

Winter 2011

Market Commentary

Things are Looking Up

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Equity Strategy*

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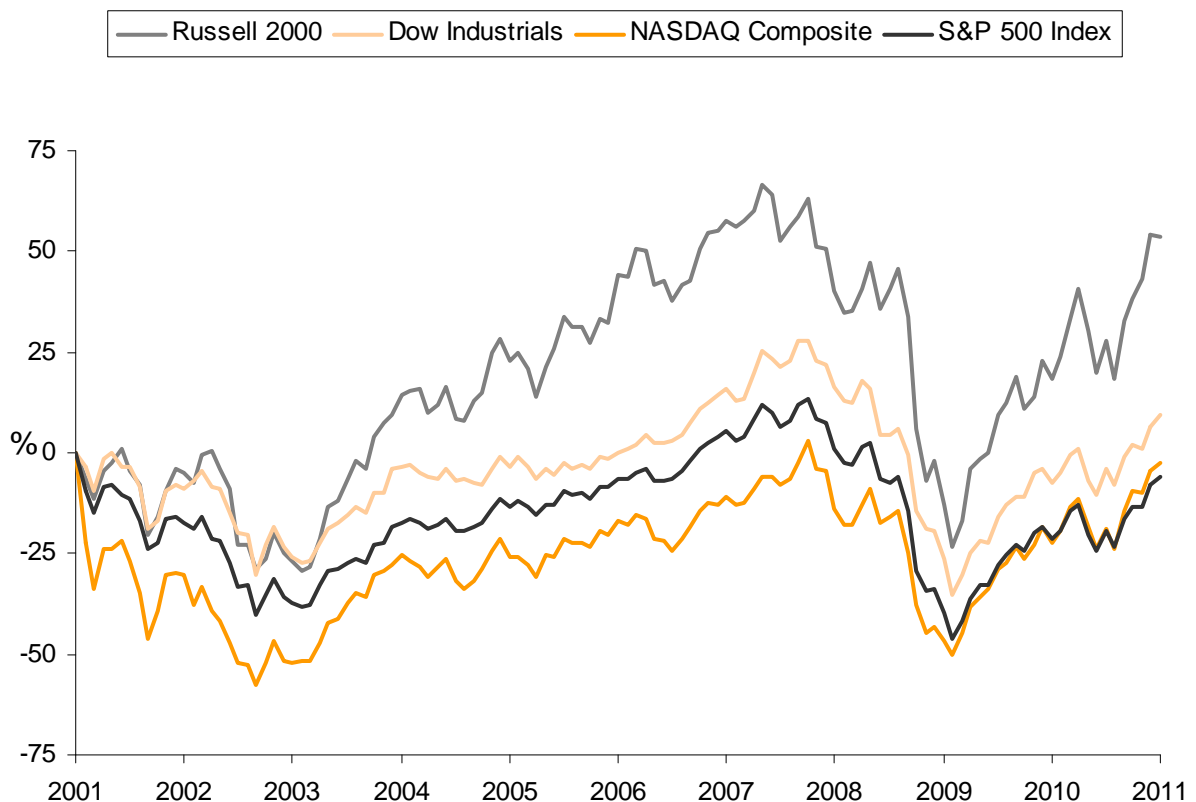
Peter W. Council, CFA

CHOICE Portfolios

Special Opportunities

Leaders

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FOR REQUIRED DISCLOSURES, INCLUDING ANALYST CERTIFICATION, PLEASE REFER TO THE IMPORTANT DISCLOSURES SECTION THAT BEGINS ON PAGE 18 OF THIS REPORT

Dividend Aristocrats

We have included this list of stocks in past editions of the Private Client Insight and since the members change annually (Standard and Poors does the research) we decided to include the 2011 members in this quarter's edition. As a reminder, all the companies in this list have raised their dividend every year for at least 25 consecutive years. The average yield for this group is 2.9%. In 2010 this group of stocks outperformed the S&P 500. The Aristocrats were up 20.6% on a total return basis while the S&P 500 stocks were up 14.8%. We view this as a good shopping list for conservative growth and income investors.

The following members were added to the list in 2011: **McCormick and Co (MKC)**, **Hormel Foods (HRL)**, and **Ecolab (ECL)**

The following members were removed: **Eli Lilly (LLY)**, **Supervalu Inc. (SVU)**, and **Integrus Energy Group (TEG)**

Company	Ticker	Price (2/1/2011)	52-week		Divi	Yield	Payout Ratio	P/E 2010	EPS Growth yr/yr
			High	Low					
3M Co	MMM	\$87.79	\$90.52	\$67.98	\$2.10	2.4%	38.3%	15.0x	23.1%
AFLAC Inc	AFL	\$58.53	\$56.56	\$39.82	\$1.20	2.1%	30.9%	9.7x	12.8%
Abbott Laboratories	ABT	\$45.23	\$56.79	\$44.59	\$1.76	3.9%	51.6%	12.5x	11.8%
Air Products & Chemicals Inc	APD	\$89.62	\$85.44	\$64.13	\$1.96	2.2%	41.6%	16.6x	22.9%
Archer-Daniels-Midland Co	ADM	\$34.70	\$33.45	\$24.22	\$0.60	1.7%	20.0%	10.8x	1.7%
Automatic Data Processing	ADP	\$48.91	\$45.74	\$26.46	\$1.36	2.8%	56.4%	17.1x	1.8%
Bard, C.R. Inc	BCR	\$93.76	\$90.00	\$73.99	\$0.72	0.8%	14.7%	14.6x	8.3%
Becton, Dickinson & Co	BDX	\$83.82	\$80.56	\$66.20	\$1.48	1.8%	28.9%	14.4x	3.1%
Bemis Co Inc	BMS	\$32.04	\$31.80	\$24.92	\$0.92	2.9%	67.2%	14.4x	16.1%
Brown-Forman Corp B	BF.B	\$67.21	\$65.05	\$47.14	\$1.20	1.8%	40.4%	18.9x	3.5%
CenturyLink Inc	CTL	\$43.44	\$39.49	\$14.16	\$2.90	6.7%	101.8%	11.6x	-5.8%
Chubb Corp	CB	\$58.73	\$58.28	\$47.10	\$1.48	2.5%	22.2%	10.8x	-13.9%
Cincinnati Financial Corp	CINF	\$32.88	\$30.38	\$25.05	\$1.60	4.9%	51.1%	20.4x	6.8%
Cintas Corp	CTAS	\$28.55	\$30.85	\$23.10	\$0.48	1.7%	34.3%	18.0x	3.8%
Clorox Co	CLX	\$63.51	\$67.86	\$56.36	\$2.20	3.5%	51.9%	14.8x	6.6%
Coca-Cola Co	KO	\$63.05	\$59.45	\$49.47	\$1.76	2.8%	55.3%	16.7x	13.4%
Consolidated Edison Inc	ED	\$50.11	\$48.74	\$40.15	\$2.38	4.7%	70.4%	14.5x	8.1%
Dover Corp	DOV	\$65.73	\$55.50	\$36.52	\$1.10	1.7%	44.0%	15.9x	62.7%
Emerson Electric Co	EMR	\$59.76	\$53.73	\$37.45	\$1.34	2.2%	53.0%	19.4x	18.9%
Exxon Mobil Corp	XOM	\$83.91	\$76.54	\$55.94	\$1.76	2.1%	34.0%	10.6x	44.4%
Family Dollar Stores Inc	FDO	\$42.42	\$44.48	\$25.52	\$0.62	1.5%	24.9%	16.9x	24.7%
Grainger, W.W. Inc	GWW	\$132.32	\$121.16	\$85.24	\$2.16	1.6%	34.8%	18.7x	21.8%
Integrus Energy Group Inc	TEG	\$48.15	\$51.13	\$34.20	\$2.72	5.6%	103.4%	16.3x	28.6%
Johnson & Johnson	JNJ	\$60.63	\$66.20	\$56.86	\$2.16	3.6%	44.6%	13.1x	1.9%
Kimberly-Clark	KMB	\$64.52	\$67.24	\$57.29	\$2.64	4.1%	56.4%	14.2x	3.9%
Leggett & Platt	LEG	\$22.96	\$25.15	\$17.89	\$1.08	4.7%	87.8%	17.5x	48.8%
Lilly, Eli & Co	LLY	\$35.21	\$38.00	\$32.02	\$1.96	5.6%	48.5%	7.9x	4.0%
Lowe's Cos Inc	LOW	\$25.00	\$28.54	\$19.15	\$0.44	1.8%	27.9%	15.4x	16.7%
McDonald's Corp	MCD	\$73.47	\$76.26	\$55.50	\$2.20	3.0%	50.1%	16.7x	13.4%
McGraw-Hill Cos Inc	MHP	\$36.92	\$36.94	\$23.55	\$0.94	2.5%	37.0%	12.3x	10.9%
PPG Industries Inc	PPG	\$86.01	\$72.93	\$55.27	\$2.20	2.6%	60.6%	15.1x	62.5%
PepsiCo Inc	PEP	\$65.05	\$67.61	\$58.00	\$1.92	3.0%	49.7%	16.0x	12.0%
Pitney Bowes Inc	PBI	\$24.26	\$26.41	\$19.06	\$1.46	6.0%	89.0%	9.7x	-5.0%
Procter & Gamble	PG	\$62.92	\$64.58	\$39.37	\$1.93	3.1%	53.5%	15.5x	12.3%
Sherwin-Williams Co	SHW	\$84.67	\$80.53	\$56.24	\$1.44	1.7%	35.5%	16.5x	15.0%
Sigma-Aldrich Corp	SIAL	\$65.34	\$61.00	\$46.50	\$0.64	1.0%	21.1%	19.0x	11.9%
Stanley Black & Decker	SWK	\$72.88	\$66.27	\$40.90	\$1.36	1.9%	143.2%	16.8x	33.5%
Supervalu Inc	SVU	\$7.30	\$17.89	\$9.67	\$0.35	4.8%	21.5%	6.7x	-17.3%
Target Corp	TGT	\$54.64	\$58.52	\$45.11	\$1.00	1.8%	27.5%	13.9x	17.8%
VF Corp	VFC	\$84.12	\$89.23	\$68.60	\$2.40	2.9%	47.9%	12.7x	19.6%
Wal-Mart Stores	WMT	\$56.33	\$56.27	\$47.77	\$1.21	2.1%	31.1%	13.3x	9.7%
Walgreen Co	WAG	\$42.23	\$40.69	\$26.26	\$0.70	1.7%	33.7%	14.1x	4.4%

Things are Looking Up

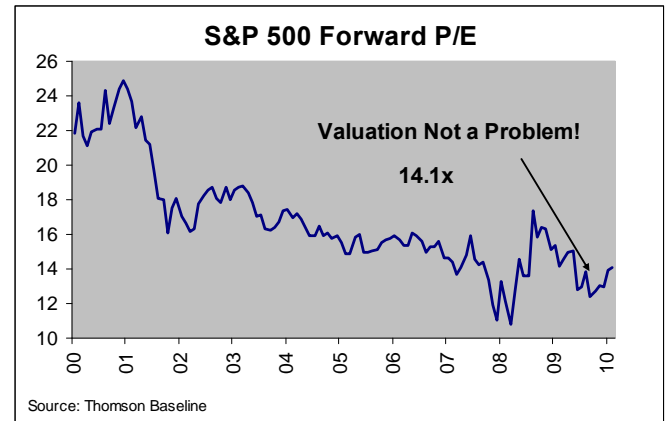
When we last wrote the PCI at the end of October, we presented historical data that equity markets do well during mid-term elections and, thus far, history has proven to be a good predictor! The market has been up 14.7% on average in the six months following mid-term elections. As of January 28 the S&P was up 6.9% since the midterm elections. So three months in and we are halfway there! Of course this is just a statistical game to be played, but we are encouraged that there are fundamental reasons to be positive about the U.S. economy and the stock market. Since the bottom of the market in March 2009 after investors realized that the financial system was not going to collapse, the S&P 500 is up almost 90%. Some investors may look at the run-up in stocks and conclude that the market is overvalued, but we don't think so. Because of the significant recovery in earnings, equity market valuations are not stretched, in our opinion. Furthermore, there continue to be signs of an improving economy that bode well for equities in 2011, including GDP growth, a slowly recovering jobs market, improving consumer trends (e.g., confidence and spending), a more business-friendly atmosphere in Washington, corporations investing for growth, growing dividends, an accommodative Fed, and low interest rates with a stable inflation outlook. As always, there are problematic issues that could derail the rosy scenario, including high oil prices and more turmoil in the Middle East, problems with municipal finances, problems with European sovereign debt, and the lack of a credible plan for cutting government debt and budget deficits. As we see it, the positives are outweighing the negatives, and we expect stocks to do well in 2011, albeit at a slower pace than in the past five months when the S&P 500 was up more than 20%. Although we don't maintain price targets on the S&P 500, we think that it is reasonable to expect equities to increase in line with earnings growth, which is low double digits for the S&P 500. In addition, we think the outlook is especially good for equities since we believe that investors will continue to shift money into risk assets such as equi-

ties as the U.S. economy continues to rebound. The shift in funds to equity mutual funds supports that contention.

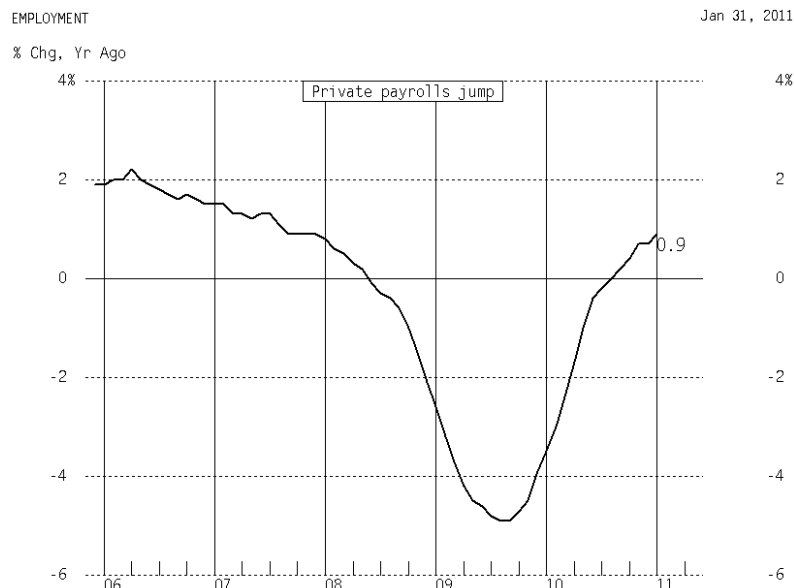
Valuation still seems reasonable.

Looking at the forward multiple of the S&P 500 over the past ten years, the average has been 16.7x and it is now trading at 14.1x, according to Thomson Baseline. As previously mentioned, we have seen a big move in equities since March 2009, but there has also been a commensurate move in earnings. In other words earnings have "caught up" to stock averages and made valuations look attractive. Just looking at 2010, earnings are projected to be up 28% while the appreciation of the S&P 500 was just 13%.

The economy continues to show signs of a return to health. The employment situation is slowly getting better with the number of employees added to private payrolls finally starting to grow again on a yr/yr basis. Furthermore, the December ADP jobs report showed 297,000 jobs being added in the private sector, which was the highest number reported in that survey going back to 2001. Consumer spending



growth accelerated throughout 2010 and ended at the highest level for the year in December at 4.1%. Talk of a double-dip recession seems to have vanished and the estimates for GDP growth in 2011 seem to be going higher. For example, we were pleased to read on Goldman Sachs' website that its economist, Jan Hatzius, is predicting 2.7% GDP growth in 2011 (Consensus Economics is at 2.4%) and 3.6% in 2012. Looking at the various inflation measures (PCE, CPI, PPI), there does not seem to be a problem on the horizon. Gold has been predicting an inflation/Armageddon situation for ten years, and it has been largely wrong. We admit that there is potential for an inflationary situation with the Fed's easy money policy and QE2 (The Fed now owns more Treasuries than China!), especially as the economy begins to rebound. However, there is still



Source: Baseline

plenty of slack in capacity utilization and labor markets, and demand for goods and services is recovering slowly. So in other words it appears that the Fed will have plenty of lead time to begin tightening and prevent inflationary problems.

It is not all birthday parties with hats and horns. Well there are still debt problems for many European countries that will take many years to fix. It is not just Europe as Japan's credit rating was just downgraded to AA- by Standard and Poors. Japan's government debt now is 198.4% of its GDP, which is worse than Greece's at 140.2%, according to the *Wall Street Journal*. The United States and Germany still have a AAA credit rating, but both have fiscal and debt issues to deal with. In the United States our states and municipalities are struggling after several years of declining tax revenues and too much debt. The current talk in the media is of states going bankrupt and the need for the federal government to bail them out. A federal bailout has been widely dismissed by the likes of Ben Bernanke. California is facing a \$25B shortfall through June 2012 and in November held an auction to sell \$1B worth of bonds. There was only interest to buy 60% of the offering. Investors have been pulling money out of municipal bond funds at amounts not seen in years. According to the ICI, investors pulled \$12.5B out of muni bond funds in December—the highest level since 2007,

which is as far back as the tally on its website goes. In short, yields are going up as muni issuers have to entice investors with a higher yield to mitigate the increased risk. At some point the exodus from munis may create a buying opportunity, but we will leave that to the folks in our fixed income group.

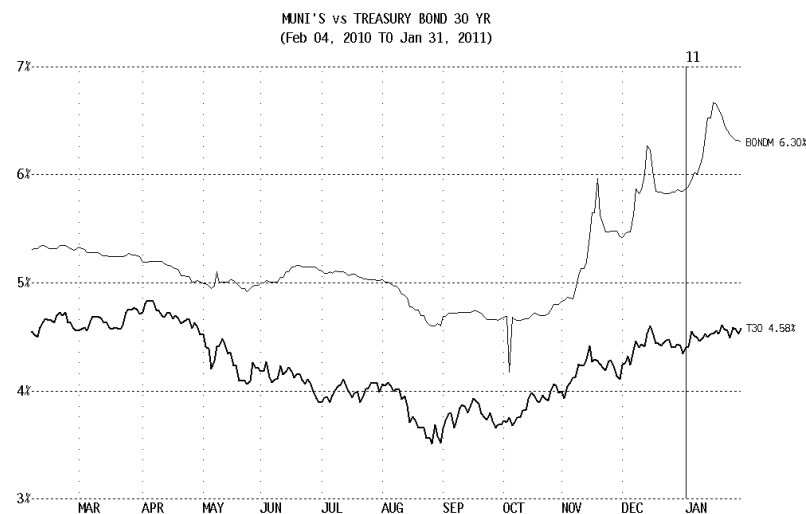
Washington is turning pro-business? Well, it seems that way, and certainly the midterm election results swayed the thinking in Washington more towards the middle. There is the healthcare bill, which may get revised in some form or the other to make it less onerous to companies. President Obama has opened himself up to make changes for a better bill. Twenty-six states are trying to fight the bill on constitutional issues with Florida having prevailed recently. The Supreme Court is likely to be the ultimate arbiter. Also, the White House has reached out to corporations to help spur job growth and has put GE CEO Jeffrey Immelt as the head of a panel to come up with ways to increase employment in the private sector.

Fund flow data favors equities. For the past eight months, equity mutual fund flows have been negative (i.e., investors selling). For the last two weeks ended 1/12 and 1/19, equity fund flows totaled \$6.7B. We haven't seen a higher monthly number since September 2009. In our opinion, there are two factors at work here. One, investors are getting comfortable taking

on risk and moving into equities, which probably means they believe that corporations and the U.S. economy are back on firm footing. Two, we have seen the exodus from muni bonds for reasons mentioned above and the exodus from other fixed income instruments given bond appreciation and the lack of yield.

Sector performance suggests that cyclical stocks will continue to outperform. The industrials and basic materials sectors were the big performers in 2010. Our internal research department follows approximately 300 companies, more than 50% of which are in industrials and basic materials. For 2010 that group of stocks was up 40% compared to the S&P 500, which was up 14.8%. The projected 2011 earnings growth for basic material companies in the S&P 500 is 35% and 18% for industrials. The projected growth for all S&P 500 companies is 11%, according to Thomson Baseline. For investors that want cyclical exposure and want to play contrarian, we suggest taking a look at the utilities sector. Commercial and industrial demand for power fell off dramatically in the "Great Recession" and given the strong rebound in industrial production, power demand should keep getting better.

Dividend-paying stocks may attract funds leaving the fixed income sector. Thus far we have not seen a situation where stocks paying dividends have outperformed those that don't, but that could change, particularly since we are likely to see more dividend increases as corporations get more confident in the growth outlook. Lately, we have seen high-profile companies announcing dividend increases such as **Intel** and **Norfolk Southern (NSC—\$61.72—Buy)** (which nearly doubled its dividend increase from 2010). For the month of January, 30 companies in the S&P 500 have increased their dividend. In 2010, the monthly average for dividend increases was 21.



What Others are Saying

The emerging world has experienced high levels of growth, but it is entering a period of rising inflation. How emerging economies handle that inflation will be the decisive factor for the industrialized world. If they decide to fight inflation with really restrictive monetary policies, we're in trouble. If they hike interest rates only a little to restrain growth, the cycle can be extended. But that means later on, perhaps in a year or two, they will have much higher inflation and will have to crunch it. The choice is between more growth in the short term and then a crunch, or a more serious bear market now.

—*Felix Zulauf, Zulauf Asset Management, as quoted in Barron's, 1/15/11*

The US is running a very loose monetary policy, and because China links to the dollar it is experiencing rising inflation. Commodity prices, like oil, are rising rapidly and China, which imports lots of commodities for processing into consumer goods, is feeling that inflationary pain before it hits home in the US. Letting the yuan gain versus the dollar is one way for China to ease the pain from the Fed's overly loose monetary policy. It's also a way for China to enhance the purchasing power of its workers and companies. The US should not take this week's visit as an opportunity to lecture the Chinese about the yuan. If we do, Fed Chairman Ben Bernanke may find himself on the receiving end of a lecture about the importance of price stability and how to run a central bank. And he would deserve it.

—*Brian Wesbury, First Trust Advisors, 1/18/11*

Housing is going to recover because we produced roughly 500,000 new homes last year, and demand is about 1.2M. The price of the average new house is the same today as 20 years ago. Incrementally, the housing market shouldn't decline anymore, and the rate of change should be positive and increase. In 2011, new-car sales will be up by a million units in the US, to 11.5M units. From 2010 to 2015, global production should increase by 20M. Of that, seven million new cars will be produced in China, five

million in the US, and the balance in the rest of the world.

—*Mario Gabelli, Gabelli Asset Management, as quoted in Barron's, 1/15/11*

While the dynamics of US growth will be front and center this year, US policy challenges will be a sideshow. The Federal Reserve is likely to complete its LSAP plan and remain comfortably on hold as core inflation stabilizes below 1%. State and local finances are improving sufficiently such that they are unlikely to place a major drag on growth. And the upcoming debate about extending the debt ceiling limit is likely to be characterized by significant sound and fury without it threatening to alter macroeconomic outcomes. The main event in policy space this year will take place in EM Asia and continental Europe.

—*Bruce Kasman, JP Morgan, 1/18/11*

We have the best university and post-graduate system in the world. But many of our average workers are not participating in it. The percentage of the US population with a four-year college degree hasn't increased in a decade. We used to be ranked #1. Now many countries have jumped ahead of us. When you dig a little deeper, the likelihood of a young woman having a four-year college degree has increased in the past ten years. The likelihood of a young man having one has declined. Beginning ten years ago, a lot of young men went directly into construction and manufacturing employment. When the recession hit, we saw a significant difference in the unemployment rate between men and women. Right now the unemployment rate for men is two percentage points higher than it is for women. There is also an enormous gap by educational level. Unemployment has skyrocketed for those who have only a high-school degree. In the US, it's not just the percentage of those graduating but what they're studying. The number of students getting degrees in STEM—science, technology, engineering, and math—has fallen dramatically in the past 10 to 15 years. Also, in the ten years ended before the financial crisis, median family

income in the US declined 4%. Among blue-collar workers, it was down 8%.

—*Abby Joseph Cohen, Goldman Sachs, as quoted in Barron's, 1/15/11*

The following positive themes are highlighted as drivers in 2011 that cut across sector lines: (1) the NJA consumer—an ongoing structural story supported by favorable cyclical policy drivers; (2) growth stocks, which benefit from the prevailing abnormally low discount rate; (3) the beneficiaries of more QE; (4) stocks with pricing power (particularly with rising input costs in certain areas); (5) an increase in M&A; (6) an ongoing recovery in corporate spending. Among the themes that worry us is the ongoing, and still underappreciated in our view, threat of competition from China. While not a central view, one much-loved structural theme that could suffer a setback in 2011 could be agriculture and soft commodities. Increased agricultural supply could undermine many highly valued stocks.

—*Credit Suisse Global Strategy, 1/17/11*

The crisis in the US happened largely because of government intervention that began 25 years ago. The government continuously implemented policies to boost consumption, when everyone should know that an economy will grow in a sustainable way through the implementation of policies that foster capital formation—that is, spending on infrastructure, R&D, education, and the acquisition of plant and equipment. By fostering more baseball games, more TV shows, more talk shows, you aren't going to create a vibrant, growing economy.

—*Marc Faber, Marc Faber Ltd, as quoted in Barron's, 1/15/11*

The debt-limit issue is not whether you want more national debt—no one wants that debt clock in Times Square, now over \$14 trillion, to keep rolling higher. The problem is that Congress used the nation's credit card wildly for years and already has spent more money than the debt limit. It's time to pay the bill and finally take away the credit card—use the debt-limit increase to force a funda-

mental reduction in Congress' spending authority... The upside is huge. If the United States shows that it has a mechanism to control federal spending and debt, it will create private-sector optimism, releasing the pent-up cash for job creation. Financial markets will help by strengthening the dollar and bringing capital and jobs back to America after years of investing abroad.

—David Malpass, *Encima Global*, as quoted in the *Washington Times*, 1/14/11

We expect the S&P 500 to continue to move in a relatively wide trading band of roughly 1,100–1,300 in 2011. We expect S&P 500 operating EPS to grow 8%–10% in 2011—good growth, but quite a bit slower than blistering pace in 2010. We now have a year-end 2011 S&P 500 target of 1,250—up from 1,200. We see the risks around the 1,250 target level as being roughly symmetrical. We expect the sector leadership of the S&P 500 to have a more defensive tilt in 2011 than it had in 2010. This would be normal in the third year of an equity market cycle—as the profit cycle matures, more stable earnings growth profiles look increasingly attractive to equity investors. We are recommending an overweight of the health care, telecom services, and consumer staples sectors. And we are recommending significant underweights of the consumer discretionary, financial, and basic materials sectors.

Doug Cliggot, *Credit Suisse*, 12/15/10

The tenor of our cyclical outlook is more upbeat than it was at this time last year. We expect 2011 real GDP growth at 3.8%, measured on a Q4/Q4 basis, a speed-up versus our latest estimates for 2010 (2.9%). We expect progress on the unemployment front, with the jobless rate subsiding to roughly 8.6% by year end. Core inflation should remain low, but deflation risks have receded. We look for the Fed to complete its QE2 purchases as planned and anticipate no hike in the fed funds rate target before late 2012. If growth alone were the issue, we might be so bold as to claim “mission accomplished.” Yet momentous structural challenges remain. Illus-

tratively, the Great Recession pushed the level of GDP (or business activity or material well-being, call it what you will) way below the level implied by the previous growth path. And resuming growth at the old rate leads to levels of activity that take a long time to get back to what one might have expected and planned on had the Great Recession not occurred.

—Neal Soss, *Credit Suisse*, 1/14/11

At the end of the day, the best thing the US can do to protect its own interests with respect to China is to adopt Ronald Reagan's strategy toward the Soviet Union. The Gipper knew that maximum security abroad requires maximum economic growth at home. That's why the new Republican Congress, hopefully doing business with a more centrist Obama, must follow through on its pledge to reduce spending, lower the corporate tax rate, and roll back unnecessary regulations. China has gotten cocky because it is growing at 10 percent while our unemployment rate is close to 10 percent. But greater economic strength at home will give the US more leverage to deal with China on all fronts.

—Larry Kudlow, *Real Clear Markets*, 1/19/11

On one level, hindsight might even suggest that the global credit crisis wasn't entirely bad for the US, although it is tough for virtually anyone, especially those unemployed, to see that now. But observed from 40,000 feet and a pure macro perspective, the biggest problem the US has had was its low personal savings rate, which prior to the credit crisis was close to zero. The over-leverage of the consumer, the more questionable financial instruments, and the large external deficit were all consequences of the low personal savings rate. An economy cannot live off borrowed money forever, especially when it is that of overseas investors. In this sense, the US has been steadily seeing sizeable improvements since the horrors of late 2008 as its saving rate has risen to 5%–6% per cent. Most credible research to my mind suggests that the US really needs to have a personal savings rate in

the 8%–10% vicinity on a permanent basis, so the US is not there fully yet but arguably it is much closer.

—Jim O'Neill, *Goldman Sachs Asset Management*, as quoted in the *Financial Times*, 1/10/11

After World War II, the U.S. cut federal government spending dramatically. In 1945, federal government spending as a share of GDP peaked at 31.6%, and by 1948 it was down to 14.4%. Private real GDP (e.g., GDP less government purchases) for the three years 1946, 1947, and 1948 grew at a 7.5% annual rate. So much for the idea that cutting government spending hurts the economy.

President Clinton also cut federal government spending as a share of GDP by over four percentage points, to 18.8% in 2000 from 22.9% in 1992—more than the next four best presidents combined. We all remember the prosperity of Mr. Clinton's eight years in office. I could go on and on, but the simple fact is that cutting government spending stimulates the economy. My fervent wish would be to have Mr. Obama be more like Mr. Clinton. As it stands now, they couldn't be more diametrically opposed.

—Arthur Laffer, *Laffer Associates*, as quoted in the *WSJ*, 1/13/11

Current Buy List

The goal of the Current Buy List is to utilize the multiple sources of research to which we have access, including our in-house BB&T Capital Markets research, JPMorgan, Credit Suisse, Standard & Poor's, industry conferences, the extensive information in business publications, and the information available on the Internet. Just among our three primary research sources (BB&TCM, JPMorgan, and Credit Suisse), there are hundreds of stocks that are recommended for purchase. As independent, experienced analysts, we add value by focusing investors on stocks that look attractive on a near- to intermediate-term basis. The impetus of our stock recommendations is to give new ideas to clients to potentially add to existing portfolios. With so many names to consider, part of the process will be to quantitatively screen the universe of stocks for attributes such as value, yield, capitalization, growth, etc. The next step is basic fundamental analysis using a bottom-up approach that considers

industry trends, company specifics such as earnings, balance sheet, cash flow, management, valuation, and near-term catalysts. For inclusion on the list, a stock must be covered by at least one of our three primary resources (BB&TCM, JPMorgan, and Credit Suisse). Should there be a loss of coverage, then the stock will automatically be removed from the Current Buy List once a replacement is found. Stocks may be removed and replaced at the discretion of the Equity Strategy Group for reasons such as capital appreciation, weak fundamentals, or better perceived upside in other stocks. The Large-Cap/Blue Chip category will focus on valuation opportunities in stocks that are widely recognized by investors. The Yield category will focus on high current yield and/or the potential for rising dividends, and the Small/Midcap/Aggressive category will focus on valuation opportunities within the higher-risk, higher-return potential area. There will be no more than five stocks in each category.

Additions to the List

With oil near \$90 per barrel and the potential for improved demand in 2011 as global economies recover, we think it makes sense to own big oil. With the consolidation over the years, there aren't many choices, but we think **Chevron (CVX)** is the most attractive for fresh money. Chevron is in the process of scaling back its refining business and increasing its capital allocation to exploration and production. There is a new CEO in place who is driving the process and led the decision to acquire Atlas Energy, which gives CVX a significant presence in the Marcellus Shale. In addition, CVX has elephant-sized fields in the Gulf of Mexico and all parts of the world including Asia, Australia, and China that should drive long-term production growth. Backing these positives is a strong financial position that should allow CVX to continue buying back stock, raising the dividend, and making acquisitions. Looking at the balance

Scott &
Stringfellow Inc.

a BB&T Corporation affiliate

Current Buy List

EQUITY STRATEGY

W. Moultrie Dotterer, CFA
804-780-3279

Ticker	Date Added	Price Added	Price 2/1/2011	Return Since Add.	Price Target	Consensus Earnings				P/E Ratio		Mkt Cap (Bil)	Ind. Div. Yield	Salient Points (catalysts, fundamentals)	
						Calendar Est 2010E	Calendar Est 2011E	09 to 10 Growth	10 to 11 Growth	2010	2011				
Large Cap/Blue Chip															
Abbott Labs	ABT	4/25/08	\$50.44	\$45.23	-10.3%	\$59	\$ 4.17	\$ 4.67	12%	12%	10.8x	9.7x	69.9	3.9%	Valuation, pipeline
Chevron	CVX	12/14/10	\$88.58	\$96.22	8.6%	\$105	\$ 9.13	\$ 9.91	74%	9%	10.5x	9.7x	193.6	3.0%	Rising oil prices
Intel Corp	INTC	8/30/07	\$24.91	\$21.48	-13.8%	\$24	\$ 1.99	\$ 1.95	51%	-2%	10.8x	11.0x	119.8	2.9%	New chip cycle, corporate upgrades
Pepsico	PEP	1/12/09	\$52.66	\$65.05	23.5%	\$75	\$ 4.13	\$ 4.60	11%	12%	15.8x	14.1x	103.1	3.0%	Global brands and growth
Zimmer Holdings	ZMH	8/27/10	\$48.01	\$60.21	25.4%	\$65	\$ 4.26	\$ 4.65	3%	9%	14.1x	12.9x	11.9	0.0%	Demographics, cash flow
Yield															
Boardwalk Pipe, MLP	BWP	4/5/10	\$29.94	\$32.11	7.2%	\$34	\$ 1.37	\$ 1.59	55%	16%	23.5x	20.2x	5.4	6.4%	Capital expansion in natural gas
FirstEnergy	FE	10/4/10	\$38.77	\$39.74	2.5%	\$43	\$ 3.65	\$ 3.16	-3%	-14%	10.9x	12.6x	12.1	5.5%	Merger synergies, stable earnings
Kraft Foods Inc	KFT	10/15/09	\$26.28	\$30.67	16.7%	\$35	\$ 2.03	\$ 2.32	0%	14%	15.1x	13.2x	53.6	3.8%	Restructuring, acquisition
Pfizer	PFE	6/25/10	\$14.64	\$19.22	31.3%	\$20	\$ 2.22	\$ 2.30	7%	4%	8.7x	8.4x	154.0	3.7%	Merger synergies, dividend growth
Philip Morris Int'l	PM	6/27/08	\$49.83	\$57.72	15.8%	\$64	\$ 3.88	\$ 4.38	18%	13%	14.9x	13.2x	104.7	4.4%	International sales growth
Small/Mid Cap/Aggressive															
Aegean Marine	ANW	2/22/10	\$29.34	\$11.09	-62.2%	\$18	\$ 0.89	\$ 1.09	-16%	22%	12.5x	10.2x	0.5	0.4%	Global trade, fleet growth
ABB	ABB	10/20/06	\$14.34	\$24.00	67.4%	\$25	\$ 1.18	\$ 1.44	-6%	22%	20.3x	16.7x	55.4	7.9%	Aging power infrastructure
Expeditors Intl	EXPD	3/6/08	\$40.23	\$52.40	30.2%	\$56	\$ 1.59	\$ 1.84	43%	16%	33.0x	28.4x	11.1	1.5%	Non-asset based transportation
Teva Pharma	TEVA	2/23/06	\$42.01	\$55.78	32.8%	\$66	\$ 4.57	\$ 5.28	36%	15%	12.2x	10.6x	52.3	1.2%	Generic drugs, earnings growth
Thermo Fisher Scien	TMO	1/11/10	\$49.37	\$57.41	16.3%	\$63	\$ 3.52	\$ 4.01	15%	14%	16.3x	14.3x	22.8	17.5%	Return to earnings growth

This information should not be used as the primary basis for investment decisions nor should it be construed as advice since it may not consider the individual needs of the investor, and as such should not be considered an investment recommendation by Scott & Stringfellow. While the information above is from sources that Scott & Stringfellow believes to be reliable, we do not guarantee their accuracy or completeness. Additional information available upon request. Price targets and estimates based on consensus data from Factset or from our research correspondents..

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sheet, CVX has enough cash on hand to make it nearly debt free. The 3.1% yield is higher than average in the group and the current valuation is attractive. Energy is 8.5% of the S&P 500, so if you have clients with a lower weighting than that, you should consider adding it to their portfolios.

While the group has moved, CVX still looks attractive on a relative basis. On a relative basis it trades at 65% of the S&P 500 multiple. At the beginning of 2009 it was trading at a small premium to the market. On an absolute basis, CVX is currently trading at 9.9x the 2010 consensus estimate of \$9.31, and over the past ten years the average forward multiple has been 11.3x. At 3.1%, the dividend yield is above the average yield of the majors (2.6%) and the payout ratio on this year's earnings is just 23%. CVX has a strong record of increasing its dividend—it has increased it for 23 consecutive years and the amount has more than doubled in the past ten years. As of the end of Q3'10, CVX had \$14.5B in cash on the balance sheet and it is paying \$3.2B in cash for Atlas Energy. That leaves \$11.3B in cash and long-term debt is \$10.5B—so technically CVX has a net cash position. Just looking at the debt piece, LT debt to capital is just 9%, which is the lowest in the group. In October, CVX reinstated its buyback program and expects to repurchase between \$500M–\$1B per quarter. The differentiators between CVX and the other majors are: (1) With the purchase of Unocal in 2005, CVX has one of the largest portfolios of assets in Asia (Indonesia, Thailand, China). (2) CVX is in the process of minimizing the refining business and investing in exploration and production. In the past several years, 80% of the \$20B capex budget has gone to exploration and production. The downstream restructuring includes closing and selling facilities, a new organizational structure, and a 2010 workforce reduction of 2,000. (3) According to Credit Suisse, CVX is one of two companies that has grown its asset base and improved returns over the past four years. (4) CVX has some high-visibility projects that should drive long-term

earnings and cash flow growth—ten new projects that have come on line since 2007, which should drive 13% production growth between now and 2012. (5) CVX has a new CEO at the helm who led the acquisition of Atlas Energy, which gave CVX a significant share in the Marcellus Shale.

Removals from the List

We removed **Ace Limited (ACE)** from the Current Buy List. Although ACE is still in a position to take market share as it has done since the problems arose at AIG, we believe that there is more upside potential going forward in commodity-related names such as Chevron.

Stocks in the News

Abbott Labs (ABT) continues to innovate and recently announced the approval of a new stent product in Europe. The ABSORB stent is the first of its kind and it “restores blood flow by opening a clogged vessel and providing support to the vessel until the device dissolves within approximately two years, leaving patients with a treated vessel free of a permanent metallic implant.” Abbott continues its record of shareholder-friendly actions, having increased its dividend 10% in 2010, which marks the 38th consecutive year of increases.

Thermo Fisher Scientific (TMO) announced a sizeable acquisition (\$2.1B) of Dionex, which is the leader in ion chromatography with a 70% market share. As with most of TMO's products, Dionex's chromatographs test for contaminants and other characteristics of solutions for environmental, life sciences, and food and beverage companies. TMO expects this acquisition to add \$0.13–\$0.15 to earnings, giving it a bigger presence in the fast-growing Asian markets.

Intel Corporation (INTC) reported its final earnings for 2010 and it reached a milestone. EPS were \$2.05, which eclipsed the previous peak annual earnings during the tech bubble, when it earned \$1.65. According to research published by Credit Suisse, the average corporate desktop PC is five years old

and the average notebook PC is four years old. This bodes well for Intel since older PCs will continue to be upgraded by corporations, especially given their strong balance sheets. Speaking of strong balance sheets, Intel has a net cash position on its balance sheet of \$3.65/sh. As a vote of confidence in demand for the next several years, the company announced that it is increasing its capital expenditure budget for 2011 to \$9B, which is up 72% over last year.

Disclosures: BB&T Corporation, parent company of Scott and Stringfellow, LLC, owns shares of Abbott Labs; ABB; Chevron; Expeditors Intl; Intel; Kraft Foods; Inc., Pfizer; PepsiCo; Philip Morris International; Thermo Fisher Scientific; and Zimmer.

BB&T Capital Markets Focus List

Comprising 21 senior analysts covering nearly 300 companies in 7 sectors, BB&T Capital Markets has as its mission to provide the best value-added equity research in its focus sectors. The BB&T Capital Markets Equity Research team sponsors industry conferences highlighting companies under coverage; publishes research notes, company reports, and industry updates; and has received recognition in numerous industry surveys, including *The Wall Street Journal*, *Institutional Investor*, and *Forbes*. BB&T Capital Markets, a division of Scott & Stringfellow, LLC, provides an integrated source of middle-market capital market solutions and services for corporate, government, and institutional relationships.

2010 was a very solid year for **Gardner Denver Inc. (GDI)** in terms of the company's fundamentals (robust EPS growth, three straight "beat & raise" quarters) and stock price (increased 62% versus 24% for the S&P Industri-

als). We look for another solid showing in 2011 and believe that the stock will again outperform due to (1) improving macro conditions in industrial and energy, (2) further margin expansion, and (3) conviction in robust EPS power and upside potential. We see a favorable macro backdrop that should bode well for GDI's industrial and energy businesses. The Industrial Products segment is in the early stages of a cyclical recovery after returning to organic growth in Q2'10, and robust macro data like the recent U.S. and global ISM readings are encouraging. In the Engineered Products segment, momentum continues to build in large part due to the energy-related businesses, and in general we want to be long energy-related names at this point. In addition, despite declining revenue in H1'10, EBIT margins increased 260 bps yr/yr on management's ongoing cost control and productivity initiatives, which we expect to push margins higher going forward even with a flattish top line.

With revenue now growing again, however, we look for more impressive margin expansion (180 bps in 2011) as GDI should deliver solid incremental margins on this revenue growth. Lastly, despite significant upward revisions, we believe that consensus estimates may still be conservative and the market may still be underestimating the company's long-term potential. We estimate EPS power of more than \$5.00 in 2012 (consensus is \$4.66), without the benefit of further accretive acquisitions, and the bias to our above-consensus forecasts remains up, in our view.

We believe that 2011 could potentially be a year of elevated volatility for a number of names we follow; however, we expect a relatively smooth and solid performance from **Corn Products International (CPO)**, with the chance of double digit-type upside for the year. The company made a very favorable acquisition of National Starch in late 2010—which should accrete to earnings

BB&T Capital Markets

Equity Focus List

	Symbol	Price 1/18/11	Price Target	2009A EPS	2010E EPS	2011E EPS	2010 P/E	2011 P/E	Div. Yield	Mkt. Cap (M)	Industry	Analyst
COMMERCIAL AND INDUSTRIAL												
Dycor Industries	DY	\$16.55	\$20	\$0.53	\$0.18	A \$0.41	91.9x	40.4x	–	\$586	Specialty Construction & Facilities Services	Thalimer
Gardner Denver	GDI	\$73.18	\$80	\$2.36	\$3.28	\$4.00	22.3x	18.3x	0.3%	\$3,857	Industrial Equipment—Flow Control	Maczka
General Cable Corporation	BGC	\$37.75	\$50	\$1.99	\$2.05	\$2.80	18.4x	13.5x	–	\$1,997	Commercial Durables	McCall
Great Lakes Dredge & Dock Corporation	GLDD	\$8.35	\$10	\$0.30	\$0.54	\$0.57	15.5x	14.6x	0.8%	\$490	Building Materials	Kasprzak
Kennametal	KMT	\$44.01	\$49	\$0.79	\$1.11	A \$2.60	39.6x	16.9x	1.1%	\$3,640	Industrial Equipment—Distribution & Components	H. Lewis
PolyOne Corporation	POL	\$13.79	\$16	\$0.37	\$0.86	\$1.00	16.0x	13.8x	–	\$1,328	Chemicals	Mitsch
CONSUMER												
Corn Products International	CPO	\$48.74	\$55	\$2.01	\$2.85	\$3.65	17.1x	13.4x	1.1%	\$3,670	Agribusiness/Consumer Foods	Jones
Dollar General Corporation	DG	\$30.00	\$39	\$1.31	\$1.84	\$2.17	16.3x	13.8x	–	\$10,233	Specialty Hardlines Retailers	Chukumba
Fossil	FOSL	\$70.16	\$80	\$2.07	\$3.70	\$4.55	19.0x	15.4x	–	\$4,560	Apparel, Footwear, & Specialty Retail	Krasik
LKQ Corporation	LKQX	\$23.56	\$28	\$0.86	\$1.15	\$1.38	20.5x	17.1x	–	\$3,440	Automotive Aftermarket	Cristello
Walgreen	WAG	\$41.97	\$46	\$2.02	\$2.17	A \$2.62	19.3x	16.0x	1.7%	\$38,713	Food & Drug Merchandising	Wolf
ENERGY												
Patriot Coal Corporation	PCX	\$25.07	\$28	(\$1.77)	(\$2.00)	\$0.55	NM	45.6x	–	\$2,281	Coal	Levin
The Babcock & Wilcox Company	BWC	\$28.62	\$34	\$1.42	\$1.26	\$1.71	22.7x	16.7x	–	\$3,366	Energy Infrastructure	Norfleet
FINANCIAL SERVICES												
MCG Capital Corporation	MCGC	\$7.22	\$8	\$0.51	\$0.53	\$0.73	13.6x	9.9x	7.8%	\$552	Specialty Finance	Plack
Monarch Financial Holdings	MNRK	\$8.25	\$10	\$0.66	\$0.67	\$0.81	12.3x	10.2x	1.7%	\$49	Banks/Thriffs	Morris
HEALTHCARE SERVICES												
Medco Health Solutions	MHS	\$65.30	\$72	\$2.98	\$3.55	\$4.10	18.4x	15.9x	–	\$28,543	Healthcare Services	Goldenberg
TECHNOLOGY												
CIBER	CBR	\$4.82	\$6	\$0.24	\$0.21	\$0.34	23.0x	14.2x	–	\$337	IT Services	Price
FLIR Systems	FLIR	\$29.72	\$39	\$1.45	\$1.55	\$1.93	19.2x	15.4x	–	\$4,782	Defense & Government Services	Devaney
TRANSPORTATION SERVICES												
Rush Enterprises	RUSHA	\$19.23	\$24	\$0.21	\$0.59	\$1.10	32.6x	17.5x	–	\$735	Surface Transportation	Albrecht

Footnotes:

EPS = Nil/share for MCG Capital Corporation

All stocks are Buy (1) rated.

nically in '11 and '12—and its fundamental outlook is also very solid, owing to high-priced sugar and strong global volume growth. CPO also generates consistently strong free cash flow and is attractive on multiple valuation metrics, making it our current top pick. Corn is a very significant outlay for the company; however, it hedges a vast majority of its exposure in its North American business during the prior year. We expect spreads in its North American business to at least be comparable to 2010, if not better, due to the pricing umbrella provided by very high-priced sugar, along with much tighter industrywide utilization levels. Its market share is strong in its remaining geographies which, coupled with solid economic trends and inflated sugar prices, should allow it to pass through higher corn costs to end customers relatively effectively.

LKQ Corp. (LKQX) is our top pick for '11 in the automotive aftermarket space. We see material upside potential in shares of LKQ from current levels with the heightened demand for alternative repair parts as insurers continue to look for ways to save on claims costs, an uptick in miles driven and claims frequency, and an aggressive acquisition strategy that should not only leverage LKQ's distribution infrastructure but also diversify its revenue mix. The median vehicle on the road today is now at an all-time record (median, forecasted) age of 9.4 years, and with still-depressed (relative to historical levels) sales likely over the next two years, we anticipate that number moving beyond the ten-year mark. While OEM parts represented 65% of the total parts dollars used in repairs in '09 (according to CCC), the percentage falls off dramatically from 91% for current-year or newer vehicles to less than 50% for vehicles older than seven years. While total AP utilization rates have increased as a result of insurer preference, we expect to see additional benefit accrue to LKQX as a result of further aging of the U.S. fleet. In addition, its pace of acquisition activity is accelerating, with LKQ completing transactions worth \$115M in revenue in Q3'10 and an additional

\$100M announced in Q4 (but likely more), including an engine remanufacturing business. In addition to the potential for greater than currently modeled accretion from these deals, we also applaud the vertical extension into remanufacturing—where we see tremendous potential given that the company procures more than 200K vehicles to dismantle each year, resulting in an excellent supply of parts cores for reconditioning.

We continue to believe **The Babcock & Wilcox Company (BWC)** remains well positioned to capitalize on the pending pickup in utility maintenance and environmental equipment spending, coupled with solid profitability in its Government segment. While many utilities continue to wait for definitive EPA regulations regarding environmental and emissions standards (Transport Rule and MACT), BWC continues to experience an increased level of customer inquiries regarding regulatory compliance. Similar to commentary on its Q3 conference call, management noted that its replacement parts and services business, which historically has been a leading indicator for more substantial utility capital investment, continues to experience increased order activity. We are also growing increasingly excited about mPower, the company's small modular reactor (SMR) technology, and its potentially enormous financial impact to BWC. The company's construction of a test facility is ongoing, and should be completed in mid-2011. We believe BWC will also announce a first customer for mPower in 2011, which should allow the Street to begin assigning economic value to this business. As one of only two pressurized light water SMRs being evaluated by the NRC, and given BWC's experience building these reactors for more than 50 years, we believe the company holds a unique position to garner a majority of this market. As we have discussed previously, using IEA projections for 75 SMRs to be built over the next 15–20 years at ~\$4,500/KW, we believe the addressable market for SMRs could exceed \$40B. Lastly, we believe there

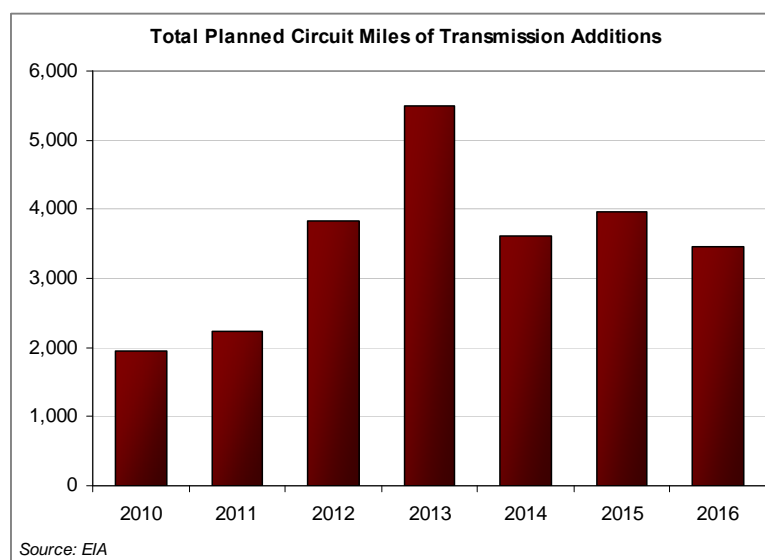
remain a number of positive catalysts in 2011, which we believe will enhance the long-term earnings profile of BWC, resulting in further multiple expansion. With a preliminary term sheet in hand, we believe USEC is close to receiving a conditional \$2B loan guarantee from the DOE for its American Centrifuge Project, for which BWC will provide manufacturing and assembly of centrifuge machines. In addition, the company also continues to actively bid on additional M&O contracts and typically books awards for its Virginia Class Submarine program in Q4.

CIBER, Inc. (CBR) is our top pick for IT Services entering '11, as the demand backdrop continues to improve (cyclically driven rebound in IT spending), CBR's more discretionary IT consulting and software services are particularly levered to improving demand, the company has significant margin upside potential, and market expectations remain relatively low and the stock inexpensive, in our opinion. While both the company and the stock have generally underperformed for the past few years relative to competitors and the market, in our view, a new CEO from outside the company is implementing a strategic realignment to improve financial performance, especially margins (e.g., consolidating locations and functions, tightening contract risk management, improving sales focus, enhancing off-shore delivery, etc.). With TTM operating margin of 2.6%, CBR is well behind consulting and commercial IT services peer group averages of 7%–8%. CBR operating margin peaked at 6% in 2004—using this as an earnings power operating margin against our 2012 revenue estimate, and applying a 10x–11x multiple, yields \$6–\$7 per share valuation. We also believe expectations are still relatively low, as the company's record of meeting expectations is mixed at best, and investors remember. CBR has underperformed the market over the past two years, and while CBR shares are up 41.4% since 12/1/10, versus the S&P 500 up only 7.4% in that period, we believe expectations remain relatively low.

Walk the (Transmission) Line

Investors solely focused on the unemployment rate and the level of foreclosed properties might wrongly conclude that the U.S. economy was still in recession. However, despite continued pressure on household balance sheets, low labor mobility, and lack of robust job growth, industrial activity has steadily expanded since the start of 2010. It was last January to the month that industrial production first turned positive yr/yr, and December's growth of 6.5% is still in the top quartile of readings going back to 1960. In terms of the actual level of production, IP appears to be back near the long-term trend, while capacity utilization is up from a trough of ~68% in mid-'09 to 76% in December, within 4 points of its long-term average of about 80%. Although the ISM index slipped a little bit in September, the PMI was also strong for much of '10 and is still in healthy territory at 57.0, with the new orders component at more than 60.0. Not surprisingly, share prices seem to have responded to the improvement in the macro data: the S&P Machinery index returned 51% in 2010, distribution and electrical equipment each returned 35%, and chemicals returned 19% versus a total return of 13% for the broader S&P 500. With such solid performance in '10, investors may wonder how much upside is left in '11. However, BB&TCM's Commercial & Industrial analysts have found more than one reason for optimism in the New Year and beyond: electric transmission and the energy value chain.

Domestic utility spending could be at the start of a long up-cycle. Past underinvestment in energy infrastructure and more recent legislation allowing higher ROEs for utilities have combined to create an estimated \$130B in electrical transmission work now in the early stages of development (according to *Renew Grid*). The conversion of projects from design to implementation as work is awarded should present a major opportunity for specialty construction firms such as **MYR Group (MYRG—\$23.05—Buy)**, for which transmissions comprised 50% of revenue in Q3'10, as well as **Quanta Services (PWR—**



\$23.89—Buy), the largest electric and natural gas transmission contractor in the United States. MYRG recently announced that it was selected as an alliance partner for the CapX2020 project, a joint effort by 11 utilities to upgrade and expand transmission in and around Minnesota that could generate \$200M in revenue for the company over the next five years and up to \$500M over the next ten. And the CapX2020 project represents only one of three awarded over the past month, which together total about \$820M in value. PWR also announced three major awards in the month (including a piece of CapX2020), adding nearly \$400M to backlog.

Higher utility and energy capex due to improved rate cases and awarded ROEs (as well as generally rising electrical demand from a growing economy) should also benefit later-cycle industrial names such as **General Cable (BGC—\$38.39—Buy)**, for which utility and electrical infrastructure products comprise nearly two-thirds of revenue. In addition, any energy efficiency-related legislation could prove an incremental positive if utilities are forced to rewire existing, less-efficient infrastructure, while the company's geographic diversification (less than 30% of its revenue is generated within the United States) provides an opportunity to invest in international demand.

Higher energy prices are also driving higher energy-related capital expansion and maintenance spending. As energy demand improves and oil and coal prices move higher, increased spending on extraction and refining and the reopening of previously idled capacity should be a positive for companies such as BGC and **Team, Inc. (TISI—\$26.07—Buy)**, whose services include leak repair, hot tapping, heat treating, valve repair, pipeline inspection, non-destructive testing, emissions control monitoring, field machining, and technical bolting. About 50% of TISI's revenue comes from the refining industry, while 90% is associated with maintenance spending. Dayton, OH-based **Robbins & Myers, Inc. (RBN—\$42.11—Buy)**, whose fluid management segment is composed of more than two-thirds oil & gas business, is levered further upstream to drilling and exploration and should benefit from increased demand related to horizontal drilling rigs for shale formations.

CHOICE Portfolios

CHOICE Portfolios	1-Year Return	3-Year Return	5-Year Return	Since Inception
Special Opportunities	11.5%	1.2%	7.6%	9.4%
Equity Income	14.6%	-0.7%	5.1%	7.0%
Leaders	13.3%	-0.7%	5.5%	2.4%
Enhanced Equity	10.3%	-2.0%	3.2%	4.9%
S&P 500 Total	15.1%	-2.9%	2.3%	1.4%

Annualized returns net of fees through 12/31/10

Inception date for Special Opportunities, Equity Income, and Leaders is 12/31/00

*Inception date for Enhanced Equity is 12/31/03

Scott & Stringfellow is pleased to offer our CHOICE portfolios, which are designed to help clients meet their financial goals using equity investments, with an objective of maximizing returns on a risk-adjusted basis. CHOICE consists of four portfolios, two of which are also provided as mutual funds, managed by a team with more than 135 years of combined investment and business experience.

Recent Additions to the CHOICE Portfolios

Special Opportunities: We added drug maker **Merck**, which traded two multiple points cheaper than Bristol-Myers (which we removed from the portfolio this quarter), with superior top- and bottom-line growth prospects through 2015. Merck expects to generate \$3.5 billion of annual cost savings from its recently consummated merger with Schering-Plough. And while healthcare reform has injected a greater degree of uncertainty into investors' views of healthcare companies, we think market-low valuations for the sector amply discount such concerns.

Itron is a world leader in electronic meter-reading equipment that provides utility companies with efficiency gains (the meters automatically report usage, reducing the need to send humans from house to house on a monthly basis to read meters). Only 9% of utility meters are automated today, providing a long runway of opportunity for companies like Itron. Automated metering technology also enables utilities to tier their pricing based on peak/non-peak usage, encouraging consumers to shift their demand, which in turn reduces the need for utilities to add baseload generating capacity.

Seemingly everyone now knows **Southwest Airlines** doesn't charge for checked bags or for changing a ticket. We've long been attracted to the company's profitable business model (37 straight years of profitability) and its customer-friendly business model – and so have a lot of customers; over the past decade, Southwest's revenue has doubled, while industry capacity has been flat. We also like the prospects for the company's merger with AirTran to open up more growth opportunities via additional domestic routes and international expansion.

Finally, we added **EOG Resources**, one of the largest domestic oil and natural gas companies. Delays in obtaining drilling equipment have caused the company to temper its near-term guidance, but EOG nonetheless still anticipates 30%+ annual production growth through 2012. The company boasts an industry-leading return on capital and traded at a discount to its peers at the time of our purchase.

Equity Income: During the quarter, we made two changes to our portfolio: one purchase, and one sale. In fact, 2010 proved to be a below-average turnover year for us, which is saying something, considering our average holding period traditionally approached three years. In late October, we added Holland's **Philips Electronics**, a world leader in consumer electronics, healthcare diagnostic equipment, and lighting. It is our view that aligning our investments with the direction of public policy ought to prove fruitful – regardless of whether we agree with the direction our elected officials are leaning at a given moment in time. Thus, our purchase of Philips reflects the fact that nations

around the world already have adopted regulations phasing out incandescent lighting, in favor of more energy-efficient fluorescent and LED alternatives. By Philips' estimate, the global lighting market will grow at twice the rate of GDP through 2015, as the world converts to newer, greener technologies (chart courtesy Philips). At the time of our purchase, Philips shares yielded 2.5% and traded at just 10x earnings, despite a debt-free balance sheet and an acceleration in orders.

Leaders: In late November we added financial services leader **MetLife** to the portfolio. The company's financial strength enabled it to weather the "Great Recession" remarkably well from a capital standpoint, not tapping the U.S. Treasury's Capital Purchase Program (TARP) while many others did. In addition, MET managed to not only maintain its dividend, but actually has raised it twice in the past five years. More recently, the company displayed its financial strength by acquiring American Life Insurance Company (ALICO) from AIG in a "distress sale." Management has said it expects ALICO to add \$0.50 to 2011 earnings per share, which could help the company top the \$5 mark for earnings per share. For reference, we purchased the stock below \$38 per share and the consensus estimate for year-end 2011 book value is \$47 per share.

Recently Removed Securities

Special Opportunities:

Bristol Meyers Squibb	12/10/10
Akamai Technologies	11/8/10
Symantec Corp	10/28/10
Baxter International	10/22/10

Equity Income:

Family Dollar Stores	10/5/10
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Leaders

Flowers Foods	11/23/10
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Additions and deletions to the CHOICE portfolios for the past 12 months are available upon request.

CHOICE Special Opportunities Portfolio

Ticker	Price 12/31/2010	52-Week Range	Mkt Cap (Bil)	09	EPS		P/E		EPS GROWTH			NetDebt/ Cap	ROE	Yield									
					10E	11E	10E	11E	2009	2010E	2011E												
Financials		4% of S&S Portfolio			16% of S&P 500																		
Markel	MKL	\$378.13	\$393 - \$321	\$3.7	\$24.33	\$15.86	\$16.64	23.8	22.7	17%	(-35%)	5%	NMF	10%	0.0%								
Information Technology		31% of S&S Portfolio			19% of S&P 500																		
Adobe Systems	ADBE	30.78	38 - 25	15.9	1.57	1.96	2.31	15.7	13.3	(-22)	25	18	0	15	0.0								
Activision Blizzard	ATVI	12.44	13 - 10	15.0	0.69	0.77	0.82	16.2	15.2	19	11	7	0	10	1.2								
Cisco Systems	CSCO	20.23	28 - 19	113.6	1.46	1.61	1.70	12.6	11.9	(-1)	10	6	0	19	0.0								
Dell	DELL	13.55	18 - 11	26.5	1.08	1.40	1.50	9.7	9.0	(-24)	29	7	0	37	0.0								
eBay	EBAY	27.83	32 - 19	37.4	1.58	1.69	1.86	16.5	14.9	(-8)	7	10	0	15	0.0								
Harris Corp	HRS	45.30	55 - 40	5.8	4.23	4.64	4.95	9.8	9.2	14	10	7	22	28	2.2								
Intuit	INTU	49.30	51 - 29	15.7	1.94	2.24	2.56	22.0	19.3	15	15	14	0	20	0.0								
Itron	ITRI	55.45	82 - 52	2.2	2.12	4.03	4.37	13.8	12.7	(-37)	90	9	30	6	0.0								
Consumer Staples		8% of S&S Portfolio			11% of S&P 500																		
Dole Food	DOLE	13.51	14 - 9	1.2	1.45	0.96	1.33	14.1	10.2	NMF	(-34)	39	60	33	0.0								
Engerizer	ENR	72.90	77 - 49	5.2	5.23	5.74	6.37	12.7	11.4	(-11)	10	11	38	24	0.0								
Health Care		23% of S&S Portfolio			11% of S&P 500																		
Becton Dickinson	BDX	84.52	86 - 66	19.5	4.95	5.08	5.65	16.6	15.0	8	3	11	0	22	1.9								
Gilead Sciences	GILD	36.24	50 - 32	30.1	3.06	3.65	4.04	9.9	9.0	37	19	11	0	51	0.0								
McKesson	MCK	70.38	72 - 57	18.1	4.43	4.78	5.30	14.7	13.3	16	8	11	0	18	1.0								
Merck	MRK	36.04	42 - 31	113.2	3.25	3.36	3.82	10.7	9.4	(-5)	4	14	10	23	4.1								
Teva Pharmaceutical	TEVA	52.13	65 - 47	50.1	3.48	4.57	5.29	11.4	9.9	14	31	16	14	14	1.4								
UnitedHealth Group	UNH	36.11	38 - 27	40.7	3.24	3.91	3.75	9.2	9.6	10	21	(-4)	0	17	1.4								
Consumer Discretionary		8% of S&S Portfolio			11% of S&P 500																		
Comcast	CMCSA	21.97	23 - 15	62.1	1.10	1.26	1.47	17.5	14.9	21	14	17	39	8	1.7								
YUM Brands	YUM	49.05	52 - 32	23.1	2.17	2.50	2.82	19.6	17.4	14	15	13	67	NMF	2.0								
Industrials		8% of S&S Portfolio			11% of S&P 500																		
L-3 Communications	LLL	70.49	98 - 66	8.0	7.61	8.19	8.34	8.6	8.5	9	8	2	29	14	2.3								
Southwest Airlines	LUV	12.98	14 - 10	9.8	0.19	0.74	0.92	17.6	14.1	(-53)	289	25	10	3	0.1								
Energy		15% of S&S Portfolio			12% of S&P 500																		
Apache	APA	119.23	121 - 82	44.0	5.62	9.23	10.55	12.9	11.3	(-50)	64	14	14	10	0.5								
EOG Resources	EOG	91.41	115 - 85	23.7	3.00	1.10	2.91	83.0	31.4	(-63)	(-63)	164	17	8	0.7								
Halliburton	HAL	40.83	42 - 21	37.4	1.35	2.00	2.73	20.4	15.0	(-38)	48	36	9	15	0.9								
Weatherford	WFT	22.80	23 - 12	17.1	0.50	0.57	1.24	39.7	18.4	(-75)	15	116	39	4	0.0								
Basic Materials		0% of S&S Portfolio			4% of S&P 500																		
Utilities		4% of S&S Portfolio			3% of S&P 500																		
Nextera Energy	NEE	51.99	56 - 45	21.8	4.05	4.36	4.45	11.9	11.7	5	8	2	59	14	3.8								
Telecom Services		0% of S&S Portfolio			3% of S&P 500																		
Portfolio Average				\$29.3				18.1x		13.8x		-8%		24%		22%		18%		18%		1.0%	
S&P 500		SPX	\$1258	\$1275 - \$1011	\$24.3	\$56.87	\$83.66	\$94.80	15x	13.3x	15%		47%		13%		24%		15%		1.8%		

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CHOICE Leaders Portfolio																							
Ticker	Price 12/31/2010	52-Week Range	Mkt Cap (Bil)	09	EPS		P/E		EPS GROWTH			NetDebt/ Capital	ROE	Yield									
					10E	11E	10E	11E	2009	2010E	2011E												
Financials		4% of S&S Portfolio				16% of S&P 500																	
MetLife	MET	\$44.44	\$48 - \$33	\$45.0	\$2.87	\$4.30	\$5.05	10.3	8.8	-21%	50%	17%	22%	9%	1.6%								
Information Technology		17% of S&S Portfolio				19% of S&P 500																	
Corning	GLW	19.32	21 - 15	30.2	1.35	2.07	1.91	9.3	10.1	(-12)	54	(-8)	0	15	1.0								
Google	GOOG	593.97	631 - 434	192.6	20.41	28.91	33.72	20.5	17.6	22	42	17	0	20	0.0								
Oracle	ORCL	31.30	32 - 21	160.9	1.36	1.79	2.23	17.5	14.0	3	32	24	0	25	0.6								
Microsoft	MSFT	27.91	32 - 23	240.4	1.92	2.28	2.58	12.2	10.8	5	19	13	0	44	2.3								
Consumer Staples		21% of S&S Portfolio				11% of S&P 500																	
Danone	DANOY	12.65	13 - 10	41.5	0.64	0.72	0.81	17.6	15.6	(-16)	13	13	31	15	2.3								
Kellogg	K	51.08	56 - 47	18.8	3.21	3.30	3.45	15.5	14.8	5	3	5	64	66	3.2								
Coca-Cola	KO	65.77	66 - 49	151.5	3.06	3.50	3.86	18.8	17.0	(-3)	14	10	7	31	2.7								
Walgreen	WAG	38.96	40 - 26	36.6	2.11	2.39	2.73	16.3	14.3	1	13	14	3	15	1.8								
Wal-Mart	WMT	53.93	56 - 48	194.2	3.65	4.03	4.43	13.4	12.2	8	10	10	29	21	2.2								
Health Care		21% of S&S Portfolio				11% of S&P 500																	
Amgen	AMGN	54.90	61 - 50	52.9	4.83	5.11	5.28	10.7	10.4	8	6	3	0	23	0.0								
Community Health	CYH	37.37	42 - 26	3.5	2.59	2.98	3.24	12.5	11.5	19	15	9	76	14	0.0								
Humana	HUM	54.74	61 - 43	9.3	6.15	6.90	6.08	7.9	9.0	43	12	(-12)	0	21	0.0								
Johnson & Johnson	JNJ	61.85	66 - 57	173.1	4.63	4.75	5.01	13.0	12.3	2	3	5	0	28	3.4								
Medtronic	MDT	37.09	47 - 31	40.1	3.00	3.32	3.58	11.2	10.4	12	11	8	24	25	2.4								
Consumer Discretionary		8% of S&S Portfolio				11% of S&P 500																	
Staples	SPLS	22.77	26 - 17	17.1	1.14	1.27	1.53	17.9	14.8	(-12)	11	21	12	14	1.5								
Time Warner Cable	TWC	66.03	67 - 41	23.8	3.39	3.65	4.44	18.1	14.9	(-10)	8	22	69	9	2.4								
Industrials		4% of S&S Portfolio				11% of S&P 500																	
Republic Services	RSG	29.86	33 - 25	11.6	1.48	1.67	1.91	17.9	15.6	90	13	14	48	8	2.6								
Energy		13% of S&S Portfolio				12% of S&P 500																	
Exxon Mobil	XOM	73.12	74 - 56	374.7	4.01	5.91	6.64	12.4	11.0	(-52)	47	12	0	17	2.4								
Occidental Petroleum	OXY	98.10	100 - 72	79.7	3.78	5.62	6.99	17.5	14.0	(-58)	49	25	5	12	1.9								
Transocean	RIG	69.51	95 - 42	22.1	11.39	6.16	6.98	11.3	10.0	(-17)	(-46)	13	33	19	0.0								
Basic Materials		4% of S&S Portfolio				4% of S&P 500																	
Newmont Mining	NEM	61.43	66 - 43	30.8	2.70	3.88	4.76	15.9	12.9	39	44	23	9	14	1.0								
Utilities		8% of S&S Portfolio				3% of S&P 500																	
AES Corp	AES	12.18	14 - 9	9.7	1.08	0.94	1.12	13.0	10.9	1	(-13)	20	57	17	0.0								
Exelon	EXC	41.64	50 - 37	27.6	4.12	4.00	4.09	10.4	10.2	(-2)	(-3)	2	42	23	5.0								
Telecom Services		4% of S&S Portfolio				3% of S&P 500																	
Vodafone	VOD	26.44	29 - 18	138.4	2.67	2.71	2.87	9.8	9.2	(-6)	1	6	27	6	5.0								
Portfolio Average				\$85.0				14x		12.5x		2%		13%		13%		21%		19%		0.9%	
S&P 500		SPX	\$1258	\$1275 - \$1011	\$24.3	\$56.87	\$83.66	\$94.80	15x	13.3x	15%	47%	13%	24%	15%	1.8%							

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CHOICE Equity Income Portfolio

Ticker	Price 12/31/2010	52-Week Range	Mkt Cap (Bil)	EPS		P/E		EPS GROWTH			NetDebt/ Cap	ROE	Yield	5Yr Div Gr																							
				09	10E	11E	10E	11E	2009	2010E					2011E																						
Financials				4% of S&S Portfolio				16% of S&P 500																													
Hudson City Bancorp	HCBK	\$12.74	\$15 - \$11	\$6.8	\$1.07	\$1.04	\$0.91	12.3	14.0	19%	-3%	-13%	NMF	10.7%	4.6%	17.5%																					
Information Technology				15% of S&S Portfolio				19% of S&P 500																													
Intel	INTC	21.03	24 - 18	116.7	1.21	1.99	1.96	10.6	10.8	8	64	(-2)	0	17	3.4	14.5																					
Paychex	PAYX	30.91	33 - 25	11.4	1.40	1.39	1.47	22.3	21.0	(-7)	(-1)	6	0	36	3.9	17.7																					
Taiwan Semiconductor	TSM	12.54	13 - 9	65.5	0.52	0.70	0.72	17.9	17.4	(-15)	35	3	0	16	3.7	44.7																					
Texas Instruments	TXN	32.50	34 - 22	38.5	1.26	2.51	2.57	13.0	12.6	(-20)	99	2	0	17	1.6	36.1																					
Consumer Staples				23% of S&S Portfolio				11% of S&P 500																													
Archer-Daniels-Midland	ADM	30.08	34 - 24	19.4	2.97	3.01	3.10	10.0	9.7	5	1	3	28	14	2.0	12.0																					
Diageo Plc	DEO	74.33	76 - 56	46.5	4.36	4.78	5.39	15.6	13.8	(-3)	10	13	54	49	3.2	2.0																					
Kraft	KFT	31.51	33 - 27	55.1	2.04	2.03	2.33	15.5	13.5	9	(-0)	15	38	13	3.7	5.9																					
Kimberly-Clark	KMB	63.04	67 - 58	25.7	4.74	4.63	5.00	13.6	12.6	14	(-2)	8	38	43	4.2	8.0																					
PepsiCo	PEP	65.33	68 - 59	104.3	3.71	4.12	4.59	15.8	14.2	1	11	11	15	41	2.9	13.4																					
Phillip Morris Int'l	PM	58.53	61 - 43	106.2	3.29	3.89	4.38	15.1	13.4	(-1)	18	13	64	98	4.4	N/A																					
Health Care				12% of S&S Portfolio				11% of S&P 500																													
Abbott Laboratories	ABT	47.91	57 - 45	74.1	3.72	4.17	4.66	11.5	10.3	12	12	12	17	29	3.7	9.7																					
Novartis	NVS	58.95	60 - 43	156.8	3.70	5.21	5.49	11.3	10.7	3	41	5	0	16	3.3	17.2																					
Pfizer	PFE	17.51	20 - 14	142.7	2.02	2.22	2.30	7.9	7.6	(-17)	10	4	16	21	4.5	(1.1)																					
Consumer Discretionary				12% of S&S Portfolio				11% of S&P 500																													
McDonald's	MCD	76.76	81 - 61	81.3	3.98	4.60	5.03	16.7	15.3	8	16	9	36	32	3.2	27.5																					
Omnicom Group	OMC	45.80	48 - 34	14.0	2.53	2.72	3.17	16.8	14.5	(-20)	7	16	10	20	1.7	11.6																					
Pearson Plc	PSO	15.89	16 - 13	13.0	1.04	0.91	0.90	17.5	17.7	(-3)	(-13)	(-1)	18	9	3.4	4.6																					
Industrials				15% of S&S Portfolio				11% of S&P 500																													
Illinois Tool Works	ITW	53.40	54 - 40	27.0	2.28	3.08	3.69	17.4	14.5	(-30)	35	20	15	14	2.5	16.3																					
Lockheed Martin	LMT	69.91	87 - 68	25.1	8.43	6.99	6.60	10.0	10.6	12	(-17)	(-6)	29	93	4.3	20.2																					
Philips Electronics	PHG	30.70	36 - 27	31.0	0.62	2.57	2.84	11.9	10.8	(-45)	315	11	0	15	2.5	15.5																					
Waste Management	WM	36.87	37 - 31	17.6	2.00	2.07	2.30	17.9	16.0	(-10)	3	11	50	16	3.7	8.2																					
Energy				12% of S&S Portfolio				12% of S&P 500																													
ConocoPhillips	COP	68.10	69 - 47	100.6	3.59	5.94	6.52	11.5	10.4	(-67)	65	10	19	13	3.2	12.7																					
ChevronTexaco	CVX	91.25	92 - 67	185.5	5.69	9.19	10.02	9.9	9.1	(-50)	61	9	2	13	3.1	10.2																					
Natural Resource	NRP	33.20	35 - 18	3.6	1.17	1.48	1.94	22.4	17.1	(-41)	26	31	40	10	6.3	9.1																					
Basic Materials				0% of S&S Portfolio				4% of S&P 500																													
Utilities				4% of S&S Portfolio				3% of S&P 500																													
Kinder Morgan Mgt	KMR	66.88	68 - 49	6.1	1.38	1.51	1.83	44.3	36.6	(-33)	9	21	61	6	6.5	7.1																					
Telecom Services				4% of S&S Portfolio				3% of S&P 500																													
Verizon	VZ	35.78	36 - 25	102.5	2.40	2.21	2.25	16.2	15.9	(-6)	(-8)	2	41	16	5.4	3.6																					
Portfolio Average				\$60.6				15.6x		14.2x		-11%		31%		8%		24%		26%		3.6%		13.8%													
S&P 500				SPX				\$1258		\$1275 - \$1011		\$24.3		\$56.87		\$83.66		\$94.80		15x		13.3x		15%		47%		13%		24%		15%		1.8%		-1.2%	

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Economic Calendar

Date	Time	Indicator	Period	Consensus	Last
Feb 3	08:30 a.m.	Productivity Prelim	Q4	2.0%	2.3%
Feb 3	08:30 a.m.	Unit Labor Costs Prelim	Q4	0.3%	-0.1%
Feb 3	08:30 a.m.	Initial Claims	01/29	425K	454K
Feb 3	08:30 a.m.	Continuing Jobless Claims	01/22		3,991K
Feb 3	10:00 a.m.	Factory Orders	Dec	-0.5%	0.8% R
Feb 3	10:00 a.m.	ISM-NMI	Jan	57.0	57.1
Feb 3	01:00 p.m.	Fed Chairman Bernanke speaks at National Press Club	2011-02-03		
Feb 4	08:30 a.m.	Nonfarm Payrolls	Jan	146K	103K
Feb 4	08:30 a.m.	Hourly Earnings	Jan	0.2%	0.1%
Feb 4	08:30 a.m.	Average Workweek	Jan	34.3	34.3
Feb 4	08:30 a.m.	Unemployment Rate	Jan	9.5%	9.4%
Feb 4	01:00 p.m.	Fed's Fisher speaks on the economy	2011-02-04		
Feb 7	03:00 p.m.	Consumer Credit	Dec	\$1.7B	\$1.3B
Feb 8	01:30 p.m.	Fed's Fisher speaks on the economy	2011-02-08		
Feb 10	08:30 a.m.	Initial Claims	02/05		
Feb 10	08:30 a.m.	Continuing Jobless Claims	01/29		
Feb 10	10:00 a.m.	Wholesale Inventories	Dec		-0.2%
Feb 11	09:55 a.m.	Michigan Sentiment Prelim	Feb	74.0	74.2
Feb 14	10:00 a.m.	Fed's Dudley briefs on quarterly household debt	2011-02-14		
Feb 15	08:30 a.m.	Retail Sales	Jan		0.6%
Feb 15	08:30 a.m.	Empire State Index	Feb		11.9
Feb 15	10:00 a.m.	Business Inventories	Dec		0.2%
Feb 15	10:00 a.m.	NAHB Housing Mkt Index	Feb		16
Feb 16	08:30 a.m.	Building Permits	Jan		0.627M R
Feb 16	08:30 a.m.	Housing Starts	Jan		0.529M
Feb 16	08:30 a.m.	PPI	Jan		1.1%
Feb 16	09:15 a.m.	Industrial Production	Jan		0.8%
Feb 16	09:15 a.m.	Capacity Utilization	Jan		76.0%
Feb 17	08:30 a.m.	Continuing Jobless Claims	02/05		
Feb 17	08:30 a.m.	Initial Claims	02/12		
Feb 17	08:30 a.m.	CPI	Jan		0.5%
Feb 17	10:00 a.m.	Philadelphia Fed Index	Feb		19.3
Feb 17	10:00 a.m.	Leading Indicators	Jan		1.0%
Feb 21	-	Presidents Day - U.S. Markets Closed	2011-02-21		
Feb 22	09:00 a.m.	S&P/Case-Shiller Home Price Index (mthly)	Dec		
Feb 22	09:00 a.m.	S&P/Case-Shiller Home Price Index (qtrly)	Q4		
Feb 22	10:00 a.m.	Consumer Confidence	Feb		
Feb 22	10:00 a.m.	Richmond Fed Index	Feb		
Feb 23	10:00 a.m.	Existing Home Sales	Jan		
Feb 24	08:30 a.m.	Durable Orders	Jan		
Feb 24	10:00 a.m.	New Home Sales	Jan		
Feb 25	08:30 a.m.	GDP Second Report	Q4		
Feb 25	10:00 a.m.	Michigan Sentiment Final	Feb		
Feb 28	08:30 a.m.	PCE	Jan		
Feb 28	08:30 a.m.	Personal Income	Jan		
Feb 28	09:45 a.m.	Chicago PMI	Feb		
Feb 28	10:00 a.m.	Pending Home Sales Index	Jan		
Feb 28	10:30 a.m.	Dallas Fed Index	Feb		
Mar 1	10:00 a.m.	ISM (Manufacturing)	Feb		
Mar 1	10:00 a.m.	Construction Spending	Jan		
Mar 3	10:00 a.m.	ISM-NMI	Feb		
Mar 4	08:30 a.m.	Nonfarm Payrolls	Feb		
Mar 4	08:30 a.m.	Manufacturing Payrolls	Feb		
Mar 4	08:30 a.m.	Hourly Earnings	Feb		
Mar 4	08:30 a.m.	Average Workweek	Feb		
Mar 4	08:30 a.m.	Unemployment Rate	Feb		
Mar 4	10:00 a.m.	Factory Orders	Jan		

Source: FactSet

Capital Markets Performance

Equities	2/1/11	12/31/10	Δ YTD	Δ 1 Month	Δ 3 Months	Δ 6 Months	Δ 1 Year	Δ 2 Year *
S&P 500	1,307.59	1,257.64	4.0%	4.0%	10.4%	18.7%	20.1%	58.3%
Dow Jones Industrials	12,040.16	11,577.51	4.0%	4.0%	8.2%	15.0%	18.2%	50.5%
NASDAQ Composite	2,751.19	2,652.87	3.7%	3.7%	9.8%	22.0%	26.7%	86.3%
NYSE Composite	8,290.09	7,964.02	4.1%	4.1%	10.4%	18.4%	18.3%	59.6%
AMEX Composite	2,201.28	2,208.38	-0.3%	-0.3%	5.5%	16.2%	21.4%	55.0%
Russell 2000	798.89	783.65	1.9%	1.9%	14.4%	22.7%	31.1%	80.1%
MSCI EAFE	821.70	800.91	2.6%	2.6%	6.1%	9.9%	8.0%	35.1%
S&P Consumer Discretionary	297.02	295.54	0.5%	0.5%	7.1%	20.0%	28.8%	96.2%
S&P Consumer Staples	300.37	303.58	-1.1%	-1.1%	1.4%	8.1%	10.0%	31.9%
S&P Energy	554.13	506.75	9.3%	9.3%	24.8%	37.5%	31.1%	48.1%
S&P Financials	225.51	214.77	5.0%	5.0%	15.2%	13.9%	16.3%	81.9%
S&P Healthcare	372.81	364.78	2.2%	2.2%	3.1%	12.6%	2.0%	22.1%
S&P Industrials	318.76	301.12	5.9%	5.9%	14.6%	21.3%	30.9%	76.1%
S&P Information Technology	429.05	404.55	6.1%	6.1%	9.2%	21.3%	24.6%	91.0%
S&P Materials	246.02	239.61	2.7%	2.7%	14.2%	27.1%	30.0%	92.8%
S&P Telecommunication Services	125.33	128.74	-2.6%	-2.6%	2.9%	13.8%	20.0%	26.1%
S&P Utilities	162.79	159.34	2.2%	2.2%	2.1%	5.7%	7.8%	11.0%
MSCI REIT Index	788.35	760.96	3.6%	3.6%	4.4%	12.8%	33.0%	88.8%
Treasury Yields	2/1/11	12/31/10	Δ YTD	Δ 1 Month	Δ 3 Months	Δ 6 Months	Δ 1 Year	Δ 2 Year *
3-Month T-Bill	0.15%	0.12%	3 bps	3 bps	2 bps	0 bps	5 bps	-9 bps
6-Month T-Bill	0.17%	0.19%	-2 bps	-2 bps	1 bps	-3 bps	0 bps	-19 bps
1-Year T-Bill	0.26%	0.29%	-3 bps	-3 bps	4 bps	-3 bps	-7 bps	-25 bps
2-Year T-Note	0.58%	0.61%	-3 bps	-3 bps	24 bps	3 bps	-28 bps	-36 bps
5-Year T-Note	1.95%	2.01%	-6 bps	-6 bps	78 bps	35 bps	-43 bps	10 bps
10-Year T-Note	3.42%	3.30%	12 bps	12 bps	76 bps	48 bps	-26 bps	55 bps
30-Year T-Bond	4.58%	4.34%	24 bps	24 bps	57 bps	60 bps	2 bps	100 bps
2-10 Spread	2.84%	2.69%	15 bps	15 bps	52 bps	45 bps	2 bps	91 bps
Funding Costs	2/1/11	12/31/10	Δ YTD	Δ 1 Month	Δ 3 Months	Δ 6 Months	Δ 1 Year	Δ 2 Year *
Fed Funds Rate	0.18%	0.14%	3 bps	3 bps	-2 bps	0 bps	4 bps	-4 bps
Prime Rate	3.25%	3.25%	0 bps	0 bps	0 bps	0 bps	0 bps	0 bps
1-Month LIBOR	0.26%	0.26%	0 bps	0 bps	1 bps	-4 bps	3 bps	-16 bps
3-Month LIBOR	0.31%	0.30%	1 bps	1 bps	2 bps	-14 bps	6 bps	-87 bps
6-Month LIBOR	0.46%	0.46%	0 bps	0 bps	2 bps	-21 bps	8 bps	-120 bps
Currencies	2/1/11	12/31/10	Δ YTD	Δ 1 Month	Δ 3 Months	Δ 6 Months	Δ 1 Year	Δ 2 Year *
€ : \$	1.38	1.34	2.8%	2.8%	-0.7%	5.9%	-0.7%	7.6%
£ : \$	1.62	1.57	3.2%	3.2%	0.7%	3.1%	1.6%	12.0%
\$: ¥	81.50	81.11	0.5%	0.5%	1.0%	-6.0%	-10.2%	-9.3%
Commodities	2/1/11	12/31/10	Δ YTD	Δ 1 Month	Δ 3 Months	Δ 6 Months	Δ 1 Year	Δ 2 Year *
Crude Oil	\$90.77	\$91.38	-0.7%	-0.7%	9.4%	15.0%	22.0%	117.8%
Natural Gas	\$4.35	\$4.42	-1.7%	-1.7%	13.4%	-11.7%	-20.0%	-1.6%
Gold	\$1,340.30	\$1,421.40	-5.7%	-5.7%	-0.8%	13.2%	21.3%	44.4%
S&P GSCI	655.33	631.83	3.7%	3.7%	15.1%	24.9%	32.9%	94.9%

* Cumulative

Source: FactSet

IMPORTANT DISCLOSURES

Price Chart

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CIBER, Inc. (CBR)	1, 6
Corn Products International, Inc. (CPO)	1, 4, 5, 6, 9
Dole Food Company, Inc. (DOLE)	1, 6
Dollar General Corporation (DG)	1, 6, 9
Dycom Industries, Inc. (DY)	1, 4, 5, 6, 9
Expeditors Int'l of Washington, Inc. (EXPD)	1
FLIR Systems, Inc. (FLIR)	1, 6
Family Dollar Stores, Inc. (FDO)	4, 5, 6, 9
Flowers Foods, Inc. (FLO)	1, 6, 8, 9
Fossil, Inc. (FOSL)	1, 6, 9
Gardner Denver, Inc. (GDI)	6, 9
General Cable Corporation (BGC)	1, 6
Great Lakes Dredge & Dock Corporation (GLDD)	1, 6
Illinois Tool Works Inc. (ITW)	6
Kennametal Inc. (KMT)	1, 6, 9
L-3 Communications Holdings, Inc. (LLL)	6
LKQ Corporation (LKQX)	1, 6, 9
MCG Capital Corporation (MCGC)	1, 6
MYR Group Inc. (MYRG)	1, 6
Medco Health Solutions, Inc. (MHS)	1, 6
Monarch Financial Holdings, Inc. (MNRK)	1, 6
Norfolk Southern Corporation (NSC)	1, 6
PPG Industries, Inc. (PPG)	6
Patriot Coal Corporation (PCX)	1, 6

PolyOne Corporation (POL)	1, 4, 5, 6, 9
Quanta Services, Inc. (PWR)	1, 6, 9
Robbins & Myers, Inc. (RBN)	6
Rush Enterprises, Inc. (RUSHA)	1, 6, 9
Staples, Inc. (SPLS)	1, 6
Team, Inc. (TISI)	1, 6, 9
The Babcock & Wilcox Company (BWC)	1, 6, 9
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