support
  - “Irrational markets prompted the need for government rescue funds,” Pandit said
  - Does anybody really believe it was irrational markets, or could it have been banks being inadequately capitalized and charging insufficient rates that didn’t account for rising defaults and falling collateral values?
  - In response to a question from TARP Oversight Chair Elizabeth Warren, Pandit said he did not know what Citi’s exposure to Greek sovereign debt is
  - The U.S. Treasury (Citi’s largest shareholder) can begin selling its Citi shares March 16
- On the subject of Greece, that country announced another austerity plan (its third in three weeks), this one designed to save \$6.5 billion
  - On the heels of that, Greece raised 5 billion euros via an oversubscribed 10-year bond offering Thursday (yielding 6.3%). That rate represented a record 300 basis point spread over comparable maturity German bunds
  - German Economic Minister Rainer Brudeler told Greek Prime Minister George Papandreou that Germany will not provide “one cent” of support to Greece
  - Papandreou acknowledged as much when he told Frankfurt’s newspaper that “We haven’t asked the German taxpayer to bail us out, to pay for our pension and our holidays. That is not fair.”
  - It remains to be seen whether Greece has asked the International Monetary Fund to do so
  - Meanwhile, French President Sarkozy says that “if we created the euro, we cannot let a country fall that is in the Eurozone. We must support Greece because they are making an effort.”
- Iceland’s voters overwhelmingly rejected repaying \$5 billion of debt to British and Dutch lenders that propped up depositors of Icesave, an online Icelandic bank. It is an interesting issue, insofar as repayment of the British and Dutch creditors is a requirement of a \$2 billion loan Iceland received from the IMF. As a CNNMoney article said, “it is not clear what happens now.”

Meanwhile, Iceland has embarked on a path to apply for membership in the European Union, which Britain and the Netherlands now may block

- Ireland's Allied Irish Bank announced its first ever annual loss (2.4 billion euros) and said 2010 will remain "extremely challenging." The Irish government has established NAMA (the National Asset Management Agency) as a "bad bank," which will purchase Allied's risky assets. Apparently up to 23 billion euros of Allied's loans may be transferred to NAMA. Yet Allied's stock rose more than 40% on the week, on speculation it may find investors for its assets
- In Asia, bank stocks fell sharply after market leader HSBC missed forecasts and Hang Seng Bank cut its dividend by more than one-third
- In the latest financial "innovation," brokerage Cantor Fitzgerald announced it expects to launch an electronic futures exchange that would allow investors to bet on movie box office receipts. A Cantor spokeswoman explains that "People love movies, and this is a way for them to profit from what they know," describing the product as a "new asset class." We are reminded of P.T. Barnum's quip that a fool and his money soon are parted. Cantor says it expects approval next month from the Commodity Futures Trading Commission. Why?

### **This Week**

- Tomorrow, stocks anniversary last year's March 9 lows
- It's a(nother) busy week for the U.S. Treasury:
  - Today, \$26 billion of 3-month bills and \$28 billion of 6-month bills will be auctioned
  - Followed by \$26 billion of 1-year notes and \$40 billion of 3-year notes tomorrow
  - Wednesday, investors will bid on \$21 billion of 9-year notes
  - And Thursday, \$13 billion of 29-year bonds will be available
- Asian markets are higher following Friday's gains in the U.S. Europe is trading sideways and early morning futures are suggesting the same at home
- According to Bloomberg, the cost to insure against corporate defaults fell to its lowest level in more than six weeks as concerns about Greece waned
- California, the world's eighth-largest economy, will auction \$2 billion of general obligation bonds this week. A Barron's article this weekend highlighted the state may have to pay "upwards of 6% on a 30-year maturity", similar to the rate Greece paid last week. However, California's general obligations bonds are tax free, which makes the taxable equivalent yield nearly 10%
- Mutual fund cash is the lowest since 2007, at just 3.6% of assets versus 5.7% in January 2009. According to the Investment Company Institute, the percentage point decrease was the fastest since 1991
- A few earnings reports to watch for this week include:
  - A.C. Moore, AAON, Affymax, Amicas, Athenahealth, CAI Int'l, Casey's General Stores, Comverge, Delta Petroleum, Discovery Laboratories, H&R Block, Irwin Financial, Meridian Resource, Microvision, Navistar, Oxford Industries, Princeton Review, ResCare, Sasol Ltd, Six Flags, THE9 LTD, Thor Industries, U.S. Gold Corp, Universal Display, and XOMA Ltd. today
  - AeroVironment, Analogic, Boston Beer, Bronco Drilling, Cantel Medical, Compass Diversified, Dick's Sporting Goods, J. Crew Group, Jamba Juice, Korn Ferry, NCI Building Systems, Overstock.com, Superior Well Services, The Kroger Co, and TOP Ships tomorrow
  - Wednesday we hear from American Eagle Outfitters, Capital Senior Living, Clariant, Clean Energy Fuels, Converse Technology, Dialysis Corp, Fortis, FuelCell Energy, Gymboree, Hot Topic, Jo-Ann Stores, Men's Wearhouse, QLT Inc, Quality Distribution, Speedway Motorsports, The Children's Place Retail Stores, Uranium One, US Concrete, Vail Resorts, and Vimpel Communications

- Thursday follows with Aeropostale, American States Water, Ballard Power Systems, Chyron Corp, Clear Channel Outdoor Holdings, Ener1, Goldcorp, Hancock Fabrics, Hannover Re, Jackson Hewitt Tax Service, MDS, National Semiconductor, Pacific Sunwear, Pall Corp, Piedmont Natural Gas, Quicksilver, Rite Aid, Shuffle Master, Smithfield Foods, Stewart Enterprises, The Buckle, West Marine, and Zumiez Inc
- The week ends with AnnTaylor Stores, Citi Trends, Eni S.p.A., Hibbett Sports, Kirkland's, Pennsylvania Real Estate Investment Trust, and Smith & Wesson
- February retail sales at the end of the week will highlight economic data:
  - Nothing today
  - February NFIB Small Business Optimism tomorrow
  - Wednesday we get January Wholesale Inventories (consensus 0.2%), February's Budget Statement (cons -\$220 bil) and weekly Mortgage Applications
  - Thursday brings January's Trade Balance (cons -\$41.0 bil) and weekly Jobless Claims
  - Friday finishes with February Advance Retail Sales (cons -0.2%, ex Autos 0.0%, ex Autos & Gas 0.3%) and January Business Inventories (cons 0.2%)
- Conferences & Events
  - Monday: Public Service Enterprise Analyst Conference; **Microsoft** at Jefferies & Co Global Technology Conference; **Verizon** at Credit Suisse Group Global Media and Communications Conference
  - Tuesday: JPMorgan Aviation, Transportation & Defense Conference; **Pfizer, Johnson & Johnson** and **Medtronic** at Cowen and Company Healthcare Conference
  - Wednesday: **Bank of New York Mellon** at Citi Financial Services Conference; **Cisco** at Wedbush Morgan Securities New York MAC: Management Access Conference; Bank of America Merrill Lynch Consumer Conference
  - Thursday: Visa Investor Day; Exxon Mobil Analyst Meeting; Cerner Investor Community Meeting
  - Friday: **United Technologies** Analyst Meeting; Wall Street Analyst Forum Institutional Investor

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- **Leaders +2.0%** year to date, **+13.6%** cumulative, since inception (1/1/01)
- **Special Opportunities +3.1%** year to date, **+126.6%** since inception (1/1/01)
- **Equity Income +2.8%** year to date, **+76.3%** since inception (1/1/01)
- S&P Total Return **+2.5%** year to date, **+2.4%** since CHOICE inception (1/1/01)
  
- **Enhanced Equity +4.3%** year to date, **+32.4%** since inception (1/1/04)
- S&P Total Return **+2.5%** year to date, **+16.1%** since CHOICE inception (1/1/04)

Thanks as always for your interest in our thoughts, and for your support of our services.

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