

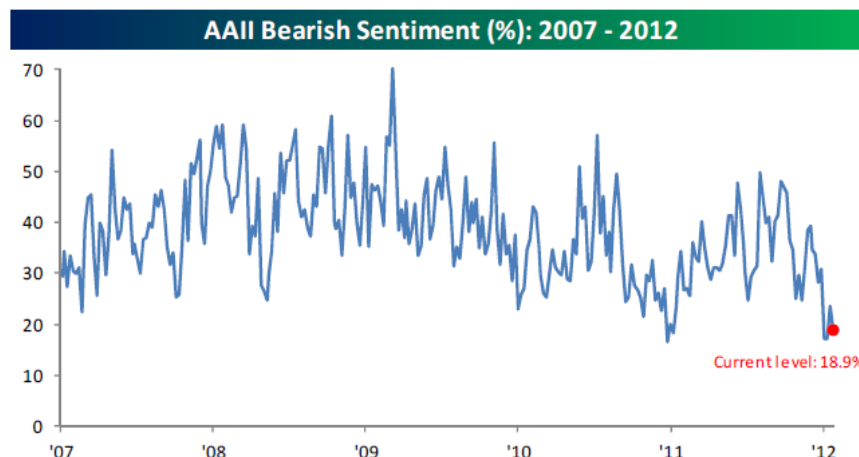
Weekly Market Recap

January 30, 2012

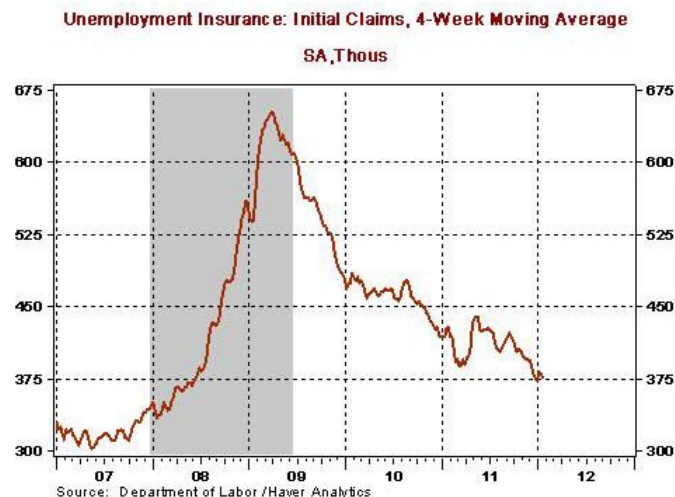
Last Week:

Stocks turned in a mixed showing, as investors focused their attention toward a world economic forum in Davos, Switzerland, and toward a possible Greek debt deal. Investors also scratched their collective heads in trying to interpret the Federal Reserve Open Market Committee's decision to extend its zero-interest rate policy through late 2014

- The Dow Jones Industrial Average shed -60 points, or -.47%
 - 11 Dow constituents gained ground for the week, led by Caterpillar (+5.3%), Bank of America (+4.1%), DuPont (+2.6%), Alcoa (+2.6%), and 3M (+2.1%)
 - Laggards were **Travelers** (-5.7%), Verizon (-4.5%), AT&T (-4.4%), **McDonald's** (-3.0%), and Procter & Gamble (-2.9%)
- Dow Transports continued to truck higher, by 1.2% for the week
- Dow Utilities edged lower, by -0.1%
- S&P's 500 posted gains of 0.1%, notching its fourth-straight winning week to open the new year
 - Top groups were Basic Materials, Technology, and Industrials
 - Laggards were Telecommunications, Consumer Goods, and Energy
 - Year-to-date, the S&P has risen 4.7%. *Barron's* observes that since 1953, there have been nine other years that began with at least a 4% advance. In eight of those nine years, markets went on to achieve further gains through the balance of the year; the lone exception – 1987
- NASDAQ's Composite shot up 1.1% (led by Apple's blowout fourth-quarter results, which catapulted Apple past Exxon, to become the largest U.S. corporation by market capitalization)
- Small- and mid-cap issues fared best for the week, with the S&P Midcap 400 rising 1.2% and the Smallcap 600 advancing 1.4%
- Despite a rather balanced week for stocks, advancers topped decliners by a greater than 2-to-1 margin
- As markets have climbed and economic data have improved it's not surprising that fear among individual investors has subsided a bit (Bespoke provides the chart below)

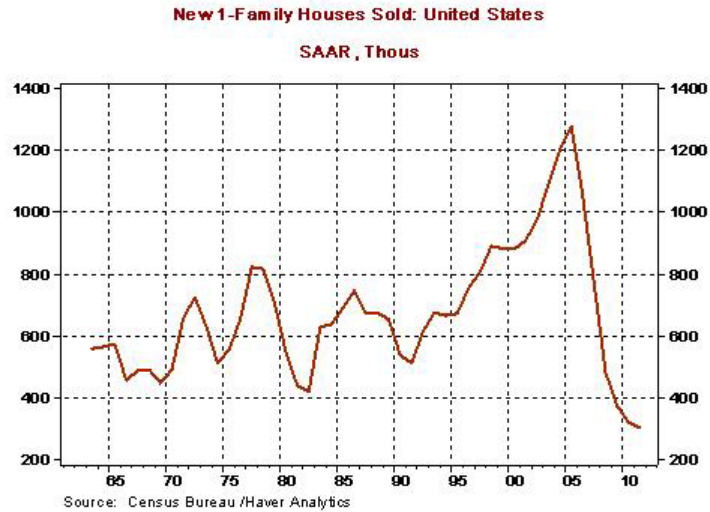


- International markets also turned in a mixed performance, led by a 1.9% gain in Hong Kong, while Switzerland paced the negative side of the ledger with a -1.5% loss
- Fitch cut its credit ratings of Belgium (AA from AA+), Cyprus (BBB- from BBB), Italy (two notch cut from A+ to A-), Spain (two notch cut to A from AA-), and Slovenia (two notch cut to A from AA-). Fitch said there's a 50% chance of further rating cuts in the next two years, based on those countries' vulnerability "in the near-term to monetary and financial shocks" (you don't say!)
- The dollar lost -1.7% for the week, and the Euro climbed back above \$1.30, finishing the week at \$1.32
- Treasury yields slumped 14 basis points, with the 10-year Treasury yield down to 1.89%
- Crude oil tacked on \$1.10/barrel, to close the week just shy of \$100
- Gold was the clear beneficiary of the Fed's loose monetary policy, surging nearly \$65/ounce, finishing above \$1,730
- The FDIC closed four banks on Friday – one in Minnesota, one in Florida, and two in Tennessee
- The big surprise of the week was the Federal Reserve Open Market Committee's announcement that it anticipates extending its zero-interest rate policy through late 2014, vs. its previous statements that highlighted mid-2013. Should investors view that as a positive, because the Fed will keep rates on competing fixed-income instruments at unattractive levels, or a negative, because the Fed foresees ongoing economic weakness?
 - Curiously, we have heard little commentary about the FOMC's timing. GDP growth is accelerating, the job market is improving, and the stock market is up 20% from its summer 2011 lows. Why extend accommodative monetary policy now, as opposed to last summer when the economy was on its back?
 - The FOMC decision came in stark contrast to the 0.4% increase in December's leading economic indicators, which were reported last Thursday. Conference Board economist Ken Goldstein summed things up well, by saying "This somewhat positive outlook for a strengthening domestic economy would seem to be at odds with a global economy that is losing some steam. Looking ahead, the big question remains whether cooling conditions elsewhere will limit domestic growth or, conversely, growth in the U.S. will lend some economic support to the rest of the globe"
- Other economic news for the week was decidedly mixed:
 - Weekly jobless claims remained relatively benign at 377,000

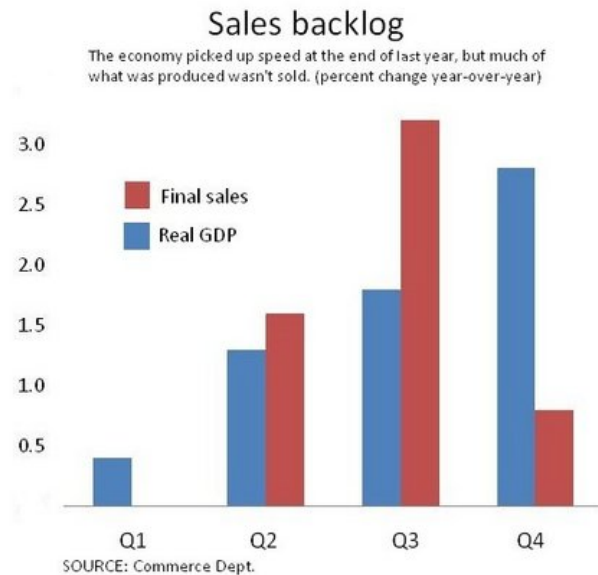


- Durable goods orders rose 3%, the third-straight month with a positive print

- University of Michigan's January consumer sentiment index rose to 75.0, up from 69.9 last month; that's the highest level in 11 months
- But December new home sales dipped -2.2% to just 307,000, the lowest level ever recorded

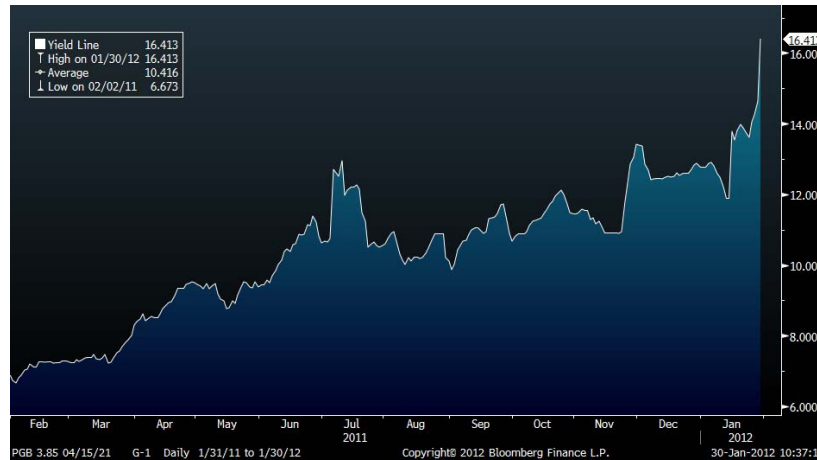


- And the first look at fourth-quarter GDP disappointed with a 2.8% print, compared to expectations for 3%. Even that might overstate “true” economic growth, as inventories swelled by \$56 billion, adding 2 percentage points to that 2.8% figure. So-called Final Sales rose just 0.8%



This Week

- The most recent news out of Greece is that they're unwilling to accept a plan to appoint a commission to oversee the country's budget in exchange for more aid, sending stocks down across the globe
- While European finance ministers hold yet another summit to discuss voluntary writedowns by Greek bondholders, Portugal is rapidly looking like it may be next in line. The 10-year Portuguese bond yield is up 177 basis points today to a record 16.41%



- Asian markets fell, led by a -1.7% decline in the Hang Seng index
- European markets are off across the board, with the DAX down -1.2% and London's FTSE 100 lower by -1.3%
- In the U.S., the S&P 500 is giving back -1.0%
 - The dollar is up 0.57%
 - Gold is down \$5.10 per ounce to \$1,727.10
 - West Texas crude is down -\$0.50 per barrel to \$99.06, while Brent crude is flat at \$110.72 per barrel
 - The U.S. 10-year Treasury yield is lower by 3 basis points to 1.84%, its lowest yield so far in 2012
- French banks are having a tough day, reacting to news that President Nicolas Sarkozy will impose a 0.1% tax on financial transactions beginning in August
 - Sarkozy said "What we want to do is provoke a shock, to set an example." He expects to generate revenues of 1 billion euros from the tax
- Power distribution equipment maker ABB Ltd. is buying Thomas & Betts for \$3.9 billion in cash, a 27% premium to Friday's closing price
- Pep Boys – Manny, Moe & Jack agreed to sell itself to Gores Group for a little less than \$800 million. The \$15/share cash offer is a 24% premium to its closing price last Friday
- Data compiled by Bloomberg show that even as stocks have moved higher, because earnings have more than kept pace the S&P 500 hasn't traded above its 16.4 mean ratio for 446 days. That's the longest streak since a 13 year period beginning in 1973
- According to Deutsche Bank, 194 S&P 500 companies have reported so far and only 60% have beaten expectations. As the charts below from Deutsche Bank illustrate, the current rate of "beats" is well below recent quarterly levels, but is now back to the long-run average

Proportion of EPS beats lower

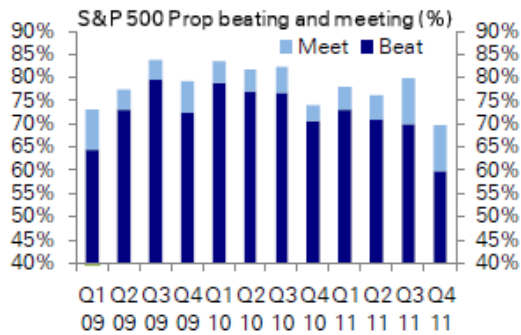
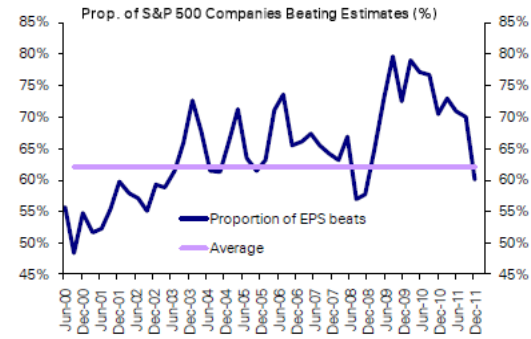
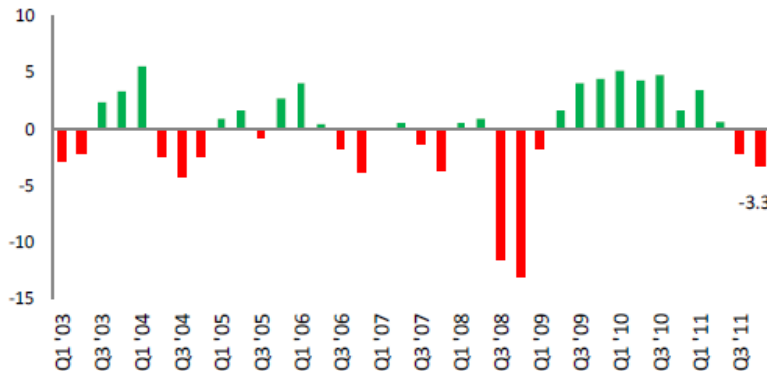


Figure 2: Proportion of beats back to historical average



- Bespoke provides the chart below which shows companies' guidance is a bit lower than in previous quarters

Spread Between % of Companies Raising vs. Lowering Guidance



- Another busy week for earnings:
 - McKesson, Plum Creek Timber and Gannett today
 - Archer-Daniels-Midland, Broadcom, Exxon Mobil, Harris, Helmerich & Payne, Illinois Tool Works, Pfizer,** Biogen Idec, L-3 Communications Holdings, McGraw-Hill, Entergy, Tyco International, Eli Lilly, Mattel, Danaher, United Parcel Service, Avery Dennison, CH Robinson Worldwide, CR Bard, Boston Properties, Amazon.com, Aflac, ACE, PACCAR, Lexmark International, United States Steel and Valero Energy tomorrow
 - Wednesday we hear from **Franklin Resources, Whirlpool,** Thermo Fisher Scientific, NiSource, Aetna, NASDAQ OMX Group, Qualcomm, Chipotle Mexican Grill, Allstate, Ameriprise Financial, Assurant, AvalonBay Communities, Tesoro, Equity Residential, JDS Uniphase, Electronic Arts, Northrop Grumman, BMC Software, Hershey, Marathon Oil and Marathon Petroleum
 - Thursday follows with **CME Group, Fiserv, Gilead Sciences, Merck,** Roper Industries, TECO Energy, National Oilwell Varco, Goodrich, Starwood Hotels & Resorts, Ryder System, Wisconsin Energy, Xcel Energy, Spectra Energy, Pulte Group, Cardinal Health, Snap-on, Cameron International, International Paper, Cigna, Dow Chemical, Viacom, Kellogg, Edwards Lifesciences, PerkinElmer, CareFusion, Genworth Financial, Sunoco, Principal Financial Group, Vulcan Materials, Diamond Offshore Drilling, Stericycle, Sara Lee, Cummins, Mastercard, Novellus Systems, Allergan, Boston Scientific

- Simon Property Group, Aon, Weyerhaeuser, Tyson Foods, PPL, Beam, Estee Lauder, Clorox, Constellation Energy Group and TripAdvisor on Friday
- This week provides lots of economic data as well, including the January jobs report on Friday:
 - December Personal Income (consensus 0.4% *actual* 0.5%) and Spending (cons 0.1%, *actual* 0.0%), as well as January Dallas Fed Manufacturing Activity (cons 1.5) today
 - November S&P CaseShiller Home Price Index (cons -0.4% m/m, -3.3% y/y), January Chicago Purchasing Manager Index (cons 63.0), Consumer Confidence (cons 68.0) and fourth quarter Employment Cost Index (cons 0.4%) tomorrow
 - Wednesday is January ADP Employment (cons 183k, down from 325k in December), ISM Manufacturing (cons 54.5, up from 53.9 in December), ISM Prices (cons 50.0), Auto Sales (cons 13.5 mil SAAR) and December Construction Spending (cons 0.5%)
 - Thursday brings fourth quarter Nonfarm Productivity (cons 0.8%) and Labor Costs (cons 0.9%), as well as weekly Jobless Claims (cons 370k)
 - Friday ends the week with the January Nonfarm Payroll report (cons 145k, private payrolls 163k), Unemployment Rate (cons 8.5%), Average Hourly Earnings (cons 0.2% m/m, 1.9% y/y), Average Weekly Hours (cons 34.4), ISM Non-Manufacturing (cons 53.2) and December Factory Orders (cons 1.5%)

CHOICE Portfolio Performance, Net of Fees.

- **Leaders +5.0%** year to date, **+27.0%** cumulative, since inception (1/1/01)
- **Special Opportunities +6.7%** year to date, **+150.0%** since inception (1/1/01)
- **Equity Income +2.0%** year to date, **+116.9%** since inception (1/1/01)
- S&P Total Return **+4.8%** year to date, **+23.3%** since CHOICE inception (1/1/01)

- **SMID +6.3%** year to date
- **Insight +8.1%** year to date

- **Enhanced Equity +5.6%** year to date, **+47.9%** since inception (1/1/04)
- S&P Total Return **+4.8%** year to date, **+39.7%** since CHOICE inception (1/1/04)

Have a great week. As always, thanks very much for your interest and support.

Adam Bergman, CFA

Josh Haggerty, CFA

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