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# Crummer/Suntrust Portfolio: Analysis and Recommendations [2010]

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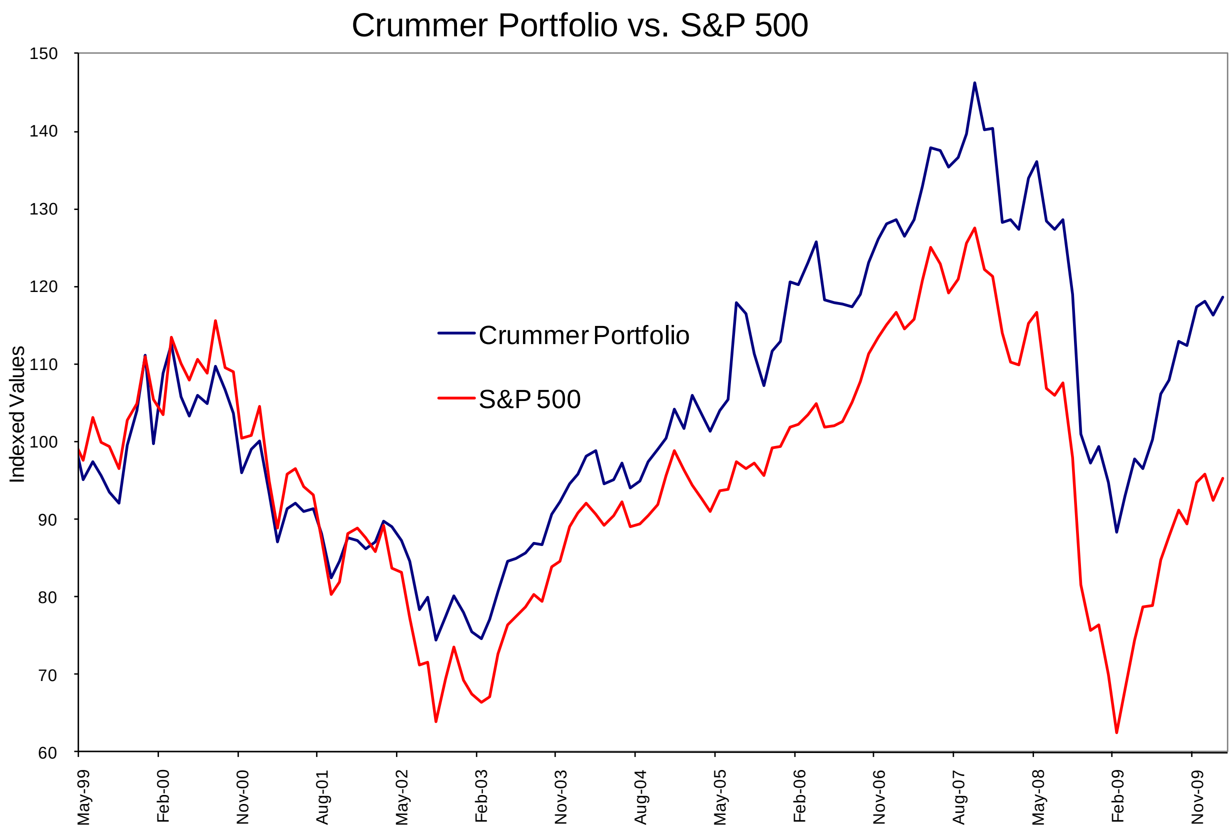
**2010**

# CRUMMER/SUNTRUST PORTFOLIO:
## ANALYSIS AND RECOMMENDATIONS

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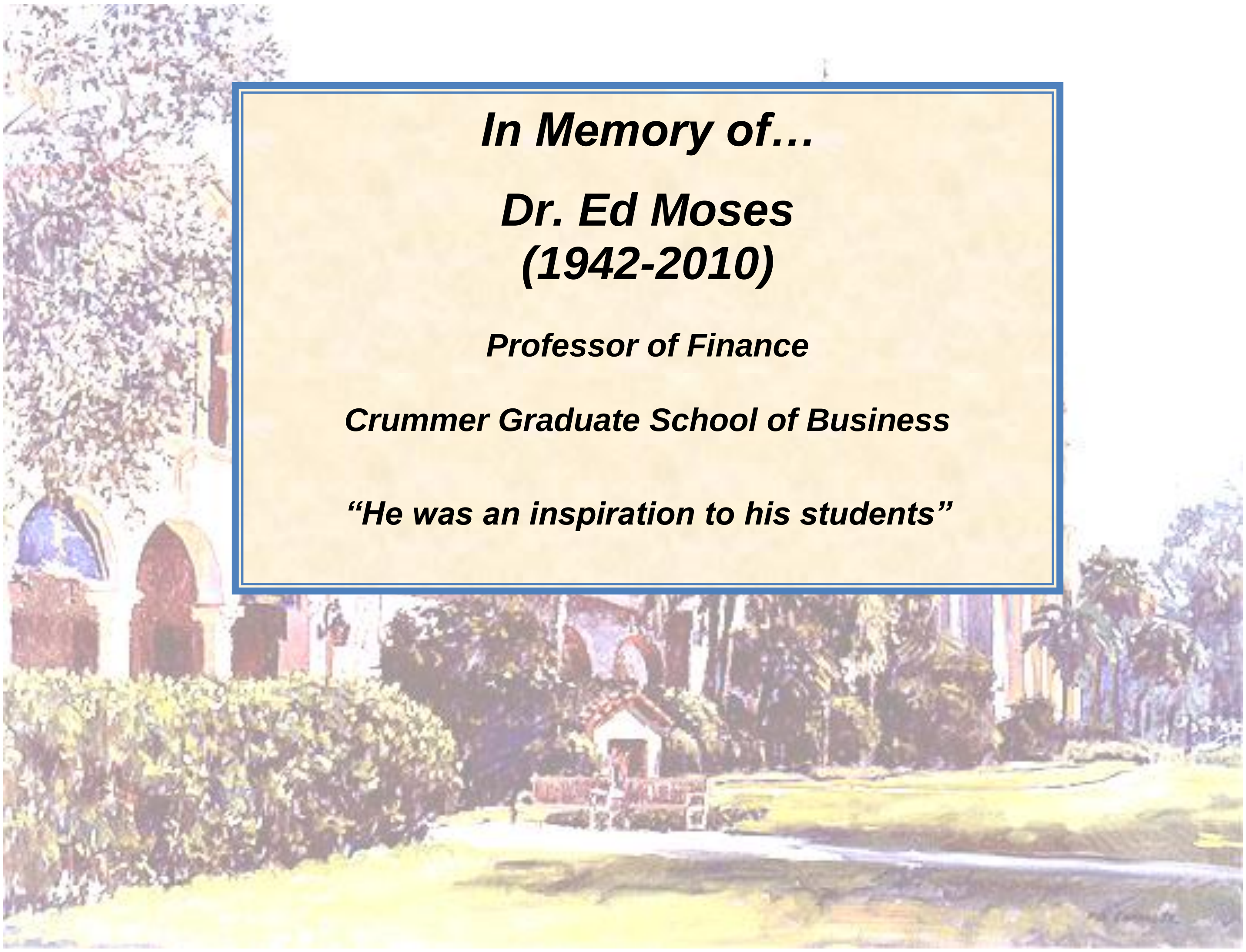

## *In Memory of…*

## *Dr. Ed Moses*
## *(1942-2010)*

***Professor of Finance***

***Crummer Graduate School of Business***

***"He was an inspiration to his students"***

# Table of Contents

# Team

- **Kate Morgenier, Managing Director**
- **Eric Bindslev, Consumer Staples**
- **Chris MacLellan, Consumer Discretionary**
- **Sean Warrington, Industrials**
- **Varun Kumar, Health care**
- **Joshua Truitt, Materials and Energy**
- **Tolu Odulesi, Telecommunications**
- **Richard Rankin, Technology**
- **Beth Owens, Financial, Utilities & Fixed Income**

## 96% Equity and Market Neutral… Because There Still are Monsters in the Closet

We believe that a market-weighted portfolio is the most appropriate strategy for the Crummer/ SunTrust Endowment in the coming year. This is not the time for a more aggressive position because there still are monsters in the market's closet capable of sending us back into the abyss. This economic and market outlook explains our reasoning.

Like the Great Depression, this recession originated in the financial sector, and these recessions last longer and recovery is much slower. There are still more catalysts for crisis out there, including the inevitability of rate hikes, increased government spending and taxation, profit-sapping bank reform, and international turmoil. The biggest threat, however, is Fed risk. Any misstep by the Fed as it disentangles itself from the economy will lead to dramatic declines in bond prices, posing a threat to the portfolio's principal currently invested in bonds. Beyond capital preservation, we believe that in the short term the road ahead will be smoother for stocks than bonds. As corporate earnings continue to rise, the stock market will also rise. Our action plan reflects our economic and market outlook by moving the portfolio to 96% equity in a market-neutral allocation, focusing on stock selection, prioritizing quality, looking for exposure outside the U.S, and remaining cautious through the coming year.

### *I. The Economic Recovery: It Is Different This Time*

Normally after a recession the economy bounces back; however, it ***is*** different this time. This recession was a byproduct of a global financial crisis whereas every recession since the Great Depression was the result of business cycles. A recession originating in the financial sector causes much longer lead times and, therefore, we are not going to have the recovery of past recessions.[1] According to William Dickens, Distinguished Professor of Economics and Social Policy at Northeast University,

> Normally at the end of a recession, what the Federal Reserve taketh away it can giveth, spurring a recovery. This has been successful in all the postwar recessions, but this time history is of no help, given the unique reasons for the past recession. The two main tools — fiscal stimulus and lower interest rates — have already been deployed and are no longer available.[2]

[1] Brown, Craig. "Why Is This Recession Different." *Seeking Alpha*. N.p., 1 Jan. 2010. Web. 15 Mar 2010. <http://seekingalpha.com/article/115204-why-is-this-recession-different>.

[2] Banham, Russ. "The Shape of Things to Come." *CFO Magazine* 1 Mar. 2010: n. pag. Web. 15 Mar 2010. <http://www.cfo.com/printable/article.cfm/14476856>.

The following six economic predictions provide a more detailed view of this slower-paced recovery and, ultimately, support our market-neutral position.

- **Average economic growth but sluggish in comparison to previous recessions.** Since the middle of 2008, we have seen a major market rebound—yet it is clear the US economy is not out of woods. Undoubtedly, serious structural problems remain including ongoing consumer deleveraging, a banking system slowly facing up to deteriorating loan quality, an increasing yet uncertain regulatory environment, still-troubled credit markets and a real estate market that may still be recovering for years to come. The outlook is worsened by the sorry state of public finances, both at the state and federal levels. Fundamentally, there are still times of uncertainty ahead and more catalysts for crisis out there. According to Prudential, the major factors for volatility include market concerns about the sustainability of the GDP recovery and fears about a double-dip, uncertainty about central bank exit strategies and the fallout from potential aftershocks of the financial crisis, such as the recent Greek dance with bankruptcy.[3] The WSJ also reports that a major unknown is how the markets will fare once the Fed starts siphoning off some of the unprecedented amounts of liquidity it pumped into the financial markets to the support the economy, especially if the Fed moves too soon. Also hovering over the markets is a fear that the massive U.S. government deficit will lead to a steep decline in the dollar.[4] Reflecting these structural problems, consumer confidence remains low, falling to 46.0 in February from 55.9 in January.[5] No recovery will be robust or sustainable unless consumer demand, which accounts for approximately 70% of US economic activity, returns to something like normal levels.

  Others do see more light in the dark. BlackRock expects that positive cyclical forces will prevail over the structural problems.[6] Prudential's research suggests GDP growth will be driven by low interest rates, inventory rebuilding (as demonstrated by the 5.9% U.S. fourth-quarter GDP growth), improving global trade, and a modest recovery in the housing market.[7] Therefore, we predict U.S. economic growth will be at about 3% for 2010, a pace close to the long-term average but below that associated with a typical recovery.

- **Weak employment growth with gradual declines in the unemployment rate.** After brutal job losses in 2009, unemployment appears to be stabilizing around 9.7%. FIX Nevertheless,

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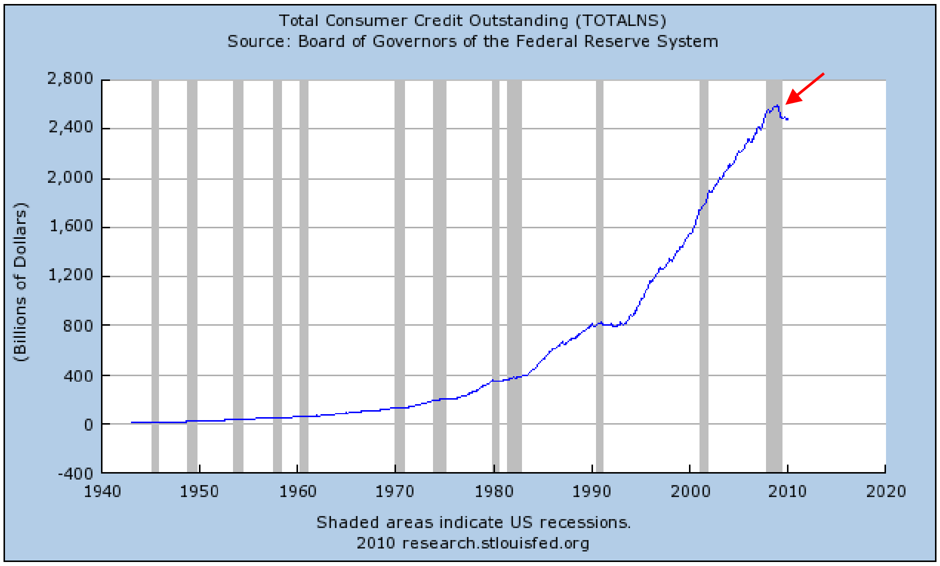
[3] Op cit., Praveen
[4] Lauricella, Tom. "For Rebuilt Markets, A Test in 2010." *Wall Street Journal* 5 Jan. 2010: n. pag. Web. 15 Mar 2010. <http://online.wsj.com/article/SB10001424052748704162104574630242432745528.html>
[5] Sutton, Chavon. "Consumer Confidence tumbles in February." *CNNMoney*. CNN, 23 Feb. 2010. Web. 15 Mar 2010. <http://money.cnn.com/2010/02/22/news/economy/consumer_confidence_index/>.
[6] Doll, Bob. "What's Ahead in 2010: An Investment Perspective." *BlackRock*. N.p., 1 Jan. 2010. Web. 15 Mar 2010. <http://www.wrapmanager.com/images/uploads/blog/BlackRock_WhatsAheadin2010.pdf>.
[7] Praveen, John. "Global Economic Outlook 2010: The Year Ahead." *Prudential International Investment Advisors*. N.p., 4 Jan. 2010. Web. 15 Mar 2010. <http://news.prudential.com/images/65/2010_Prudential_Global_Economic_Outlook_010410_Final>.

this same rate was a 26-year high back in September of last year.[8] According to Dr. Seyfried, Crummer Graduate School of Business Professor of Economics, unemployment is likely to ease later on in the year. However, he believes may be several years before we see unemployment below 8% in the U.S.[9]

- **Continued consumer deleveraging.** As Figure 1 depicts, consumers have just begun to deleverage the enormous amount of debt they accumulated, but much more running down is bound to continue throughout 2010. Dr. Seyfried predicts consumers will be hard pressed to spend money while they are paying down debt.[10]

Figure 1[11]




- **Subdued inflation.** According to the Federal Reserve, inflation is likely to remain a non-issue. Depressed growth in developed countries, high unemployment, and significant levels of slack will support easy global monetary policy. Even with slight U.S. employment growth, the Fed expects inflation levels to remain muted in 2010.[12]

- **Interest rates drift upward, but not quickly.** According to many observers, the Fed appears convinced the inflation threat is low and is committed to fostering a recovery in both the economy and the financial markets. However, long-term rates may rise reflecting rising government debt, a gradual removal of the Fed's quantitative easing measures, and, perhaps,

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[8] "Monetary Policy Report to Congress." *Board of Governors of the Federal Reserve System*. Federal Reserve Board, 24 Feb. 2010. Web. 15 Mar 2010. <http://www.federalreserve.gov/monetarypolicy/mpr_20100224_part1.htm>.

[9] Opinion provided by Dr. William Seyfried, Crummer Graduate School of Business Professor of Economics, on February 22, 2010.

[10] ibid

[11] "Total Consumer Credit Outstanding (TOTALNS)." *Federal Reserve Bank of St. Louis*. Web. 15 Mar 2010. <http://research.stlouisfed.org/fred2/graph/?s[1][id]=TOTALNS>.

[12] Op cit., Federal Reserve Board

a stronger economy.[13] Any misstep by the Fed could also lead to a sharp rise in rates. As bond finance dictates, even a small unexpected increase in rates leads to declining bond prices.

- **Corporate earnings rise significantly.** In the downturn of 2008, the business sector was quick to cut costs, including payrolls, and increase productivity as much as possible. According to BlackRock, this trend should continue, significantly improving corporate earnings. Prudential similarly foresees margins widening with falling unit labor costs and other efficiency gains. Ongoing weakness in the dollar should also help to support earnings, especially for firms with greater exposure to international markets.[14]

### *II. The Capital Markets: Fleeing to Safety, but This Time to Stocks?*

The economic problems looming could toss the market back into anything from a mild to a serious downturn, and we assume the next year will not be without difficulties. In addition, according to various analysts, the sentiment is that the overall market is now fairly priced. Significantly, we believe the risk in bonds outweighs the benefit of their diversification. Therefore, we are recommending a significant reduction in the portfolio's bond position.

- **Recovery Priced, but Stock beat Bonds.** Stocks were extremely undervalued during the heart of the credit crisis, and today most view them as generally fairly priced based on long-term trend.[15] Statistically, the average Price over Book Value of the S&P over the past 30 years has been 2.41. The current P/BV is 2.45. In November 2009, it was 2.31. Nevertheless, we believe that investment opportunities can be found in the current environment, and maintain that stocks should outperform bonds and cash. Prudential's research suggests stocks are still attractively valued relative to bonds. According to Prudential, future gains in the equity markets will be driven by: 1) Solid, sustained GDP growth with growth likely to surprise on the upside; 2) Low headline & core inflation; 3) Global central banks keeping rates on hold near zero, and liquidity remaining plentiful; 4) Strong earnings growth with rising revenues, wider margins & improved pricing power. Positive earnings surprises likely, and 5) Continued stabilization in financial market conditions and risk appetite improving further. Prudential's research also suggests bond yields are expected to rise with solid, sustained GDP growth, a reversal in headline inflation from the 2009 disinflation, and an increase in risk appetite. In addition, rising interest rates are inevitable as the Fed drains liquidity, another negative for bonds.[16]

  In addition to the aforementioned fundamental reasons, statistical evidence also points in favor of stocks during this period. A yield curve at near record steepness and an uncertain

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[13] "Economic and Market Outlook: Monetary and Fiscal have Continued to Weigh on Markets ." *J.P. Morgan Private Bank* 11 Fed. 2010: Print.
[14] Op cit., Doll
[15] Op cit., Doll
[16] Op cit., Praveen

timing of rising rates creates a highly unattractive environment for bonds. Moreover, Dr. Singleton's research provides historical evidence that periods of steep yield curves have created a prime opportunity for gains in the stock market.[17]

In our judgment, the risk in bonds outweighs their diversification potential at this current time. The chances are much greater for a loss in the bond market due to the risks of an increase in interest rates. Any misstep by the Fed as it disentangles itself from the economy will lead to dramatic declines in bond prices, posing a threat to the portfolio's principal currently invested in bonds. In addition, we believe the stock market current level is supportable at a minimum. Dick Bove of Rochdale Securities sees two major reasons for continued stock appreciation. Firstly, the world is awash in liquidity: "We still have $40 trillion, according to my calculations, in terms of worldwide money supply, growing at 6% a year," he says. "That's $2.25 trillion of new money created every year; it has to go somewhere."[18] Secondly, risk appetite has returned. From junk bonds to emerging markets to U.S. stocks, Bove says investors are once again chasing returns in riskier assets. Finally, our predicted increase in earnings guards against a reversal of the stock market's gains.

### *III. Beyond Market-Neutral: Our Action Plan*

**Quality is key**. We plan to focus on high quality investments. The future of our economy remains uncertain; thus, to keep risk low we have instituted a preference for larger cap stocks and mature companies with strong free cash flow and a strong balance sheet. According to Morningstar's equity analysts, "The opportunities are mostly in large, high-quality stocks. These shares are the cheapest from a valuation perspective, and their competitive advantageous should position them well in the event of another downturn."[19] We also favor those companies that have responsibly distributed a consistent dividend because this provides evidence of a health and stability. Finally, we currently prefer value to growth stocks. Historically, value stocks have performed best in past recoveries. Although over the last several months, the opportunities to take advantage of undervalued stocks have declined, J.P. Morgan believes that there are still many smart buys in the market for value investors.[20]

**Looking for exposure outside the U.S.** According to J.P. Morgan, select international markets provide stronger economic growth, attractive valuations and potential boost from a weaker dollar.[21] We plan to invest more heavily in multinational companies and ETFs for exposure.

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[17] Research provided by Dr. J. Clay Singleton, Crummer Graduate School of Business Professor of Finance, on February 22, 2010.

[18] Gorenstein, Peter. "Don't Stop Believing: Stock Market Rally is 'Sustainable,' Dick Bove Says." Yahoo Finance. N.p., 21 March 2010. Web 21 Mar 2010. < http://finance.yahoo.com/tech-ticker/article/445174/Dont-Stop-Believing:-Stock-Market-Rally-is-%22Sustainable,%22-Dick-Bove-Says>.

[19] Glaser, Jeremy. "Happy Birthday, Market Rally." *Morningstar*. N.p., 9 Mar. 2010. Web. 15 Mar 2010. <http://news.morningstar.com/articlenet/article.aspx?id=328937>.

[20] Op cit., J.P. Morgan

[21] ibid

**Remember there is no such thing as a free lunch.** The opportunity to make any kind of so-called "easy" money quickly appears to have come and gone in the downturn and subsequent rally of the recent past. The principles of risk/reward continue to stand true and for at least until April 2011, we are likely to see ongoing volatility and heightened dispersion between the winners and the losers. In this sort of environment, selectivity will be critical.

**Remain cautious—preserve capital.** In this time of continued uncertainty, we will maintain market sector weightings and concentration on careful stock selection to reduce our downside risk and ensure asset preservation.

In our judgment, a market-weighted portfolio is the best-suited strategy for the Crummer/SunTrust Endowment through April 2011 because monsters still exist in the market's closet. Our economic and market perspective explains our reasoning. Firstly, this is not a typical recession, resulting in a less-than-typical recovery period. Secondly, from a capital markets perspective, Fed risk and uncertainty on the economic front will inevitably lead to volatility in the markets and may produce a decline in bond values. In addition, no longer does it appear that equities are as grossly underpriced as they were several months ago. Nevertheless, equities stand strong against the risks of capital loss associated with bonds at this time. Although it is unconventional to hold almost solely equities, we stand in unconventional times. Beyond market-neutral, our action plan reflects our market judgments by prioritizing quality, looking for exposure outside the U.S., focusing on stock selection, and remaining cautious during this time. We are confident our position will not only ensure asset preservation, but it will allow the portfolio to outperform the market.

# Investment Process and Philosophy

- Research moves down from the economy to sector to company.

- One or two analysts are assigned to cover the S&P economic sectors based on their prior knowledge, experience and interest in the sector. Analysts research how their sectors have performed in previous similar economic conditions and consult expert forecasts for their sectors. Ultimately, they recommend sector holdings and their respective weights within their sector.

- The portfolio is sector-weighted. Sector budgets were developed by the Managing Director based on the S&P 500 sector weights as of March 8, 2010. The Managing Director uses two models, Mean-Variance Optimization and Variance-of-Risk, to determine the effect of the proposed new weightings and makes appropriate adjustments based on the determined risk/return objectives.

- According to the assigned sector budget, analysts critically analyze current holdings in their sectors and make buy/hold/sell recommendations on these holdings as well propose additional holdings, if applicable. This year all sectors received additional funds from the proceeds of liquidating the bond portfolio.

- A one-year or a long-term focus may be used for holdings as each holding is designated short-or-long-term. This gives the next class insight regarding our suggested holding period.

- Companies with attractive relative valuations and strong fundamentals, particularly strong cash flow, return on assets, conservative leverage, history of profit retention for funding future growth, and soundness of capital management for the maximization of shareholder earnings and returns, are selected to provide for superior total return with reduced volatility.

- Fundamental catalysts are necessary for a buy decision; likewise, fundamentals must not be performing as expected by previous class for a sell decision.

- The Managing Director makes the final decision on stock selection based on analysts' recommendations.

SunTrust

# Consumer Discretionary

## *Uncertainties Ahead. Potential Gains Within Manufacturing Segment.*

This highly cyclical sector has benefitted from the improving economy and is positioned for further gains, particularly in the manufacturing segment. Unfortunately, we believe there are too many lingering uncertainties in the economy for this sector to fully realize these potential gains and continue its outperformance.

**Overview**

The Consumer Discretionary Sector encompasses those consumer related industries that tend to be the most sensitive to economic cycles. Its manufacturing segment includes automotive, household durable goods, textiles & apparel and leisure equipment. The services segment includes hotels, restaurants and other leisure facilities, media production and services, and consumer retailing services.

**Strong Performance during economic recovery**

In general, discretionary spending tends to decrease during a recession, which results in poor performance for the sector. Therefore, the sector tends to be among the first groups to move during a recovery. We saw this play out as it was one of the first sectors to move higher once the market began recovering from its trough in March of last year. In 2009, this sector index rose 41% versus a 26% advance for the 500. The Crummer Portfolio, being roughly 600 bps underweight compared to the S&P 500 benchmark, missed out on a proportionate share of this sector's gains last year.

**Potential for continued gains**

The sector could continue to see strong gains if certain macro-economic factors improve. An uptick in employment, which is positively correlated with discretionary spending, looks to be stabilizing[22]. Also, retailers have cut costs and remain lean which should continue to help profits and produce a high level of positive earnings surprises According to Standard & Poor's. Lastly, recent data from the Fed suggests consumer lending standards have likely peaked which will increase consumers' ability to spend on discretionary items.

[22] NPR. (2010, March 5). *Tracking U.S. Monthly Unemployment.* Retrieved March 12, 2010, from NPR: http://www.npr.org

**Economic uncertainties still lingering**

The breadth of economic uncertainties around high unemployment, increased savings rate, high delinquency of credit, and removal of monetary and government stimulus paint a grim picture for consumer spending. Without jobs, consumers won't be making money to splurge on discretionary items. The current trend of increased personal savings also negatively impacts discretionary spending[23]. According to the Fed's statistics, the loan and credit card delinquency rate, which is negatively correlated with discretionary spending, continues to move higher[24]. Lastly, some economists believe the ending of government stimulus and removal of monetary stimulus could stymie a rebound in consumer spending and dampen economic prospects[25]. For the sector to continue its outperformance, these economic uncertainties will need to improve.

**Manufacturing segment potential**

To improve the portfolio's diversification within the sector, we recommend increasing its exposure to the manufacturing segment. We see a catalyst for strong performance due to potential pent-up demand, where a slight upturn in demand is likely to translate into a strong upswing in production and in manufacturing employment. We believe the automotive industry is well positioned to benefit from this pent-up demand. Sales of new automobiles are running at a rate of roughly two million below the number of old vehicles that get scrapped each year, suggesting that the current sales pace is unsustainably low. Although the automotive industry has experienced substantial gains over the past year, we believe these gains were mostly due to lessening worries of bankruptcy, suggesting that the pent-up demand is not yet priced into the sector. There will also be demand from inventory replenishment. Inventories were drastically cut in late 2008 and throughout 2009 after being overloaded with products. The US total business inventories/sales ratio at the end of January was 1.25, below its average of 1.39[26]. We also see a catalyst in automotive industry. The pent-up demand coupled with inventory replenishment will serve as fertile ground for the manufacturing segment to outperform.

**Summary**

Although this sector will benefit from an economic recovery, the uncertainties in our economic forecast regarding the strength of the recovery will restrain further outperformance. We advocate increasing exposure to the manufacturing subsector to improve the portfolio's diversification. Market-weighting the Consumer Discretionary sector at 10.25% of equity is an increase of more than 550 bps from its current level.

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[23] U.S. Department of Commerce. (2010, February 26). *Comparison of Personal Saving in the National Income and Product Accounts.* Retrieved March 8, 2010, from Bureau of Economic Analysis: http://www.bea.gov

[24] Federal Reserve. (2010, February 19). *Charge-off and Delinquency Rates.* Retrieved March 8, 2010, from Federal Reserve Statistical Release: htt://www.federalreserve.gov

[25] Brad Sorensen, CFA. Director of Market and Sector Analysis. Schwab Center for Financial Research

[26] Federal Reserve Bank of St. Louis. (2010, March 1). *Data List - Inventory.* Retrieved March 13, 2010, from Economic Research: http://research.stlouisfed.org

## *Detailed Company Overviews*

### *Abercrombie & Fitch Co.* [27] *- HOLD*

| ***Stock Symbol: ANF*** | ***Market Capitalization: 3.79B*** |
|---|---|
| Last Trade: 43.09 | P/E (ttm): 48.97 |
| 52 Week Range: 16.90 – 43.66 | EPS (ttm): 0.88 |
| Dividend Yield: 1.62% | Z-Score: 4.072 |
| Beta: 1.53 | Revenue From Abroad: 15% |
| Recommended Holding Period: Short-term | |

We recommend holding shares of ANF. The company is financially strong and will benefit from opportunities in the future. However, we suggest remaining on the sidelines as the company tweaks its business and reacts to changing consumer preferences.

Abercrombie & Fitch Co. is a specialty retailer that operates stores selling casual apparel, such as knit shirts, graphic t-shirts, jeans, woven shirts and personal care and other accessories for men, women and kids. The Company operates stores in the United States and Canada as well as retails its products over the Internet.

ANF has strong cash flows, a very healthy balance sheet with a current ratio of 2.7, and little downside risk with a z-score of 8.1. However, the stock is trading at a premium with a 12-month P/E of 48.9.

Although ANF beat 4Q expectations, mostly due to strong growth internationally, the overall outlook for the company is unenthusiastic. Strong headwinds in consumer spending have reduced top-line sales and deteriorated gross margins, particularly on the domestic front. These trends are persisting as the company continues to be forced into running unplanned markdowns, pushing many new products straight to clearance, and further reducing Average Unit Retail (AUR) prices. ANF will remain challenged throughout the next year as it continues to realign its business offering to changing consumer preferences. While international expansion represents a significant opportunity, there is little evidence of a turnaround in process at this point in time.

[27] Summary obtained from Bloomberg. Data obtained from Brean Murray, Carret & Co. Equity Research, Barrons, Bloomberg, and NetAdvantage.

## *Walt Disney Co[28]. - HOLD*

| ***Stock Symbol: DIS*** | ***Market Capitalization: 65.30 B*** |
|---|---|
| Last Trade: 33.69 | P/E (ttm): 19.14 |
| 52 Week Range: 17.01 – 33.81 | EPS (ttm): 1.76 |
| Dividend Yield: 1.04% | Z-Score: 2.598 |
| Beta: 1.15 | Revenue From Abroad: 24% |
| Recommended Holding Period: Long-term | |

We give Disney a hold rating. Overall, there seems to be a balance of positives and negatives that lead us to a neutral outlook on the company.

The Walt Disney Company, an entertainment company, conducts operations in media networks, studio entertainment, theme parks and resorts, consumer products, and Internet and direct marketing. The Company produces motion pictures, television programs, and musical recordings, as well as publishes books and magazines. Disney also operates ABC radio and television and theme parks.

The stock's P/E multiple is slightly unfavorable compared to its peers. The recent acquisition of Marvel is expected to result in mid-single digit EPS dilution in FY 10 (after repurchasing nearly 60 million shares issued in the transaction).

The company has shown broad-based improvements across all its core businesses which has led to strong recent earnings. Recent changes in management, re-positioning of creative resources and improvements in cost structure can help provide above-average earnings growth for the company. Profitability has improved and looks to be sustainable due to restructuring efforts, despite lower revenues. Park attendance has grown 4% over the past quarter. However, DIS has increased promotional activities in order to sustain attendance momentum as occupancy rates worsen. Also, cable programming costs, one of the single biggest expense items for the company, were up about 9% last quarter, the fourth straight quarter of increased cable costs. These negatives seem to balance out the positives. Furthermore, increasing exposure to this highly cyclical stock would bring excessive risk to our portfolio, considering our grim economic outlook.

[28] Summary obtained from Bloomberg. Data obtained from BMO Capital Markets, Barrons, Bloomberg, and NetAdvantage.

## *McDonald's Corp.*[29] *– INCREASE POSITION*

| ***Stock Symbol: MCD*** | ***Market Capitalization: 70.51 B*** |
|---|---|
| Last Trade: 65.53 | P/E (ttm): 15.94 |
| 52 Week Range: 51.36 – 65.98 | EPS (ttm): 4.11 |
| Dividend Yield: 3.36% | Z-Score: 5.785 |
| Beta: 0.63 | Revenue From Abroad: 65% |
| Recommended Holding Period: Long-term | |

We recommend buying shares of MCD. The company has an attractive P/E multiple, a strong dividend, and is a defensive play which aligns well with our economic outlook.

McDonald's Corporation operates and franchises fast-food restaurants worldwide. The Company's franchised and company operated fast food restaurants offer a variety of low price fast foods in locations around the world.

The stock has a strong P/E analysis, trading at 15.9x compared to its sub-industry's ratio of 28.3x. The $2.20 per share annual cash dividend is an additional attraction to owning the shares. Analysts view MCD as an excellent low risk/absolute return opportunity due to a 15x P/E based on 2010 estimates, compared to its 15-16x long-term average, and a 5% FCF yield.

MCD has successfully navigated through lingering economic difficulties and is up 16.08% over the past six months compared to the Restaurants sub-industry gain of 11.87%. Furthermore, the shares are seen as a defensive play against further risks to a global economic rebound, which aligns well with our economic outlook. Key risks to our recommendation include higher than expected food costs, poor customer acceptance of MCD's new menu offerings, and exchange rate risk in light of MCD's substantial international business.

[29] Summary obtained from Bloomberg. Data obtained from Morgan Stanley Research, Barrons, Bloomberg, and NetAdvantage.

## *Staples, Inc.*[30] *- HOLD*

| ***Stock Symbol: SPLS*** | ***Market Capitalization: 17.07 B*** |
|---|---|
| Last Trade: 23.42 | P/E (ttm): 22.96 |
| 52 Week Range: 15.51 – 26.00 | EPS (ttm): 1.02 |
| Dividend Yield: 1.54% | Z-Score: 3.697 |
| Beta: 0.78 | Revenue From Abroad: 33% |
| Recommended Holding Period: Long-term | |

We recommend holding shares of Staples. The company is positioned to benefit from improving labor markets. We believe there are too many lingering uncertainties in the economic recovery at this point in time which will prevent the stock from outperforming in 2010. However, we recommend holding shares of SPLS due to the added diversification it brings to the sector and exposure it gives to the anticipated increase in business spending.

Staples, Inc. retails office supplies, furniture, and technology. The Company's customers include consumers and businesses in the United States, Canada, the United Kingdom, and Germany. Staples serves its customers through office superstores, mail order catalogs, the Internet, and a contract business.

The stock looks to be fully valued. Shares are trading at nearly 18x S&P's FY 11 EPS estimate. However, the company has a strong balance sheet and significant free cash flow generation.

SPLS is the largest and best operator in its sub-industry with one of the deepest management teams in all of retail. The company will eventually benefit from being highly correlated to improving labor markets. Although consumer and government spending is predicted to be weak, the prospects of business spending is much more favorable. A recovery in the top line should lead to accelerating margin trends given the synergies extracted from the CXP integration, a favorable product mix, and cost leverage from increased sales. However, we remain cautious due to the company's high correlation with the macroeconomic environment, which contains many uncertainties.

[30] Summary obtained from Bloomberg. Data obtained from J.P. Morgan Equity Research, Barrons, Bloomberg, and NetAdvantage.

## *Autoliv, Inc.*[31] - *BUY*

| ***Stock Symbol: ALV*** | ***Market Capitalization:*** |
|---|---|
| Last Trade: 48.33 | P/E (forward): 10.3 |
| 52 Week Range: 15.33 – 49.00 | EPS (ttm): -0.05 |
| Dividend Yield: N/A | Z-Score: 2.338 |
| Beta: 1.97 | Revenue From Abroad: 77% |
| Recommended Holding Period: Long-term | |

We recommend buying shares of ALV due to our prediction of a strong automotive recovery in 2010.

Autoliv, Inc. develops and manufactures automotive safety systems for automotive manufacturers. The Company's products include seat belts, airbags, anti-whiplash seats, child restraints, and leg protection equipment. Autoliv tests cars and products at crash test tracks in several countries.

ALV currently trades at a 10.3x P/E on 2012 based on J.P. Morgan's 2012 EPS estimate of $4.25. We believe a premium valuation is reasonable given the above average growth outlook for automotive safety products. Analysts expect a strong 20% rebound in sales for 2010, after a 21% decline in 2009. Furthermore, Autoliv has a sound balance sheet and strong cash flow generation and should emerge from the downturn as a stronger player.

ALV has maintained a stable market share globally and is well positioned to tap huge market potential by expanding into low-cost countries and make major acquisitions. The company has the benefit of a regulatory tailwind from the increasing importance of vehicle safety needs. Their heavy exposure in emerging markets offers strong upside with tightening safety standards across all regions as markets evolve. Downside risks include the duration of the global automotive downturn exceeding expectations and high product liability risk, making the company vulnerable to lawsuits. However, the highly cyclical risks associated with the company should be offset by rising demand for safety equipment in vehicles.

[31] Summary obtained from Bloomberg. Data obtained from J.P. Morgan Equity Research, Barrons, Bloomberg, and NetAdvantage.

## *Hasbro Inc[32]. - BUY*

| *Stock Symbol: HAS* | *Market Capitalization: 5.12 B* |
|---|---|
| Last Trade: 37.57 | P/E (ttm): 15.40 |
| 52 Week Range: 22.27 – 38.82 | EPS (ttm): 2.48 |
| Dividend Yield: 2.62% | Z-Score: 4.612 |
| Beta: 1.13 | Revenue From Abroad: 40% |
| Recommended Holding Period: Long-term | |

We recommend buying shares of HAS. The company has transformed itself to adapt to technological advancements and will also benefit from a deep pipeline of upcoming movies.

Hasbro, Inc. designs, manufactures, and markets toys, games, interactive software, puzzles, and infant products in the United States and internationally. The Company's products include a variety of games, including traditional board, card, hand-held electronic, trading card, role-playing and DVD games, as well as electronic learning aids and puzzles as well as dolls and action figures.

The stock looks reasonably priced at 15 times 2010 earnings, but about 12 times 2011 earnings. It has a very strong balance sheet with a debt-to-total capital ratio of 42%. It recently lifted its dividend to $1 a share, for a yield of 2.6%. 4Q09 EPS was up 77% Y/Y. Sales growth is expected to continue in 2010, generated from a new robust product line. 4Q09 gross margins expanded 260 bps Y/Y due to fewer markdowns and lower costs. These improvements look sustainable going forward as previously negotiated vendor terms should offset potential cost increases.

The company has recently transformed its business model by using new forms of technology to reach consumers. The company has a deal in 2010 with Electronic Arts to convert properties such a Monopoly to electronic formats, including the iPhone. Upcoming movies that Hasbro controls and has licensing arrangements for include Iron Man II, Toy Story III, and Transformers III. Hasbro is also boosting its presence internationally and should benefit from stronger global sales. Key risks include dependency on licensed brands, foreign currency translations, product recalls, and dependency on five largest customers which account for over 50% of its business.

[32] Summary obtained from Bloomberg. Data obtained from Morgan Joseph Equity Research, Barrons, Bloomberg, and NetAdvantage.

## *Summary of Portfolio Allocation Changes*

| Holding | No. of Shares As of 4/12/10 | Proposed No. of Shares | Mkt Value As of 4/12/10 | Proposed Mkt Value |
|---|---|---|---|---|
| AMZN | 30 | 75 | $4,236 | $14,422 |
| MCD | 125 | 150 | $8,566 | $18,639 |
| ALV | 0 | 150 | $0 | $8,059 |
| HAS | 0 | 275 | $0 | $10,810 |

# Consumer Staples

### *Value - Here Yesterday. Gone Today.*

Because of our conservative economic outlook and our belief that most of the value is already priced in this sector, market weighting consumer staples is appropriate. Even so, innovations like CVS' "Minute Clinic" and Church & Dwight's Oxi Clean Max Force suggest there are still some opportunities in this sector.

**Undervalued in '08–Fairly valued in '10**

Consumer staples can be regarded as a defensive sector that has shown resilience during recessionary periods. For example, in 2008 the S&P had a return of -34.47% while the consumer staples sector had only a -15.43% annual return, not only outperforming the market substantially but also the 9 others sectors by a range of 7.4% to 39.9%. However, since recovery in the market began in March of '09, we have seen a reversing trend. The S&P began to significantly outperform the consumer staples sector because all of the value had already been found in consumer staples securities. Now that the market has calmed down in early '10 we are left to believe that the sector is fairly valued.

**Opportunities in Drug Retail & Household Products**

The fundamental outlook for the drug retail industry is favorable for the next 12 months according to analysts at Standard & Poor's. In 2009, the S&P Drug Retail Index outperformed the S&P 500 by 1.4% due to the increased importance investors placed on the long term view of the industry. Analysts at UBS believe for this growth to continue in 2010 due to consolidation within the industry, improvements in merchandise management, a growing presence of in-store clinics, as well as favorable demographic trends. These factors will benefit the national chains in particular by expanding margins and encouraging traffic into stores.

The fundamental outlook for household products remains neutral according to analysts' consensus. Prices in key commodities such as natural gas, oil, and resin are expected to rise, accelerating cost pressures in the industry. Competition in the industry is high and demand in developed markets is low, causing firms to focus on product innovation to increase sales domestically and venture into emerging markets internationally. However, there is value to be found in the market with companies such as Church & Dwight showing organic sales growth of nearly 5% due to the firm's expanding line of value products and increasing awareness of its operating efficiencies.

**Fair value equals market weight**

Due to the rather neutral fundamental outlook for the next 12 months, it is recommended to market weight the consumer staples sector as it relates to asset allocation in the Crummer SunTrust portfolio. Prior to making final decisions for the portfolio, it is advised to seek opportunities in the drug retail and household product sub-industries as these areas show the largest opportunity for growth in the consumer staples sector.

### *Proposed Changes in Consumer Staples Portfolio*

According to our initial research and findings as well as analysts' opinions, the current holdings in the consumer staples portfolio all look promising for the upcoming year. However, other opportunities exist outside of these holdings. In order to take advantage of these opportunities, we recommend selling 230 shares of Proctor & Gamble as it accounts for nearly half of our current consumer staples' holdings. We also recommend selling 250 shares of SYSCO Corp. because the outlook for food distributors is quite neutral as well as the need to further diversify within the consumer staples sector.

From selling shares of these two securities, we now have an additional $21,888.50 to reinvest, $14,421 from PG and $7,467.50 from SYY respectively. With this additional capital, we recommend purchasing 146 shares of Church & Dwight Co, resulting in an investment of $9,898.89. The remaining capital allocated to this sector is recommended to be invested into CVS based on the firm's promising outlook. This investment brings the 100 shares previously owned in the portfolio to 300 shares for the upcoming year, an investment of $7,396.

## *Detailed Company Overviews*[33]

### *Avon Products, Inc. – HOLD*

| *Stock Symbol: AVP* | *Market Capitalization: 13.69B* |
|---|---|
| **Last Trade: 32.61** | P/E (ttm): 22.24 |
| **52 Week Range: 17.24 – 35.65** | EPS (ttm): 1.44 |
| **Dividend Yield: 2.75%** | Z-Score: 4.511 |
| **Beta: 1.46** | Revenue from Abroad: 77% |

Avon Products, Inc. manufactures and markets beauty and related products worldwide. Its product categories include Beauty, Fashion, and Home. Beauty consists of cosmetics, fragrances, skin care, and toiletries. Fashion consists of fashion jewelry, watches, apparel, footwear, and accessories. Home includes gift and decorative products, housewares, entertainment and leisure, and children's and nutritional products. Avon Products markets its products through direct selling and independent representatives, as well as through distributorships. The company was founded in 1886 and is based in New York, New York.

In 2010 Avon should expect to see cost saving benefits of roughly $200 million from its multi-year restructuring plans that were implemented in both 2005 and 2009. The plan initiated last year entails reorganizing and downsizing of the organization while the 2005 plan focuses on increasing international manufacturing and supply chain efficiencies. The benefits from these restructuring efforts were visible in 2009; however the cost savings were masked due to negative foreign currency translation and economic weakness.

The forecasts for a positive swing in foreign currency transaction effects in the upcoming year will allow Avon to see these cost savings benefits, which will be reinvested in marketing, R&D, and incentivizing the firm's sales force. In addition to experiencing the cost savings, positive foreign currency translation should allow for widening operating margins in 2010. Sales growth is forecasted to be 8% in 2010, led by Europe, Latin America, Africa, and the Middle East while sales lag in both North America and China.

[33] All financial statistics were from Financial Visualizations, Research Insight, and Yahoo! Finance. All research was based on Yahoo! Finance, Net Advantage and Value Line.

## *Coca Cola Company – HOLD*

| ***Stock Symbol: KO*** | ***Market Capitalization: 122.98B*** |
|---|---|
| **Last Trade: 54.54** | P/E (ttm): 18.21 |
| **52 Week Range: 39.98 – 58.63** | EPS (ttm): 2.93 |
| **Dividend Yield: 3.30%** | Z-Score: 5.851 |
| **Beta: 0.59** | Revenue from Abroad: 70% |

The Coca-Cola Company engages in the manufacture, distributing, and marketing of nonalcoholic beverage concentrates and syrups worldwide. It principally offers sparkling and still beverages. The company's sparkling beverages include nonalcoholic ready-to-drink beverages with carbonation, such as energy drinks, carbonated waters, and flavored waters. Coke's still beverages consist of nonalcoholic beverages without carbonation, including non-carbonated waters, flavored waters and enhanced waters, juices and juice drinks, teas, coffees, and sports drinks. The Coca-Cola Company also offers fountain syrups, syrups, and concentrates, such as flavoring ingredients and sweeteners. The company markets its nonalcoholic beverages under the Coca-Cola, Diet Coke, Fanta, and Sprite brand names. It sells its finished beverage products primarily to distributors, and beverage concentrates and syrups to bottling and canning operators, distributors, fountain wholesalers, and fountain retailers. The Coca-Cola Company was founded in 1886 and is headquartered in Atlanta, Georgia.

Coca-Cola is expected to show growth in both earnings and cash flow for 2010 due to sales transitioning from flat line to top line growth. Benefits in sales growth are a result from pricing gains, new product contributions, and positive foreign currency translation. KO as with most major concentrate companies however should not expect to outperform the broader market over the upcoming year. The forecasted higher pricing for much of the firm's carbonated soft drink will undoubtedly increase sales levels, however volume growth for these beverages may be restrained by higher pricing. Analysts at S&P recommend a "buy/hold" on Coca-Cola.

## *Colgate-Palmolive Co. – HOLD*

| *Stock Symbol: CL* | *Market Capitalization: 41.55B* |
|---|---|
| **Last Trade: 84.95** | P/E (ttm): 19.26 |
| **52 Week Range: 55.91 – 85.84** | EPS (ttm): 4.37 |
| **Dividend Yield: 2.52%** | Z-Score: 6.586 |
| **Beta: 0.51** | Revenue from Abroad: 34% |

Colgate-Palmolive Company, together with its subsidiaries, is a global manufacturer and marketer of consumer products. The company operates in two segments: Oral, Personal, and Home Care; and Pet Nutrition. Some of the notable brands associated with the Oral, Personal, and Home Care segment include Colgate, Palmolive, Mennen, Speed Stick, Lady Speed Stick, Softsoap, and Irish Spring. The brands within the Pet Nutrition segment include Hill's Science Diet, and Hill's Prescription Diet names. Colgate-Palmolive sells its products to wholesale and retail distributors, and to veterinarians and specialty pet retailers. The company was founded in 1806 and is headquartered in New York, New York.

Analysts recommend a "buy" on shares of Colgate-Palmolive as of early 2010 because the current stock price does not fully reflect the firm's above industry average growth forecasts. Unlike 2009, were sales were flat and a negative 6.5% foreign exchange effect was seen, forecasts for 2010 indicate sales growth of 6.0% and a modest benefit from foreign currency exchange. However, the recent changes in the Venezuelan bolivar are expected to negatively affect 2010's results.

Although the firm's four-year restructuring effort was completed by the end of 2008, expect to see potential additional benefits in 2010. These benefits will be reinvested into R&D and marketing, with more of the firm's resources being allocated to developing markets. The firm's strength lies in its products, which are basic consumer staples such as toothpaste and soap. In 2009, consumer consciousness rose, causing many to trade value brands and private label goods. This trend is forecasted to remain for the majority of 2010 as increases in consumer spending will be focused more in cyclical industries, which may limit CL's sales growth.

## *CVS Caremark Corp. – INCREASE POSITION*

| *Stock Symbol: CVS* | *Market Capitalization: 48.15B* |
|---|---|
| **Last Trade: 35.19** | P/E (ttm): 13.53 |
| **52 Week Range: 26.40 – 37.84** | EPS (ttm): 2.56 |
| **Dividend Yield: 1.01%** | Z-Score: 3.063 |
| **Beta: 0.72** | Revenue from Abroad: 0% |

CVS Caremark Corporation, a pharmacy services company, provides prescriptions and related health care services in the United States. The company operates through two segments, Pharmacy Services and Retail Pharmacy. The Pharmacy Service segment provides a range of prescription benefit management services. The Retail Pharmacy Segment sells prescription drugs, over-the-counter drugs, beauty products and cosmetics, photo finishing, seasonal merchandise, greeting cards, and convenience foods through its pharmacy retail stores, and online. As of December 31, 2008, it operated 6,923 retail drugstores located in 41 states and the District of Columbia, 560 retail health care clinics in 27 states, 58 retail specialty pharmacy stores, 19 specialty mail order pharmacies, and 7 mail service pharmacies located in 26 states of the United States, Puerto Rico, and the District of Columbia. The company was founded in 1892 and is headquartered in Woonsocket, Rhode Island.

Margins are expected to rise for CVS in the upcoming year due to the quick turnaround of its acquired drug stores on the west coast, reduced investment costs for the growing presence of in-store Minute Clinics, and favorable demographic trends. For this reason, analysts place a “buy” recommendation for CVS. However, prescription retail sales are expected to fall due to significant client losses in the firm’s pharmacy benefit management business segment, hindering earnings growth in 2010. Significant long-term synergies from recent drugstore acquisitions should be realized by the end of 2010 and into 2011 as well as the rollout of mail service programs, resulting in strong EPS growth in the longer term.

## *Proctor & Gamble Co. – DECREASE POSITION*

| ***Stock Symbol: PG*** | ***Market Capitalization: 183.92B*** |
|---|---|
| **Last Trade: 63.88** | P/E (ttm): 17.89 |
| **52 Week Range: 44.18 – 63.89** | EPS (ttm): 3.54 |
| **Dividend Yield: 2.78%** | Z-Score: 2.707 |
| **Beta: 0.58** | Revenue from Abroad: 41% |

The Procter & Gamble Company (P&G), together with its subsidiaries, provides globally branded consumer goods products worldwide. The company operates in three global business units (GBU): Beauty, Health and Well-Being, and Household Care. Some of the most notable brands include Head & Shoulders, Pantene, CoverGirl, Braun, Gillette, Mach 3, Crest, Oral-B Iams, Tide, Bounty, and Pampers to name a few. The company sells its products in approximately 180 countries through mass merchandisers, grocery stores, membership club stores, drug stores, department stores, salons, and high-frequency stores. P&G was founded in 1837 and is headquartered in Cincinnati, Ohio.

Proctor & Gamble remains a "buy" recommendation by the consensus of analysts, mainly due to the firm's tiered product portfolio, consistent operating results, innovation, and geographic scope. Sales growth is expected to be modest with more benefits being seen in the value segment and from the acquisition of Gillette. Look for growth in major brand categories from the introduction of new and innovative products as well from the continuing trend of offering more products to developing markets. This stock will remain a solid addition to the portfolio even though the dividend yield decreased from 3.32% in the beginning of 2009 to the current yield of 2.78%.

## *Sysco Corp.* – ***DECREASE POSITION***

| ***Stock Symbol: SYY*** | ***Market Capitalization: 16.97B*** |
|---|---|
| **Last Trade: 28.95** | P/E (ttm): 14.92 |
| **52 Week Range: 21.08 – 29.21** | EPS (ttm): 1.92 |
| **Dividend Yield: 3.49%** | Z-Score: 6.492 |
| **Beta: 0.70** | Revenue from Abroad: 9% |

SYSCO Corporation, through its subsidiaries, markets and distributes a range of food and related products primarily for the foodservice industry. It distributes a line of frozen foods, a line of canned and dry foods, along with supplying various non-food items and cleaning supplies to restaurants, hospitals and nursing homes, schools and colleges, and hotels and motels. As of June 28, 2008, it operated 180 distribution facilities throughout the United States and Canada. The company was founded in 1969 and is headquartered in Houston, Texas.

SYSCO's largest business segment, restaurant sales, which accounted for 62% of 2009 sales, remains under pressure from weak consumer discretionary spending. For this reason, sales fell by 1.8% in 2009, causing analysts at S&P to downgrade their recommendation to a "hold". Sales are expected to be flat in 2010 and to slightly increase to 3% in 2011. However, during the recession, SYY has been able to maintain its market share in the industry due to the quality of the firm's products and services. Look for operating margins to slightly increase in 2010 due to productivity gains that will be realized by adopting an SAP platform to the firm's enterprise system.

## *Church & Dwight Co. Inc. – BUY*

| ***Stock Symbol: CHD*** | ***Market Capitalization: 4.84B*** |
|---|---|
| **Last Trade: 68.79** | P/E (ttm): 20.09 |
| **52 Week Range: 49.65 – 68.51** | EPS (ttm): 3.41 |
| **Dividend Yield: 0.82%** | Z-Score: 3.535 |
| **Beta: 0.34** | Revenue from Abroad: 16% |

Church & Dwight was founded in 1846 as a marketer of sodium bicarbonate (more commonly known as baking soda) for use in home baking. Today, CHD's baking soda-based products are used as refrigerator and freezer deodorizers, scratchless cleaners and deodorizers for kitchen surfaces and cooking appliances, bath additives, dentifrices, cat litter deodorizers and swimming pool pH stabilizers. CHD's business is divided into three primary segments: Consumer Domestic, Consumer International, and Specialty Products.

A new addition to the portfolio this year, Church & Dwight Co. is known for its iconic baking soda brand Arm & Hammer as well as the popular line of Oxi Clean products. The firm has expanded its products line and sales volumes over the recent years. Sales for CHD in 2009 rose 4.1% while the firm's organic sales grew by 4.7%. CHD has strategically expanded the scope of its value pricing segments during the economic turmoil of the last 2 years and is forecasting to continue this trend into the future.

The firm's operating margin is expected to widen by nearly 200 basis points in 2010. The main catalyst for this margin growth is that gets to benefit from its first full year at its new and highly efficient liquid laundry detergent manufacturing plant. Moderation in commodity cost pressures as well as slightly positive foreign currency translation for the year also aid in the CHD's margin growth.

Analysts believe the current valuation inadequately reflects the firm's above average earnings growth consistency as well as its attractive future growth prospects. For this reason, the consensus of analysts gives Church & Dwight Co. a "strong buy" recommendation.

## *Summary of Portfolio Allocation Changes*

| Holding | No. of Shares As of 4/12/10 | Proposed No. of Shares | Mkt Value As of 4/12/10 | Proposed Mkt Value |
|---|---|---|---|---|
| CHD | 0 | 146 | $9,898 | $9,898 |
| CVS | 100 | 300 | $3,698 | $11,094 |
| PG | 600 | 370 | $37,620 | $23,199 |
| SYY | 500 | 250 | $14,935 | $7,467 |

## *A Solar Subsidy Eclipse*

Barack Obama's administration has made a move towards reducing dependence on foreign oil and to replacing our dependence with renewable forms of energy. However, in the face of looming budget deficits it is unlikely that the subsidies that have financed alternative energy will continue. Currently, the US is "between Scylla and Charybdis" with the rising challenges in meeting the costs of health care, national defense and social security, energy subsidies do not stand a chance. The projected increasing costs of health care will drive the US deficit to unimaginable heights[34], and will cause other areas of government concern to be cut.

Long-term we expect that as oil reserves begin to dry up, reflected in higher prices of oil, the market will move towards pursuing forms of renewable energy. According to some economists while the issue facing companies today is credit-worthiness and the de-leveraging of balance sheets, the issue of tomorrow is the environment. This combo induces an encouraging future in the renewable energy market, but only for those who can afford to wait. President Obama has cited modeling our move towards solar energy after the German's, arguable the world's leader in solar energy. However, the German solar energy market was financed by subsidies, and these subsidies are currently on the chopping block across Germany—modeling the US after Germany a little more than we would have liked! In short, renewable energy is a good idea and some would say the "right thing", but this is not the right time.

We recommend market weighting the energy sector because pending US legislation will negatively affect current subsidies to both oil and alternative energy companies. Leaving us to the adage of, "Nothing good, nothing bad, everything is up in the air." Given our outlook, indexing may seem like a reasonable choice; however, based on the cost basis of the holdings now would not be a wise time to sell.

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[34] http://online.wsj.com/article/SB124234365947221489.html

## *Exxon Mobile Corp. – HOLD*

| ***Stock Symbol: XOM*** | ***Market Capitalization: 314.15B*** |
|---|---|
| Last Trade: **68.61** | P/E (ttm): 17.25 |
| 52 Week Range: **63.56 – 76.54** | EPS (ttm): 3.98 |
| Dividend Yield: **2.50%** | Z-Score: 3.52 |
| Beta: 0.43 | Revenue From Abroad: 70.2% |
| Recommended Holding Period: Long-term | |

Exxon Mobil Corporation engages in the exploration, production, transportation, and sale of crude oil and natural gas. The company also engages in the manufacture of petroleum products, and transportation and sale of crude oil, natural gas, and petroleum products. It manufactures and markets commodity petrochemicals, including olefins, aromatics, polyethylene and polypropylene plastics, and other specialty products. The company also has interests in electric power generation facilities. As of December 31, 2008, it operated 16,286 gross wells. Exxon Mobil Corporation primarily operates in the United States, Canada, Europe, Africa, the Asia Pacific, the Middle East, Russia/Caspian region, and South America. The company was formerly known as Exxon Corporation and changed its name to Exxon Mobil Corporation in November 1999. Exxon Mobil Corporation was founded in 1870 and is based in Irving, Texas.

Exxon Mobil could not escape the effects of the economic downturn. Exxon Mobil produces 2.5M barrels of oil daily, or 3% of the world's total. Continued heavy project spending may allow combined oil and natural gas output to inch ahead in the coming years. Assuming global petroleum product demand rises, and lifts realized prices, earnings and the share price should regain lost ground in the coming years.

Exxon's real strength is its productivity. Corporate projects are accomplished with a level of efficiency that lands Exxon among the industry's most profitable. Simply put, a company this big can always find ways do things better, given a well-trained and motivated workforce. Moreover, dedication to a business model that tightly weaves the oil producing, refining, and chemicals lines together has paid off handsomely, and we expect this trend to continue over the next year. We recommend holding Exxon over the next year and believe this position will pay off handsomely.

## *Chevron Corp – DECREASE POSITION*

| ***Stock Symbol: CVX*** | ***Market Capitalization: 149.48B*** |
|---|---|
| Last Trade: **80.58** | P/E (ttm): 15.38 |
| 52 Week Range: **60.88 – 81.09** | EPS (ttm): 5.24 |
| Dividend Yield: **3.70%** | Z-Score: 2.82 |
| Beta: 0.64 | Revenue From Abroad: 86.2% |
| Recommended Holding Period: Long-term | |

Chevron Corporation operates as an integrated energy company worldwide. The company's Petroleum operations include the exploration, development, production, and marketing of crude oil and natural gas; refining, marketing, and transportation operations comprise refining crude oil into finished petroleum products; marketing crude oil and products derived from petroleum; and transporting crude oil, natural gas, and petroleum products by pipeline, marine vessel, motor equipment, and rail car. Its chemical operations include manufacture and marketing of commodity petrochemicals, plastics for industrial uses, and fuel and lubricant oil additives. The company also engages in the production and marketing of coal and molybdenum; development and operation of commercial power projects; and cash management and debt financing, corporate administrative, insurance, and real estate activities. Chevron Corporation was founded in 1879 and is based in San Ramon, California.

Over the last year, Chevron has done very well, and is currently trading near its 52 week high. We expect oil prices to rise over the next year, causing revenues to be higher for Chevron; additionally, as Chevron moves closer to alternative fuels we can expect the long term profits of Chevron to rise. Chevron is a strong company and we expect Chevron to perform well over the next year. Under normal circumstances we would hold Chevron; however, in order to be market neutral and considering Chevron is trading near its 52 week high, we recommend selling 170 shares.

## *Clean Energy Fuels Corp. – DECREASE POSITION*

| ***Stock Symbol: CLNE*** | ***Market Capitalization: 1.28B*** |
|---|---|
| Last Trade: **20.76** | P/E (ttm): N/A |
| 52 Week Range: **5.89 – 23.02** | EPS (ttm): -0.60 |
| Dividend Yield: **N/A** | Z-Score: 9.96 |
| Beta: N/A | Revenue From Abroad: 3% |
| Recommended Holding Period: Long-term | |

Clean Energy Fuels Corp. provides natural gas as an alternative fuel for vehicle fleets in the United States and Canada. It designs, builds, finances, and operates fueling stations and supplies compressed natural gas and liquefied natural gas. The company serves approximately 275 fleet customers operating 14,000 natural gas vehicles in public transit, refuse hauling, airports, taxis, seaports, and regional trucking markets. As of December 31, 2007, Clean Energy Fuels Corp. owned and operated 170 natural gas fueling stations in Arizona, California, Colorado, Maryland, Massachusetts, Nevada, New Mexico, New York, Texas, Washington, Georgia, Wyoming, and Canada. The company was incorporated in 2001 and is based in Seal Beach, California.

Clean Energy Fuels Corp. as preformed well over the last year. Unfortunately, to meet market weighting requirements we are forced to sell 250 shares. However, we believe that we are adequately compensating the portfolio for the time it held Clean Energy Fuels Corp., and believe that now would be the ideal time to sell these 250 shares as Clean Energy Fuels Corp. is selling well above cost basis.

## *Suncor Energy, Inc. – HOLD*

| ***Stock Symbol: SU*** | ***Market Capitalization: 46.79B*** |
|---|---|
| Last Trade: **35.09** | P/E (ttm): 32.50 |
| 52 Week Range: **22.77 – 39.62** | EPS (ttm): 0.944 |
| Dividend Yield: **1.30%** | Z-Score: 1.25 |
| Beta: 1.65 | Revenue From Abroad: 83.5% |
| Recommended Holding Period: Long-term | |

Suncor Energy, Inc., together with its subsidiaries, operates as an integrated energy company in Canada. It operates through four segments: Oil Sands, Natural Gas, Energy Marketing and Refining, and Refining and Marketing. The Oil Sands segment recovers bitumen, primarily through oil sands mining and in-situ development, and upgrades it into refinery feedstock, diesel fuel, and by-products. This segment offers light sweet crude oil/diesel and light sour crude oil/bitumen. The Natural Gas segment explores, acquires, develops, and produces natural gas and natural gas liquids from reserves in western Alberta and northeastern British Columbia. This segment also acquires land and explores for coal bed methane in the United States. The Energy Marketing and Refining segment refines crude oil into a range of petroleum, petrochemical, and bio-fuel products. It offers gasoline, diesel, jet fuels, petrochemicals, heating fuels, and heavy fuel oils for industrial, wholesale, commercial, and retail customers principally in Ontario and Quebec. This segment also engages in third party energy marketing and trading activities. The Refining and Marketing segment refines and markets jet fuels, diesel, gasoline, and asphalt. This segment also transports crude oil through wholly or partly owned pipelines in Wyoming and Colorado. In addition, the company carry on energy trading activities focused principally on buying and selling futures contracts and other derivative instruments based on the commodities it produce. Suncor Energy sells its products in the United States, Canada, and Europe. The company was founded in 1953 and is headquartered in Calgary, Canada.  Over the long term, Suncor is expected to be a strong investment.

Cost basis is a limitation for recommending anything other than holding.  Currently Suncor is not a great buy, and we recommend holding until the market improves.

## *First Solar, Inc. – SELL*

| ***Stock Symbol: FSLR*** | ***Market Capitalization: 9.93B*** |
|---|---|
| Last Trade: **132.60** | P/E (ttm): 17.62 |
| 52 Week Range: **98.71 – 207.51** | EPS (ttm): 7.53 |
| Dividend Yield: **N/A** | Z-Score: 10.44 |
| Beta: 1.52 | Revenue From Abroad: 93.4% |
| Recommended Holding Period: SELL | |

First Solar, Inc. engages in the design, manufacture, and sale of solar electric power modules using a proprietary thin film semiconductor technology. The company's solar modules employ a thin layer of cadmium telluride semiconductor material to convert sunlight into electricity. It sells its products to project developers, system integrators, and operators of renewable energy projects in the United States and Europe. First Solar also focuses on designing and deploying commercial solar projects for utilities in the United States. First Solar was founded in 1999 and is headquartered in Tempe, Arizona.

First Solar is attempting to penetrate the domestic market, via a relationship with SolarCity, a closely held firm that provides solar power capabilities to communities in California, Oregon, and Arizona. First Solar will provide 100 megawatts of modules, as well as a $25M equity investment, to SolarCity. The company has also begun installing small photovoltaic power plants on rooftops of commercial buildings in southern California. This is part of a plan by Southern California Edison (SCE) to install 250 megawatts of modules on building rooftops.

First Solar has taken a beating over the last year, much of this is due to fears that the subsidies that have grown solar energy will be cut—mostly in Germany. We do not think First Solar is a strategic hold over the next year, and we recommend selling all 50 shares. First Solar has recovered over the last few months and we can almost cover our cost basis, allowing us to move closer to a market weighted portfolio.

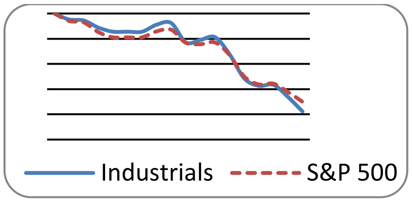
## *Summary of Portfolio Allocation Changes*

| Holding | No. of Shares As of 4/12/10 | Proposed No. of Shares | Mkt Value As of 4/12/10 | Proposed Mkt Value |
|---|---|---|---|---|
| CVX | 275 | 155 | $22,159 | $9,652 |
| CLNE | 500 | 370 | $10,385 | $2,523 |
| FSLR | 50 | 0 | $6,630 | $0 |

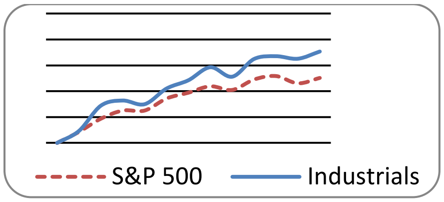
## If We Could Turn Back the Clock

A neutral weight of the industrial sector is appropriate due to the remaining uncertainty in the economy and the possibility that recent price movements have taken into account a full recovery.

**Surprising growth in 2009**




(Oct 2007 – Feb 2009)




(Mar 2009 – Feb 2010)

These charts show while the industrial sector mirrored the S&P 500 during the fall, it outpaced it during the 2009 recovery. The industrial sector's relies heavily on debt which leverages up the business model. In hindsight the industrial sector would have been a great investment in March 2009, but we question whether this performance can continue into the future.

**Global Growth Story**

Because the industrial sector has taken advantage of revenue streams from abroad, we believe the tepid US recovery we are forecasting will have a smaller impact then one would normally expect. The IMF has recently forecasted 2010 world GDP growth of 3.9% compared to just 2.1% for the developed economies. China and India lead the IMF 2010 GDP forecasts with 10% and 7.7% growth respectively. Within our portfolio, only two industrial sector positions have less than 45% of their revenue coming from abroad and multiple companies have over 60% of their revenue from abroad. Based on the forecasted GDP growth, these diversified revenue streams should help insulate the sector and offer potential growth in the future.

**Proposed changes to the portfolio – Neutral Weight**

Under normal circumstances, we would recommend an underweight of the industrial sector based on the recent price movement and uncertainty in the economy, but their global positioning offers a level of diversification and growth that justifies a neutral weight in the portfolio.

To help offset the potential downside risk and volatility still present in the economy, an emphasis should be placed on strong balance sheets and low valuations. In the case of higher valuations, a fundamental growth catalyst should be present to allow for a smooth transition to a more sustainable level. The balance sheets of each company should have enough flexibility that a severe recession will not cripple the business and force difficult decisions. Finally, the business models should be checked to make sure they still represent the industrial sector without abnormal active risk that would inflate the Z-Score under adverse scenarios.

## *Detailed Company Overviews*

### *Caterpillar – SELL*

| ***Stock Symbol: CAT*** | ***Market Capitalization: 36.39B*** |
|---|---|
| Last Trade: 66.73 | P/E (ttm): 41.92 |
| 52 Week Range: 27.05 – 64.42 | EPS (ttm): 1.43 |
| Dividend Yield: 2.52% | Z-Score: 1.704 |
| Beta: 1.81 | Revenue From Abroad: 66% |
| Recommended Holding Period: Long-term | |

We are recommending a complete liquidation of the Caterpillar position because we believe the current pricing of the company leaves little opportunity to the upside and more risk to the downside.

Caterpillar was founded in 1935 and has became the largest manufacturer of construction and mining equipment, diesel and natural gas engines, and industrial gas turbines according to their website. They serve three primary business lines including machinery, engines, and financial products with machinery the largest portion at 60% of revenues. Caterpillar is the essence of a global company with a significant portion of their revenue and staff present in other parts of the world.

Caterpillar's stock has shown a strong appreciation over the past ten months moving from a low of $22 per share to the current position of $60.36. While the stock's price action can be somewhat justified by a 1.81 beta, I believe this move has priced in a majority of the available upside.

Caterpillar is currently pricing at a PE ratio of 42 which will require a significant increase in their earnings per share to justify the current price levels. Ultimately, even if the economy does fully recovery we can find better opportunities in the industrial sector that will offer better risk-adjusted returns with the addition of some downside protection through more favorable valuations.

## *General Electric – SELL*

| ***Stock Symbol: GE*** | ***Market Capitalization: 172.31B*** |
|---|---|
| Last Trade: 18.71 | P/E (ttm): 19.2 |
| 52 Week Range: 10.5 – 19.4 | EPS (ttm): 1.01 |
| Dividend Yield: 2.14% | Z-Score: N/A |
| Beta: 1.55 | Revenue From Abroad: 50% |

We are recommending a full liquidation of the General Electric position because the stock no longer correlates with the industrial sector in a difficult economy.

General Electric, a heavy-equipment, media and financing giant does business through five segments: Energy Infrastructure, Technology Infrastructure, NBC Universal, Capital Finance, and Consumer & Industrial.

During the past few years, General Electric has seen its stock price go from a high of almost $42 per share down to a low of roughly $6 per share. The most important question one should ask is why did this fall take place? The one constant answer to this question is their capital finance division which faced extreme de-valuations of their investments.

While General Electric may have survived the fallout, its stock was treated like a pseudo financial company. If the economy is faced with a second crisis, we believe its stock price will once again correlate with the financial sector compared to its fundamental positioning as an industrial. This leads us to recommend selling this holding.

## *Jacobs Engineering Group – INCREASE POSITION*

| ***Stock Symbol: JEC*** | ***Market Capitalization: 4.90B*** |
|---|---|
| Last Trade: 46.74 | P/E (ttm): 16.79 |
| 52 Week Range: 33.70 – 49.73 | EPS (ttm): 2.85 |
| Dividend Yield: N/A | Z-Score: 5.930 |
| Beta: 1.35 | Revenue From Abroad: 36% |
| Recommended Holding Period: Long-term | |

We are recommending an increase to this position due to Jacobs Engineering Group's low valuation and strong balance sheet.

Jacobs Engineering focuses on providing a broad range of technical, professional and construction services to a large number of industrial, commercial and governmental clients worldwide. Jacobs Engineering's two primary philosophies related to its business model are multi-domestic and boundary-less approach. Multi-domestic includes locally staffed offices that share the corporate view and boundary-less is related to global services.

Jacobs Engineering's price has been relatively stable compared to most other companies over the last year, but they experienced their large swing right before the masses. Jacob's stock price fell from a high of $96 dollars in May 2008 to a low of $26 dollars in Nov 2008. The stock price has since found stability in the $40 dollar range, and has mostly ignored the bull market from March of 2009 to current.

While a majority of Jacobs' revenue may come from the domestic market, they are involved in specific businesses that allow for growth. Their energy business has been growing at 25% per year, and now represents approximately 33% of their total revenue line. They have also been a winner in the national government spending plans which includes environmental and aerospace programs. These spending plans have increased a little over 100% the past five years and now represent almost 16% of their revenue. Finally, Jacobs' current ratio is over 2 and they have almost no long-term debt.

## *Chicago Bridge & Iron Co. N.V– HOLD*

| ***Stock Symbol: CBI*** | ***Market Capitalization: 2.20B*** |
|---|---|
| Last Trade: 24.00 | P/E (ttm): 13.74 |
| 52 Week Range: 7.35 – 25.00 | EPS (ttm): 1.79 |
| Dividend Yield: N/A | Z-Score: 2.046 |
| Beta: 2.51 | Revenue From Abroad: 65% |
| Recommended Holding Period: Long-term | |

We are recommending to hold our position in CBI due to their low valuation and large backlog of business which should offer some protection from short-term weakness.

Chicago Bridge & Iron Co. N.V. is a global, engineering, procurement and construction company specializing in turnkey projects for customers that produce, process, store and distribute the world's natural resources. Chicago Bridge & Iron Company focuses on energy infrastructure projects for oil and gas companies. CBI has approximately 16,000 employees and works on over 600 projects a year according to their latest quarterly report.

Chicago Bridge & Iron Co. has had an extremely volatile year reaching a low in the $4 range and since increasing almost 400% to $22 dollars. Under normal circumstances this kind of move would be an enormous red flag, but CBI is still trading at a relatively low PE of 12.92 and significantly off an all time high in the lower $50s reached in early 2008.

CBI has almost 1.5 years worth of revenue covered in current backlog, and is forecasting to again grow their backlog this year. One negative aspect is their 2010 personal forecast of only $3.9-$4.2 billion in revenue which is down roughly $1 billion from the full year 2009, but this estimate was made public and should be priced into the stock. Cost reductions have softened the blow to net income, and the forecasted EPS range is still from 1.60 – 1.80 compared to $1.79 in 2009. Analyst expectations for 2011 show CBI returning to previous revenue levels and net income over $2.00 a share. Their current PE should allow for some latitude in pricing, and based on 2011 expectations there is room to the upside.

## *Danaher Corp – HOLD*

| ***Stock Symbol: DHR*** | ***Market Capitalization: 24.51B*** |
|---|---|
| Last Trade: 80.36 | P/E (ttm): 23.37 |
| 52 Week Range: 52.80 – 80.36 | EPS (ttm): 3.46 |
| Dividend Yield: .2% | Z-Score: 3.523 |
| Beta: .85 | Revenue From Abroad: 49% |
| Recommended Holding Period: Long-term | |

We are recommending to hold our position in Danaher Corp because it is a lower beta name that has significant exposure to the medical industry and potential for strong growth in their water treatment division.

Danaher Corp. is a leading maker of hand tools and process and environmental controls. The company has four reporting segments: professional instrumentation, industrial technologies, tools, and medical technologies

A major portion of Danaher's revenue comes from the medical industry which should be more resilient to a potential downturn in the economy. We believe this will fit in well with our portfolio where many of the other industrial companies have betas closer to 1.5. Along with the medical industry, Danaher is also the leader in water treatment. The population growth present in many countries abroad is leading to a general shortage of food and water, so water treatment will be a growing industry in the future. According to the United Nations Intergovernmental Panel on Climate Change "By 2025 it is estimated that 1.8 billion people will be living in conditions of absolute water scarcity and two-thirds of the world's population could be living under water-stressed conditions."

Danaher's current PE makes it a somewhat expensive stock to own, but analysts' earnings expectations will have the PE ratio coming back in line over the next two years. We believe the combination Danaher's diversified revenue streams and low beta make them an ideal stock to pair with many of our other industrial positions.

## *HEICO Corp. - HOLD*

| ***Stock Symbol: HEI*** | ***Market Capitalization: 1.18B*** |
|---|---|
| Last Trade: 51.01 | P/E (ttm): 30.92 |
| 52 Week Range: 26.32 – 52.86 | EPS (ttm): 1.67 |
| Dividend Yield: .24% | Z-Score: 4.036 |
| Beta: 1.22 | Revenue From Abroad: 32% |
| Recommended Holding Period: Long-term | |

We are recommending a hold on the current position in HEICO due to their business model of specializing in spare parts. We believe the spare parts business allows us to take advantage of businesses and governments extending the life of their capital equipment.

HEICO Corp. makes jet engine replacement parts and electronic equipment through two segments: the Flight Support Group and the Electronic Technologies Group. HEICO Corp has approximately 2100 full time employees and reached fiscal 2009 sales of $538 million dollars. HEICO participated in a wide range of acquisitions in the mid 2000s, and management has alluded to the possibility of more. HEICO's stock price has been volatile over the past few years, but is currently trading near its all-time high of approximately $56.00

At first glance, HEICO appears to be significantly overvalued with a PE of 30, but a deeper look shows a solid business model with growth potential. Any business involved with the airlines and government contracts has significant risk over the next few years due to the record debt levels held by governments, but HEICO focuses on the spare parts segment which should be less volatile then other areas as useful life is extended to reduce capital investments. They had $107 million in backlog at the end of 2009 which is comparable to 2008, but much of their business is short-lead time. HEICO has always maintained a conservative stance on their balance sheet and this is visible with a current ratio close to 3.7 and limited amount of debt. Finally, at only 32% of revenue from abroad HEICO has a significant opportunity to grow their sales and margins as they receive additional orders from the international market.

## *3M - HOLD*

| ***Stock Symbol: MMM*** | ***Market Capitalization: 57.93B*** |
|---|---|
| Last Trade: 83.28 | P/E (ttm): 18.68 |
| 52 Week Range: 51.63 – 85.17 | EPS (ttm): 4.52 |
| Dividend Yield: 2.52% | Z-Score: N/A |
| Beta: .79 | Revenue From Abroad: 63% |
| Recommended Holding Period: Long-term | |

We are recommending a hold in our position of 3M stock because of its diversified revenue streams and low beta.

3M reports its business in six segments: Industrial and Transportation, Health Care, Display and Graphics, Consumer and Office, Electro and Communications, and Safety, Security and Protection Services.

3M like many other companies tightened their belt in 2009 by reducing capital expenditures by 38% and offering no merit raises, but they still maintained their high R&D budget and expanded in select locations. 3M already has approximately 63% of their revenue coming in from abroad, but in 2009 they still accelerated their expansion into China and India. Along with having a diversified revenue stream by geographic location, they also have many successful business units with the highest generating only 30% of their revenue.

3M status as a conglomerate helps it achieve a low beta of .79 which we believe fits well in our industrial portfolio. They pay a dividend yield of 2.6%, and their financial health looks sound. Analyst’s earnings estimates over the next two years bring their PE ratio down to a more sustainable level around 15. We believe this is a lower risk stock that will be a good complement in our portfolio.

## *United Technologies* – HOLD

| ***Stock Symbol: UTX*** | ***Market Capitalization: 64.32B*** |
|---|---|
| Last Trade: 73.76 | P/E (ttm): 17.95 |
| 52 Week Range: 45.31 – 73.76 | EPS (ttm): 4.12 |
| Dividend Yield: 2.3% | Z-Score: 3.138 |
| Beta: 0.97 | Revenue From Abroad: 52% |
| Recommended Holding Period: Long-term | |

We are recommending that we hold our position in UTX due to their increased dividend yield and fair valuations. United Technologies' broad business model hits on many areas in the industrial sector and with a backlog capable of supporting sales for at least one year there is time to weather an adverse economy.

United Technologies is a multi-industry holding company that conducts business through six business segments: Carrier (HVAC), Otis (Elevators), Pratt & Whitney (Jet Engine supplier), UTC Fire & Security, Hamilton Sundstrand (Aerospace Supplier), and Sikorsky (Helicopters). These business segments are well diversified with Carrier representing the largest portion of revenue at roughly 15% of the business.

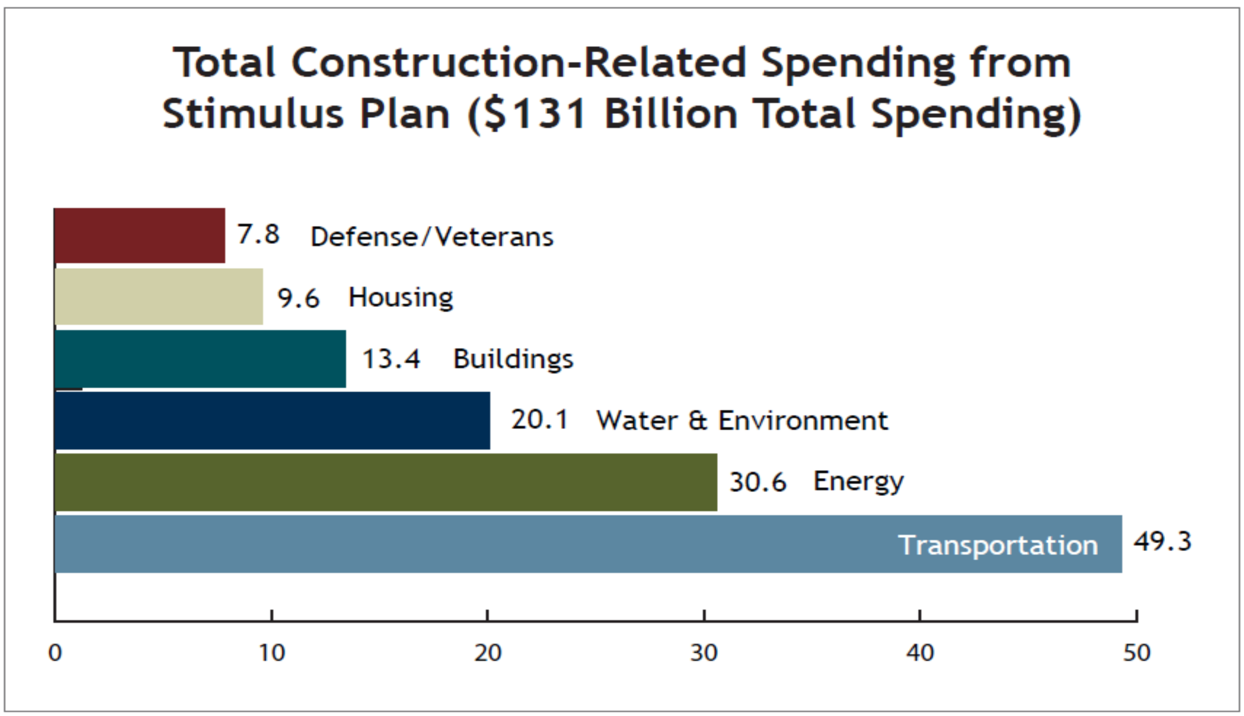
United Technologies' is currently trading at the top of its 52 week range after a volatile previous year. Their PE ratio shows a relatively fair valuation, but this should improve as earnings grow over the next two years according to analyst expectations. While their backlog has fallen roughly 7 billion dollars over the previous year, they still have approximately 52 billion in orders on hand which ties closely to a year worth of sales. This backlog will help UTX navigate the current economy better than most companies which have much shorter visibility in their future sales and orders. Their balance sheet has stayed relatively stable over the past few years with a manageable level of debt on the books. Along with strong financials, they have recently increased their dividend yield to 2.4%.

## *Summary of Portfolio Allocation Changes*

| Holding | No. of Shares As of 4/12/10 | Proposed No. of Shares | Mkt Value As of 4/12/10 | Proposed Mkt Value |
|---|---|---|---|---|
| CAT | 50 | 0 | $2,842 | $0 |
| GE | 150 | 0 | $2,403 | $0 |
| CBI | 100 | 250 | $2,224 | $5,837 |
| FLS | 0 | 100 | $0 | $10,485 |
| JEC | 200 | 300 | $7,980 | $13,020 |

## A Growing Sector

Currently, the SunTrust Portfolio's overweight in the materials sector. Over the last several years, the materials sector has been greatly impacted by the global economic recession. Subsectors such as raw materials, chemical manufacturing, and metal and mining have been negatively affected, and the slowdown caused a substantial drop in demand for raw materials. However, we expect this to change, The Total Construction-Related Spending from Obama's 131 Billion dollar stimulus plan shows that over 60Billion (49.3%) will be spent on transportation, this will drive a market for raw materials, and ultimately increase the value of the materials sector.[1] Additionally, chemical manufacturers involved in fertilizer and agricultural chemical manufacturing have experienced significant losses due to falling agricultural commodity prices. However, it appears that this trend is changing, we believe with a move towards sustainable farming and conservation commodity prices will recover. To guard against further losses, and capitalize on positive changes in the market, we recommend market weighting the materials sector.




*Source: Derived from data presented at http://enr.construction.com*

## *Detailed Company Overviews*

### Companhia Vale Do Rio Doce – HOLD

| ***Stock Symbol: VALE S.A.*** | ***Market Capitalization: N/A*** |
|---|---|
| Last Trade: **26.64** | P/E (ttm): **N/A** |
| 52 Week Range: **26.37 – 26.82** | EPS (ttm): **N/A** |
| Dividend Yield: **N/A** | Z-Score: |
| Beta: **N/A** | Revenue From Abroad: 98% |
| Recommended Holding Period: Long-term | |

Companhia Vale do Rio Doce (Vale) is a Brazil-based company engaged in the metal and mining industries. The Company provides components for such products as appliances, electronic equipment, cars, computers and construction materials, among others. The Company is also active in the exploration of iron ore, nickel, aluminum, copper, coal, cobalt, precious metals, potassium and other minerals. Vale operates logistic systems in Brazil, including railroads and maritime terminals, which are related to the mining operations. The Company's main subsidiaries are Brasilux SA, Companhia Paulista de Ferro Ligas, CVRD Overseas Ltd and Docepar SA, among others. In March 2009, the Company sold its stake in Usinas Siderurgicas de Minas Gerais S.A.[35] In 2008, the Olympic Games were hosted by China. China spent over $43 billion and the better part of a decade preparing for the Beijing Olympics. As Brazil will be hosting the 2016 Olympics, we expect Brazil will invest several billion dollars in infrastructure—increasing the demand of raw materials, and producing the perfect storm for Brazil's economic development and Companhia Vale Do Rio Doce's growth. We recommend holding Vale, and believe it will perform well in the years to come.

[35] msnmoney.com. 4/2/2009

## *Dow Chemical Company – HOLD*

| ***Stock Symbol: DOW*** | ***Market Capitalization: 34.5B*** |
|---|---|
| Last Trade: **31.20** | P/E (ttm): 97.81 |
| 52 Week Range: **10.50 – 31.66** | EPS (ttm): 0.32 |
| Dividend Yield: **2.00%** | Z-Score: 1.41 |
| Beta: 2.28 | Revenue From Abroad: 69% |
| Recommended Holding Period: Long-term | |

The Dow Chemical Company engages in the manufacture and sale of chemicals, plastic materials, agricultural, and other specialized products and services worldwide. The company operates in six segments: Performance Plastics, Performance Chemicals, Agricultural Sciences, Basic Plastics, Basic Chemicals, and Hydrocarbons and Energy. The Performance Plastics segment provides automotive products, building solutions, epoxy resins, intermediates and specialty resins, polyurethanes and polyurethane systems, specialty plastics and elastomers, and technology licensing and catalyst products. The Performance Chemicals segment offers polymers, latex, and specialty chemicals. The Agricultural Sciences segment provides pest management, agricultural, and crop biotechnology products and solutions. The Basic Plastics segment offers polyethylene, polypropylene, and polystyrene resins. The Basic Chemicals segment provides chemicals, such as acids, alcohols, caustic soda, chlorine, chloroform, and other chemicals; and ethylene oxide/ethylene glycol chemicals. The Hydrocarbons and Energy segment procures fuels, natural gas liquids, and crude oil-based raw materials, as well as supplies monomers, power, and steam. Its products include benzene; butadiene; butylene; cumene; ethylene; propylene; styrene; power, steam, and other utilities. The company also involves in the property and casualty insurance and reinsurance business through its Liana Limited subsidiaries. It serves various industries, including appliance; automotive; agricultural; building and construction; chemical processing; electronics; furniture; house wares; oil and gas; packaging; paints, coatings, and adhesives; personal care; pharmaceutical; processed foods; pulp and paper; textile and carpet; utilities; and water treatment industries. The Dow Chemical Company was founded in 1897 and is based in Midland, Michigan.[36]

Over the last year Dow has made strides to reconnect with their founding principles and return to a business model that will return them to the chemical industries' leader. Over the last year, Dow has increased its share value by over 300%. In the coming year we expect Dow to continue to grow in value, and recommend holding.

[36] Finance.yahoo.com. 4/2/2009.

## *Helmerich & Payne, Inc. – INCREASE POSITION*

| ***Stock Symbol: HP*** | ***Market Capitalization: 3.86B*** |
|---|---|
| Last Trade: **39.95** | P/E (ttm): 15.72 |
| 52 Week Range: **21.76 – 49.13** | EPS (ttm): 2.54 |
| Dividend Yield: **0.50%** | Z-Score: 2.73 |
| Beta: 1.04 | Revenue From Abroad: 68% |
| Recommended Holding Period: Long-term | |

Helmerich & Payne, Inc. engages in the contract drilling of oil and gas wells in the United States and internationally. The company provides drilling rigs, equipment, personnel, and camps on a contract basis to explore for and develop oil and gas from onshore areas and from fixed platforms, tension-leg platforms, and spars in offshore areas. It conducts domestic land drilling primarily in Oklahoma, California, Texas, Wyoming, Colorado, Louisiana, Mississippi, Alabama, Utah, Arkansas, New Mexico, and North Dakota, and offshore drilling from platforms in the Gulf of Mexico, California, Trinidad, and Equatorial Guinea. As of September 30, 2008, the company had 185 land drilling rigs in the United States; 8 offshore platform rigs; and international land rigs, including 11 in Venezuela, 4 in Ecuador, 5 in Argentina, 5 in Colombia, and 1 in Tunisia. In addition, Helmerich & Payne engages in the ownership, development, and operation of real estate, principally commercial properties, in Tulsa, Oklahoma. Its property portfolio includes a shopping center and a multi-tenant warehouse space. The company was founded in 1920 and is based in Tulsa, Oklahoma.[37]

On February 26, 2010, Helmerich & Payne joined the S&P500 index this is a clear indication of the market's faith in Helmerich's management and long-term growth opportunities. Over the next 12 months, we expect Helmerich & Payne to capitalize on the increased demands in oil and profits to increase.  We recommend purchasing an additional 20 shares.

[37] Finance.yahoo.com. 4/2/2009.

## *Monsanto Company – INCREASE POSITION*

| ***Stock Symbol: MON*** | ***Market Capitalization: 38.80B*** |
|---|---|
| Last Trade: **65.73** | P/E (ttm): 27.39 |
| 52 Week Range: **66.57 – 93.35** | EPS (ttm): 2.40 |
| Dividend Yield: **1.50%** | Z-Score: 4.73 |
| Beta: 0.71 | Revenue From Abroad: 46% |
| Recommended Holding Period: Long-term | |

Monsanto Company provides agricultural products for farmers in the United States and internationally. It operates in two segments, Seeds and Genomics, and Agricultural Productivity. The Seeds and Genomics segment produces corn, soybeans, canola, and cotton seeds, as well as vegetable and fruit seeds, including tomato, pepper, eggplant, melon, cucumber, pumpkin, squash, beans, broccoli, onions, and lettuce. This segment also develops biotechnology traits that assist farmers in controlling insects and weeds, as well as provide genetic material and biotechnology traits to other seed companies for their seed brands. The Agricultural Productivity segment offers glyphosate-based herbicides for agricultural, industrial, ornamental, and turf applications; lawn-and-garden herbicides for residential lawn-and-garden applications; and other selective herbicides for control of preemergent annual grass and small seeded broadleaf weeds in corn and other crops. The company offers its products under various brands, including the Roundup Ready, Bollgard, Bollgard II, YieldGard, YieldGard VT, Roundup Ready 2 Yield, and SmartStax for traits; DEKALB, Asgrow, Deltapine, and Vistive for row crop seeds; Seminis, De Ruiter, Royal Sluis, Asgrow, and Petoseed for vegetable seeds; Roundup for herbicides; and Harness for corn. It also licenses germplasm and trait technologies to seed companies. The company sells its products through distributors, retailers, dealers, agricultural co-operatives, plant raisers, and agents, as well as directly to farmers. Monsanto Company has a joint venture with Cargill, Inc. to commercialize a proprietary grain processing technology under the name Extrax. It has collaborations with BASF in plant biotechnology that focuses on high-yielding crops and crops that are tolerant to adverse conditions; and Biotechnology, Inc. to source genetic elements that enable crops to express desirable traits. The company, in its current form, was established in 2000 and is based in St. Louis, Missouri.[38]

Monsanto is growing rapidly, increasing its base of genetically engineered crops and its expanding IP portfolio is expected to add tremendous value to their valuation. Over the next year, we expect the Monsanto to grow and profits to increase. We recommend purchasing an additional 17 shares.

[38] Finance.yahoo.com. 4/2/2009.

## *Summary of Portfolio Allocations*

| Holding | No. of Shares As of 4/12/10 | Proposed No. of Shares | Mkt Value As of 4/12/10 | Proposed Mkt Value |
|---|---|---|---|---|
| HP | 100 | 20 | $3,995 | $4,794 |
| MON | 75 | 17 | $4929 | $6,047 |

## *Why Bother?*[39]

The Telecommunications sector as a whole is fairly priced but there are opportunities to explore, especially in the communication infrastructure sub industry due to the increasing trend of data hungry consumers. Due to the existing high penetration, current conditions, and the uncertainty of the future, the outlook on the telecommunication sector is neutral. Our view on the telecommunication sector is market weight to underweight.

**The Status Quo**

The telecommunications industry is divided into two main industries: wireline and wireless industries. Virtually the same companies that compete in the wireline industry compete in the wireless industries as well. Regulations, innovations, and consolidations have hurt the wireline segment as customers are making the move to the wireless industry.

The Wireless industry, which is dominated on the services side by AT&T and Verizon, has enjoyed high penetration rate in the US. While the industry will grow, it will be a declining rate because of the high penetration it has already achieved, high unemployment rate, and sluggish economic recovery. With the depth of the just concluded recession, the timeline of recovery, and unemployment rate of about 9.7%, the outlook for the telecommunications industry is neutral.

Historically, the weight of the telecommunications sector within the S&P 500 allocations was never sizeable. At the height of the Tech bubble, the weight was a paltry 5.5%. As it is not a domineering sector, should we even bother digging deep into the sector?

**A Silver Lining**

High growth areas in the industry are the prepaid and wireless data segments. The rise of data hungry users is a sustainable trend that presents an opportunity for investments.
With the explosion of wireless data segment, network upgrades will be needed to support data hungry users. As the economy recovers, this segment will experience explosive growth. The rise of data hungry customers will benefit companies that provide communication infrastructure like cell tower providers especially with the ongoing momentum of 4G and WiMax technologies.

### *Proposed Changes in Telecommunications sector*

From our findings and consensus outlook, the telecommunications sector weight should be range from under weighted to market neutral. Investments should be made in cell tower providers and major service carriers as they are best positioned to increase profitability by a substantial amount.

[39] All information compiled from Morningstar, and NetAdvantage

## *iShares S&P Global Telecommunications*[40] – *DECREASE POSITION*

| ***Stock Symbol: iXP*** | ***Market Capitalization: 261.25M*** |
|---|---|
| Last Trade: 52.57 | P/E (ttm): N/A |
| 52 Week Range: 42.77 – 57.44 | EPS (ttm): N/A |
| Yield: 4.35% | Z-Score: NA |
| Beta: 0.83 | Revenue From Abroad: 68% |
| Recommended Holding Period: Long-term | |

> *The iShares S&P Global Telecommunications Sector Index Fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of companies that Standard & Poor's deems part of the telecommunications sector of the economy and important to global markets, as represented by the Standard & Poor's Global Telecommunications Sector Index.*[41]

Due to the low weight of the sector and the defensive investment approach, a fund represents the best method to capture the essence of the sector and diversify the investment, thereby reducing overall risk.

The iXP fund meets the all the aforementioned criteria and is representative of the major telecommunications service providers in the US and abroad. About 31% of its holdings are in U.S. securities, and the five countries it invests in most heavily comprised only 64% of its holdings as of March 09, 2010. With this diversification also comes heavy investment in large, relatively stable companies. The Morningstar risk and return rating for the iXP fund is low and above average respectively.

Because a number of funds could meet the above criteria, the iXP fund was compared to a number of other funds to determine the best investment. In terms of the risk-return relationship, the iXP fund is head and shoulders above all other comparable funds.

Furthermore, the iXP fund has the highest yield out of all the funds and the lowest turnover rate. In terms of expenses, it is not the most attractive but it is quite competitive. In light of these criteria and the industry outlook, the iXP fund proved the most attractive investment.

Since iXP is the only asset in the Telecommunications sector, some of the shares have to be sold to buy additional assets for this sector.

[40] All information compiled from Morningstar, Yahoo! Finance, FinViz, and NetAdvantage
[41] Fund description at http://us.ishares.com.

## *American Tower Corporation*[42] *– BUY*

| ***Stock Symbol: AMT*** | ***Market Capitalization: 16.77B*** |
|---|---|
| Last Trade: 41.65 | P/E (ttm): 69.61 |
| 52 Week Range: 27.93 – 45.00 | EPS (ttm): 0.61 |
| Dividend Yield: 0% | Z-Score: 1.350 |
| Beta: 0.90 | Revenue From Abroad: 18% |
| Recommended Holding Period: Long-term | |

American Tower Corporation is the market leader in Cell Tower infrastructure ahead of Crown Castle Inc and SBA communications. It operates about 26000 towers in the US, Mexico, India and Brazil. AMT's customers include Verizon, AT&T, Sprint Nextel, T-Mobile USA, etc.

Like its peers, AMT enjoys long-term contracts with major service providers driving recurring revenue and minimal ongoing capital once the tower is built delivering much of the revenue to the bottom line. The explosion of the wireless data segments means that the service providers need to expand their networks and turning to a well established company like AMT is a forgone conclusion. We expect the tenants (major service providers) per tower to show upward trend. AMT stands to gain from this growth as it has spare capacity on its towers

AMT's exposure and continued presence in Latin America and India is an added benefit as those regions are poised for tremendous growth and that would lead to increased revenue streams. However, about 82% of AMT's revenue is from the US. AMT recently announced plans to acquire additional towers in India doubling its presence and increasing visibility in India and in emerging markets. Presently AMT's penetration in Mexico, Brazil, and India are 67%, 70%, and 25%.

Of all the companies in the industry, AMT has the longest contract reducing the volatility of incoming revenue. It has secured long term contracts which escalate in price by 3% to 5% per year. AMT's 41% operating margin easily outpaces its competitors and its focus on operating efficiency has helped AMT stand above other competitors in the sector. In addition, AMT has the lowest leverage at 4.4 times operating income, meaning a sizeable portion of the revenue will be transferred to the bottom line.

AMT will is expected to experience revenue growth of about 8% annually through 2013. The trend of data hungry users will continue to ensure the need for cell towers which reduces uncertainty concerning AMT's future. All in all, AMT's enviable position, guaranteed recurring revenue and its expansion into emerging markets makes it an attractive investment considering the sluggish economic growth in the US.

[42] All information compiled from Morningstar, Yahoo! Finance, FinViz, and NetAdvantage

## *Crown Castle Inc*[43] *– BUY*

| *Stock Symbol: CCI* | *Market Capitalization: 10.85B* |
|---|---|
| Last Trade: 37.04 | P/E (ttm): N/A |
| 52 Week Range: 19.96 – 40.49 | EPS (ttm): -0.47 |
| Dividend Yield: N/A | Z-Score: NA |
| Beta: 1.64 | Revenue From Abroad: 5% |
| Recommended Holding Period: Long-term | |

Crown Castle Inc is the largest independent operator of wireless tower communications in the United States. CCI owns about 22,000 tower sites in the US and about 1,600 in Australia. Some of its largest customers include Verizon, AT&T, Sprint Nextel, T-Mobile, etc.

Like its peers, CCI enjoys long term contracts with major service providers driving recurring revenue and minimal ongoing capital once the tower is built delivering much of the revenue to the bottom line. The explosion of the wireless data segments means that the service providers will continue to depend on companies like CCI to sustain data hungry users. We expect the tenants (major service providers) per tower to show upward trend.

The reliability of CCI's revenue is a confidence booster for investors and it also makes it easier for the firm to obtain credit financing. CCI has more than 97% of the coming year projections already under contract. CCI also enjoys long term contracts with price escalators embedded into these long term contracts.

CCI's strategy is to internally increase revenue and cash flows from towers by maximizing its tenant/tower ratio. Management is likely to buy back some shares to allocate capital efficiently, make timely acquisitions of land and towers and, construct additional towers.

Through 2013, CCI is expected to experience 9.9% annual growth in revenue. The company's leverage has been steadily decreasing while its revenue has been increasing. Overall CCI's guaranteed revenues and its expansion potential to other countries make it a profitable investment.

[43] All information compiled from Morningstar, Yahoo! Finance, FinViz, and NetAdvantage

## *Summary of Portfolio Allocations*

| Holding | No. of Shares As of 4/12/10 | Proposed No. of Shares | Mkt Value As of 4/12/10 | Proposed Mkt Value |
|---|---|---|---|---|
| iXP | 250 | 100 | $13,272 | $5,440 |
| AMT | 0 | 130 | $0 | $5,752 |
| CCI | 0 | 103 | $0 | $3,842 |

## A Sector Shrouded With Uncertainty

In 2009, the utilities sector experienced downturns because of a plunge in industrial demand, fears concerning market cap and trade, and a potential increase in interest rates. However, we believe the utilities sector will experience moderate growth compared to 2009.

**Plunge in Industrial Demand**

The overall utilities sector was the worst performing sector in 2009. We expect, however, moderate growth because prices for natural gas have plunged more than 65% from their 2008 highs. Based on our prediction of slow economic growth in 2010, fundamental support from continued global economic recovery and additional support from stimulus spending, industrial demand will moderately increase. Additionally, the *WSJ* reports less price volatility as natural gas producers continue to tap new fields and secure low-cost supplies that will compete more effectively against coal—a staple fuel source for electricity generation currently used in the U.S.

**Uncertainty over Cap and Trade**

The looming threat of new legislation on emissions, similar to cap and trade regulation—regulation that sets a government limit on overall emissions of pollutants and allows emitters to trade pollution permits among themselves—contributed to a plunge in industrial demand in 2009. Less than a year ago, cap and trade was the policy of choice for tackling climate change, according to *New York Times*, and the authors of the House climate and energy bill passed last June largely built their measure around it.[44] Currently, however, cap and trade is in wide disrepute. Teams of senators are in the process of writing new legislation on global warming, cap and trade, and emissions. The initial scare caused by the threat of new legislation helped drive down industrial demand in 2009. We believe, however, that market investors are beginning to regain their confidence, which will translate into moderate growth in the utilities sector in 2010.

**Increase in Interest Rates**

The utilities sector tends to have a large debt load, which makes it sensitive to changes in interest rates. To the point, utility securities usually perform best during a recession when interest rates are falling or are already low. Periods of high or increasing interest rates are never a good time to own utilities. Expected growth in the sector and the Fed's intention to keep interest rates low for an "extended period" could provide a low-risk investment opportunity.

**Conclusion**

[44] http://www.nytimes.com/2010/03/26/science/earth/26climate.html?src=me

We believe the sector's positives will more than withstand the headwinds. Contributors to sector headwinds include the possibility industrial demand will not recover and an expected increase in interest rates in 2010. We agree with the *WSJ's* prediction that industrial demand will see a moderate increase in the next year; thus providing growth opportunities within the sector.[45]

### *Proposed Changes in Utilities Portfolio*

- Maintain current holdings in VPU.
- Purchase 130 additional shares of VPU at $64.32 per share.

[45] http://online.wsj.com/article/SB10001424052748703909804575123382402515558.html?KEYWORDS=industrial+demand

## *Vanguard Utilities ETF – INCREASE POSITION*

| ***Stock Symbol: VPU*** | ***Market Capitalization: 464.18M*** |
|---|---|
| Last Trade: 64.32 | P/E (ttm): 12.7 |
| 52 Week Range: 50.35 – 65.86 | EPS (ttm): NA |
| Dividend Yield: 3.87% | Expenses: 0.25% |
| Beta: 0.61 | Revenue From Abroad: NA |
| Recommended Holding Period: Long-term | |

This investment tracks the performance of a benchmark index that tracks the MSCI U.S. Investable Market Utilities Index. This ETF provides low-cost exposure to the utilities sector.

## *Summary of Portfolio Allocation Changes*

| Holding | No. of Shares As of 4/12/10 | Proposed No. of Shares | Mkt Value As of 4/12/10 | Proposed Mkt Value |
|---|---|---|---|---|
| VPU | 210 | 340 | $13,232 | $21,852 |

Will Financials Emerge From the Rubble?

The threat of onerous new regulations, the end of the bailout, and an unenthusiastic residential and commercial real estate market makes a conservative market-neutral stance most prudent.

**Regulation**

Although the timing is uncertain, financial companies that emerge from the rumble left by the recent recession will face tighter regulation. Regardless of current proposals and recently adopted regulations, we believe governments will, in their attempts to stabilize the system, inhibit innovation and constrain profitability. Additionally, according to *The Economist*, tighter government regulation will cause financial companies to intensify their focus on managing—and avoiding—risk in the financial sector in 2010.[46] If banks take less risk, can they earn *more* profits?

**The Bailout Must End**

In 2010 government bailout programs will be phased out, leaving banks with fragile balance-sheets. Subsequently, interest rates will rise and banks will have to pay more for funding, putting additional pressure on profitability. The financial sector, however, has demonstrated moderate market growth in 2010, as big Western banks continue to stabilize, according to *The Economist*.[47] While the future may be bleak for many small banks and other financial service companies, there are a few large firms with good management and solid fundamentals that merit attention. Financial Institutions that are in recovery have been able to raise capital, but they continue to prioritize their troubled assets.

**Real Estate**

Real Estate was hit hard by declining property values, defaulting tenants, reduced consumer spending, and the liquidity crisis in the recent recession; however, there are signs the panic that ensued a year ago is starting to lessen. For example, Reuters News reported U.S. foreclosure filings dropped off for the second straight month in February of this year.[48] Furthermore, according to *The Economist*, the U.S. real estate market is almost back to being priced around fair value on the basis of rental yields.[49] However, commercial property loans will roll over to tighter credit standards across the U.S., according to the *Wall Street Journal*. Tighter credit standards, could put added pressure on small and regional banks from losses on commercial real

46 A Better black-swan repellent. (2010, February 13).The Economist, 394(8664), 15-16.
47 Palmer, A. (2009, November 13). Ups and downs. The Economist, 393(8656), Retrieved from http://www.economist.com/theworldin/displaystory.cfm?story_id=14742692&source=login_payBarrier
48 Haviv, J. (2010, March 11). U.s. foreclosures drop 2nd straight month in February. Retrieved from http://www.reuters.com/article/idUSN1017487820100311?type=marketsNews
49 Bubble warning. (2010, January 7). The Economist,394(8664), 13.

estate loans, hindering their ability to lend to small businesses and hurting the broader economy.[50]

**Conclusion**

The outlook for the financial sector in 2010 is uncertain because of looming government regulations, the end of the bailout, and an unenthusiastic real estate market. Therefore, anything but a conservative stance would be unwise at this time. Despite our recommendation of a market neutral weighting, there are a few opportunities within the financial sector. For example, some banks deemed “too big to fail”—particularly if they pay dividends—provide excellent opportunities.

### *Proposed Changes in Financial Portfolio*

- BAC: Increase holdings by 515 shares at $18.66 per share
- GS: Increase holdings by 15 shares at $177.84 per share
- USB: Increase holdings by 103 shares at $27.51 per share
- NLY: Increase holdings by 501 shares at $17.23 per share
- JPM: Buy 350 shares at $46.14 per share
- NTRS: Buy 137 shares at $58.77 per share
- BBT: Buy 415 shares at $34.05 per share

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50 Leo, L.D., & THIRUVENGADAM, M. (2010, March 4). Beige book: economy is improving, but snow hit some areas hard.
Retrieved from http://online.wsj.com/article/SB10001424052748703862704575099740217465042.html?mod=WSJ_latestheadlines

## *Bank of America Corporation – INCREASE HOLDINGS*

| ***Stock Symbol: BAC*** | ***Market Capitalization: 179.57B*** |
|---|---|
| Last Trade: 18.66 | P/E (ttm): 7.9 |
| 52 Week Range: 6.00 - 19.08 | EPS (ttm): -0.03 |
| Dividend Yield: 0.22% | Z-Score: N/A |
| Beta: 2.40 | Revenue From Abroad: N/A |
| Recommended Holding Period: Long-term | |

Bank of America was one of the first major banks to pay back TARP funds after the bailout by the U.S. government, which freed itself from exceptional federal oversight. The company has also managed to attain strong capital ratios and reserve adequacy while it was paying back funds borrowed from the government bailout programs. Bank of America also has high exposure to improving consumer credit, which we believe makes for a sound investment.

According to top Wall Street advisors, including David Katz of Matrix Asset Advisors, the price of Bank of America is expected to reach $30.00 up from its current price of $18.66.[51] We are not overly concerned that BACs current price is near the top of its 52-week range. We believe the bank's 5-year range, reaching $55.08,is a more accurate view of the company's potential. Stability for company earnings will come from Bank of America's exposure to diverse businesses. Bank of America grew through an aggressive series of acquisitions, including the purchase of Merrill Lynch for more than $50 billion, which transformed the bank overnight into the nation's largest player in wealth management.

Our view of Bank of America parallels that of Tony Gray from Graybeard Capital, who believes that "Bank of America has upside leverage." Lastly, in the unlikely event of a double-dip recession, or if there is a shake-out in the financial sector, it is unlikely that Bank of America will be allowed to fail.

[51] Squawk on the street. CNBC, March 15, 2010.

## *Goldman Sachs Group Inc. – INCREASE HOLDINGS*

| ***Stock Symbol: GS*** | ***Market Capitalization: 90.97B*** |
|---|---|
| Last Trade: 177.84 | P/E (ttm): 8.80 |
| 52 Week Range: 99.55 – 192.75 | EPS (ttm): 19.65 |
| Dividend Yield: 0.81% | Z-Score: N/A |
| Beta: 1.44 | Revenue From Abroad: N/A |
| Recommended Holding Period: Long-term | |

Goldman Sachs is one of the few Wall Street titans that thrived during the financial crisis. Although Goldman Sachs took money from the U.S. government bailout programs, the company was one of the first major banks to repay all of its TARP funds, which shows the strength of the firm. Other factors that show the continued strength of the bank are Goldman's consistent dividend payouts and its low P/E ratio. Lastly, in the unlikely event of a double-dip recession, or if there is a shake-out in the financial sector, it is unlikely that Goldman Sachs will be allowed to fail.

The Securities and Exchange Commission recently filed fraud charges against Goldman Sachs, alleging the Wall Street titan misled investors on securities linked to subprime mortgages. According to the Wall Street Journal, Goldman Sachs vigorously denied the SECs civil charges that the investment firm willfully deceived clients by selling them mortgage securities secretly designed by a hedge-fund firm run by John Paulson (Paulson & Co.). Following the recent announcement by the SEC, Goldman's shares fell 13%, one of the steepest slides since the firm went public in 1999, erasing some $12 billion of market capitalization.[52]

We believe that there was little wrong doing on the part of Goldman Sachs, and the lawsuit is about criminalizing financial sophistication and punishing size and success. Once the case is tried, we believe Goldman Sachs will emerge victories. Therefore, our reaction to the SECs filings is to buy Goldman Sachs at today's fire-sale price.

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52 http://online.wsj.com/article/SB10001424052702303491304575187920845670844.html?mod=igoogle_wsj_gadgv1&

## *US Bancorp– INCREASE HOLDINGS*

| ***Stock Symbol: USB*** | ***Market Capitalization: 49.84B*** |
|---|---|
| Last Trade: 27.51 | P/E (ttm): 27.14 |
| 52 Week Range: 13.51 - 26.84 | EPS (ttm): 0.96 |
| Dividend Yield: 0.77% | Z-Score: N/A |
| Beta: 0.96 | Revenue From Abroad: N/A |
| Recommended Holding Period: Long-term | |

US Bancorp is one of the few banks that thrived during the financial crisis. Although US Bancorp took money from the U.S. government bailout programs, the company was one of the first major banks to repay all of its TARP funds, which shows the strength of the firm. Also, in the unlikely event of a double-dip recession, or if there is a shakeout in the financial sector, it is unlikely that US Bancorp will be allowed to fail.

Other indicators of the strength of US Bancorp are its consistent dividend payouts and forward P/E ratio. Even though banks, including US Bancorp, struggled to emerge from the recent recession, US Bank continued to pay a consistent dividend to investors. In the past two-years, the bank's dividend payout amounts were less than prior years; however, that is only to be expected. US Bancorp's high P/E ratio indicates a fair to high valuation of the stock. Additionally, analysts' consensus indicates sharply higher earnings with a forward P/E ratio (2011) of 11.26.

## *Annaly Capital Management, Inc. – INCREASE HOLDINGS*

| ***Stock Symbol: NLY*** | ***Market Capitalization: 9.79B*** |
|---|---|
| Last Trade: 17.23 | P/E (ttm): 5.04 |
| 52 Week Range: 11.76 – 18.75 | EPS (ttm): 3.51 |
| Dividend Yield: 14.70% | Z-Score: N/A |
| Beta: 0.42 | Revenue From Abroad: N/A |
| Recommended Holding Period: Long-term | |

Annaly Capital Management, Inc. is a real estate investment trust that buys government sponsored mortgage-backed securities. The company is known for its traditionally huge annual yield, and has the largest market capitalization of all REITS. Additionally, Annaly has a long track record of keeping well-regarded managers. The REIT trades for just over book value and will likely yield near 16% in 2010.[53] Annaly's large annual yield, coupled with its low P/E ratio and solid management, makes this REIT a sound investment.

[53] http://www.forbes.com/2010/04/15/mortgage-reits-agency-markets-equities-annaly.html?partner=yahootix

## *J.P Morgan – BUY*

| ***Stock Symbol: JPM*** | ***Market Capitalization: 172.63B*** |
|---|---|
| Last Trade: 46.14 | P/E (ttm): 20.10 |
| 52 Week Range: 24.64 – 47.41 | EPS (ttm): 2.24 |
| Dividend Yield: 0.44% | Z-Score: N/A |
| Beta: 1.13 | Revenue From Abroad: Expected |
| Recommended Holding Period: Long-term | |

J.P. Morgan emerged from the 2008 financial crisis relatively unscathed, compared to many of its rivals, which positions it as a benchmark to gauge the health of the banking industry.[54]

J.P. Morgan was one of the first Wall Street titans to pay back TARP funds borrowed during the recent government bailout. The bank's post-bailout strategy to increase its earnings power is beginning to pay off. According to John Race of DePrince, Race & Zollo, Inc., "J.P. Morgan has more earnings power than they ever had before." For example, the firm's investment banking division recently beat Goldman Sachs in fees earned, making it the number-one investment banking division in the business. Additionally, J.P. Morgan is also gaining market share in its capital market business and has the most exposure to improving consumer credit (approximately 47% of credit costs). In addition to growing its current divisions, J.P. Morgan is beginning to diversify its business demonstrated by its joint venture with the U.K.-based Cazenove Group Limited.

[54] http://blogs.marketwatch.com/marketjunkie/2010/04/15/what-jp-morgan-results-mean-for-bank-stocks/?mod=yahoo_hs

## *Northern Trust Corporation – BUY*

| ***Stock Symbol: NTRS*** | ***Market Capitalization: 13.38B*** |
|---|---|
| Last Trade: 58.77 | P/E (ttm): 17.57 |
| 52 Week Range: 46.21 – 64.72 | EPS (ttm): 3.15 |
| Dividend Yield: 2.02% | Z-Score: N/A |
| Beta: 0.80 | Revenue From Abroad: N/A |
| Recommended Holding Period: Long-term | |

Northern Trust Corporation, through its subsidiaries, provides asset servicing, fund administration, investment management, banking and fiduciary solutions for corporations, institutions, and individuals worldwide. Managers of Northern Trust have established a conservative stance in regard to growth and concentrate on organic growth within the firm.

Unlike many of its rivals, the Chicago-based bank has made very few acquisitions in the last year, preferring to grow its assets organically. Additionally, the bank has shown more than 20% in asset growth in the past two years, and is currently looking to purchase a fund administer or asset manager. We believe Northern Trust is a smart investment at this time given its reasonable P/E ratio—with a forward P/E of 14.87—and a good annual dividend yield. Overall, Northern Trust is a high-quality bank with a strong dividend.

## *BB&T – BUY*

| ***Stock Symbol: BBT*** | ***Market Capitalization: 22.27B*** |
|---|---|
| Last Trade: 34.05 | P/E (ttm): 27.56 |
| 52 Week Range: 15.32 – 32.93 | EPS (ttm): 1.17 |
| Dividend Yield: 1.86% | Z-Score: N/A |
| Beta: 0.95 | Revenue From Abroad: N/A |
| Recommended Holding Period: Long-term | |

BB&T is likely the strongest competitor of regional banks in the Southeast. The large regional bank has already paid back its TARP funds it borrowed during the recent recession. To its credit, BB&T has a conservative balance sheet, plenty of capital, and has diversified revenue sources, including insurance income. Additionally, BB&T is taking advantage of the recent recession to expand its market share by buying the assets of failed Colonial Bank. Company earnings are expected to double with a modest increase in revenue, according to numerous Wall Street analysts.

## *Summary of Portfolio Allocation Changes*

| Holding | No. of Shares As of 4/12/10 | Proposed No. of Shares | Mkt Value As of 4/12/10 | Proposed Mkt Value |
|---|---|---|---|---|
| BAC | 350 | 865 | $5,936 | $16,141 |
| GS | 70 | 85 | $12,331 | $15,132 |
| USB | 300 | 403 | $7,851 | $11,097 |
| NYL | 670 | 1171 | $12,006 | $20,177 |
| JPM | 0 | 350 | $0 | $16,141 |
| NTRS | 0 | 137 | $0 | $8,070 |
| BBT | 0 | 415 | $0 | $14,124 |

## Uncertainty Looms

The Crummer portfolio currently consists of six health care stocks: Covance, Johnson & Johnson, Merck, Perrigo, St. Jude Medical, and Stryker. The health care portfolio is well diversified and covers various sub-sectors of the health care sector. Covance is a drug development services company, Johnson & Johnson and Merck are both drug manufacturers, Perrigo sells OTC drugs, and St. Jude Medical and Stryker are both medical supplies companies. Currently, the biotech industry is not represented in the Crummer portfolio. Health care intelligence provider EvaluatePharma forecasts that seven of the top 10 drugs in 2014 would be biotech in origin. Also, with many drug manufacturers facing patent expirations in the next 3-4 years, the OTC drug market is expected to grow much bigger. We decided to replace Perrigo with a similar OTC drug manufacturing company that has a greater potential to grow in the future. Hence, we decided to include Abbott, a well-diversified pharmaceutical and diagnostics company and Teva, a generic drug manufacturer in the portfolio.

**Demographic trend remains favorable**

The aging population, the lengthening of average life expectancy and a rising incidence of chronic diseases all favor positive growth in health care spending. The Centers for Medicaid and Medicare Services report that health care spending rose 5.7% between 2008 and 2009, while the GDP fell by 1.3% during the same period. Also, health care spending is projected to grow by 6.1% on average this decade[55]. Further, IMS health, a health care consulting firm, expects US pharmaceutical sales to grow by 3%- 5% during 2010. In fact, Standard and Poor's predicts a much higher growth following the passing of the new health care bill.

**New strategies for tough times**

In 2009, Pfizer acquired Wyeth, Merck completed the acquisition of Schering- Plough and Roche acquired Genentech. Standard and Poor's believes that the major players in the industry chose to go the merger route to survive the looming patent expirations and other industry challenges. Morningstar predicts that this M&A activity would in fact intensify during 2010[56]. These mergers and acquisitions are predicted to greatly increase the number of drugs in the pipeline and decrease the R&D costs.

**Convergence of biotech and pharmaceutical companies**

The last two years also witnessed biotech and pharmaceutical companies converging towards each other. Major pharmaceutical have either acquired or partnered with biotech companies to mitigate their losses due to patent expirations. Biotech companies are slowly migrating towards biomarkers for cancer treatment. This should reduce the R&D costs and should enable identification of promising targets earlier in the process.

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[55] Market Watch, Health –care spending takes giant leap upward, February 4, 2010
[56] Morningstar, Moment of Truth for Heath Care, December 7, 2009

In spite of the positives, there are some uncertainties surrounding the health care industry in the near future.

**Looming patent expirations**

According to IMS health, the global pharmaceutical industry faces a cumulative loss of $137 billion sales in the years 2009 through 2013, as generics encroach on a slew of patent- expired branded blockbuster drugs[57]. But the industry's R&D pipeline, strengthened by the mergers and acquisitions, is strong and should drive the industry growth once it passes the high patent expiration years.

**Health care reform**

With the passing of the new health care bill, the Obama administration is planning to reduce skyrocketing health care costs, and invest in health information technology, prevention and care coordination. Though the pharmaceutical companies might be affected by price reduction, the companies could more than make up for reduced revenue through increased volume. My belief is that the pharmaceutical companies could gain more than they could lose because of the health care legislation.

Although the demographic trends and the recent M&A activities favor the health care industry, there is still an uncertainty in how the pharmaceutical industry will react to the impending patent expirations and the new health care reform. But the situation is favorable to the biotech companies and OTC drug manufacturers who will greatly benefit from both the drug patent expirations and the new health care reform. Considering these factors, we decided to market weight the sector but increase the weight of the OTC drug manufacturers and biotech companies within the sector.

## *Detailed Company Overviews*

[57] Standard and Poor's Industry Survey's: Health care: Pharmaceuticals, December 3, 3009

## *Covance, Inc – HOLD*

| ***Stock Symbol: CVD*** | ***Market Capitalization: 3.70B*** |
|---|---|
| Last Trade: 61.18 | P/E (ttm): 19.9 |
| 52 Week Range: 32.31-61.59 | EPS (ttm): 2.73 |
| Dividend Yield: N/A | Z-Score: |
| Beta: 1.00 | Revenue From Abroad: 40% |
| Recommended Holding Period: Short-term | |

Covance Inc. is a drug development services company that provides early-stage and late-stage product development services primarily to the pharmaceutical, biotechnology, and medical device industries worldwide[58]. They are the leading supplier of clinical trial laboratory services, providing lab work for more than a third of all clinical trials worldwide. Founded in 1987, Covance is based in Princeton, NJ and has annual revenues of more than $1.7 billion. The company has offices in more than 25 countries, generating nearly 40% of its revenue outside the United States[59].

In 2008, the company announced a $1.6B 10-year collaborative agreement with Eli Lilly for contract research services. Covance also purchased an early drug-development site from Lilly, expanding the firm's pharmacology capacity. Covance experienced a 5.6% growth in sales in the fourth quarter of 2009 from fourth quarter 2008 results. Morningstar estimates a 10% compound annual growth during the next five years[60]. There are no concerns surrounding the company's financial health – the company has no debt on their balance sheet and currently holds $266M in cash.

With its global presence and broad service offering, Covance has positioned itself to take advantage of increasing drug-development outsourcing by pharmaceutical and biotechnology companies, particularly as stricter regulations of the drug development process come into play. At the same time, the company has significantly underperformed in the early-stage segment which has historically brought more than half the company's revenues. Also, because of the recent economic downturn, many pharmaceutical companies have decreased their R&D spending. This could adversely impact Covance's revenues.

The long-term contract with Eli Lilly makes the company's stocks attractive but the projected decrease in pharmaceutical companies' R&D spending and lack of new major partners makes us maintain the same number of shares as in 2009.

## *Johnson & Johnson – BUY*

| ***Stock Symbol: JNJ*** | ***Market Capitalization: 175.70B*** |
|---|---|

58 www.covance.com
59 Covance- Annual Report 2008
60 www.morningstar.com

| | |
|---|---|
| Last Trade: 65.10 | P/E (ttm): 13.00 |
| 52 Week Range: 46.25 – 65.95 | EPS (ttm): 4.63 |
| Dividend Yield: 3.20% | Z-Score: |
| Beta: 0.60 | Revenue From Abroad: 49% |
| Recommended Holding Period: Long-term | |

Founded in 1885, Johnson & Johnson ranks as the world's largest and most diverse health-care company and controls the top or number-two leadership spot in 70% of its products. The company comprises three divisions: pharmaceutical, medical devices and diagnostics, and consumer. Its consumer segment, contributing approximately 25% of total sales, provides products used in baby care, skin care, oral care, wound care and women's health care fields as well as nutritional products.

Johnson & Johnson's 2007 acquisition of Pfizer's consumer business further solidified Johnson & Johnson's position in this market. As of January 2010, the company's pharmaceutical segment, which contributes 40% of total revenue, has 23 drugs in the pipeline with more than nine potential blockbusters in late stage development or recently approved. The medical devices and diagnostics segment, bringing in 35% of sales, offers circulatory disease management, orthopedic joint reconstruction and spinal care and sports medicine, surgical care, and diagnostic products, as well as disposable contact lenses.

These diverse businesses help the company maintain positive and strong cash flows. Strong cash generation has enabled the company to increase its dividend for the past 45 years. Despite the fact that the company faces more than $3B in patent exposure through 2010, experts predict that strong growth from the remaining business lines should offset these losses. After 2010, the company's patent exposure will be greatly reduced thereby setting up the company for steady growth[61].

As the baby boom generation ages, the entire spectrum of Johnson & Johnson's products should benefit from the increase in health-care needs. Also, by the end of 2009, the company had repurchased $8.9B worth of stocks as a part of its $10B repurchase program and plans to use the remaining $1.1B for repurchasing stocks in the near future. The firm reported a 9% increase in sales in 4th quarter of 2009 as compared to the same period in 2008.

Though the company faces significant patent expirations, it is well positioned for a solid long term growth. For these reasons, it would be prudent to purchase additional shares of Johnson & Johnson.

## *Merck & Company, Inc – BUY*

| | |
|---|---|
| ***Stock Symbol: MRK*** | ***Market Capitalization: 116.6B*** |

[61] www.morningstar.com

| | |
|---|---|
| Last Trade: 38.30 | P/E (ttm): 11.3 |
| 52 Week Range: 20.05 – 41.56 | EPS (ttm): 3.10 |
| Dividend Yield: N/A | Z-Score: |
| Beta: 0.80 | Revenue From Abroad: 40% |
| Recommended Holding Period: Long-term | |

Merck & Company, Inc. provides products for human and animal health in the United States and internationally. Merck makes pharmaceutical products to treat conditions in a number of therapeutic areas, including cardiovascular disease, asthma, infections, and osteoporosis. The company also has a substantial vaccine business, with treatments to prevent hepatitis B and pediatric diseases as well as HPV and shingles. About 60% of the company's sales are generated in the United States[62].

The acquisition of Schering- Plough for $41B helped Merck to survive increased competition, patent losses, and a pipeline of drugs with poor chances of approval. Though Merck could lose Cozaar/Hyzaar in 2010 and Singulair in 2012 due to patent expirations, the acquisition of Schering has strengthened its pipeline as Schering faces only limited patent losses in the next few years. Also, this acquisition would generate cost savings of more than $3B by 2011. Morningstar estimates that the $4.5B Vioxx settlement would reduce more than 90% of the outstanding cases and the remaining could cost less than $1B.

Though Merck needed an additional $8.5B in debt to finance the Schering acquisition, it is predicted that Merck's strong and stable cash flows should cut away the debt relatively quickly. Further, Merck's drugs posed a strong growth in the last quarter of 2009. Merck's new drugs Januvia (Diabetes), Isentress (HIV), and Saphris (Antipsychotic drug) continue to perform better in the last quarter of 2009. These new drugs together with the drugs in the pipeline should enable the company to increase long-term sales despite the patent expirations of Cozaar/Hyzaar and Singulair.

Though the patent expiration of Cozaar/Hyzaar and the potential integration problems between Merck and Schering are significant, the fact that the merger could help achieve $3.5B in cost savings by 2012 and the possibility of potential blockbuster drugs in the pipeline makes the company's stocks more attractive. Hence, our analyst recommends a small increase in the number of stocks of Merck for this year's portfolio.

## *Perrigo Company – SELL*

| | |
|---|---|
| ***Stock Symbol: PRGO*** | ***Market Capitalization: 4.5B*** |

[62] www.morningstar.com

| | |
|---|---|
| Last Trade: 51.13 | P/E (ttm): 16.3 |
| 52 Week Range: 18.54- 50.16 | EPS (ttm): 1.87 |
| Dividend Yield: 0.60% | Z-Score: |
| Beta: 0.70 | Revenue From Abroad: 29% |

Founded in 1887, Perrigo is the world's largest manufacturer of over the counter pharmaceutical products for the store brand market, supplying around 1200 private-label over-the-counter drugs and nutritional products to large pharmaceutical chains. The company operates through three segments – consumer health care, Rx pharmaceuticals, and API.

Perrigo supplies two- thirds of store brand drugs and vitamins to pharmacies worldwide, which accounts for more than 80% of sales. It maintains this position by passing along the cost savings to customers such as Wal-Mart, Walgreens, and CVS. Perrigo's Clay- Park subsidiary specializes in hard-to-make generic creams and ointments. The company expanded its offerings through the acquisition of Agis Industries in 2005. These businesses represent higher margin growth opportunities for Perrigo.

With the growing trend of converting prescription drugs to OTC after patent expiration, Perrigo is set to gain even more. The company recently announced exclusive distribution rights for Prilosec OTC. According to Morningstar, this move could add $250M in sales in 2010 which could boost total revenue by over 15%. Also, Perrigo is already planning to launch an OTC version of Allegra-D when the patent expires in 2012. The company is greatly benefitting from a weak economy and people's preference for cheap, store brand pharmaceuticals.

But the company uses substantial U.S. labor for manufacturing, and its gross margins could be vulnerable to a more efficient overseas competitor like Teva pharmaceuticals. And the company's operations are mainly located in United States and Europe which are not typically considered to be low-cost manufacturers. This means that a 10% reduction in prices could wipe out Perrigo's cash flow. Also, the entry of low- cost competitors like Dr. Reddy Labs could hurt the company's cash flow in the future.

Also, because of the strong growth opportunities in the OTC market, we decided to invest in Teva pharmaceuticals in addition to Perrigo. Hence we recommend selling the shares of Perrigo and use the money to buy some shares of Teva pharmaceuticals. This move could help maintain the diversification and also improve the performance of Crummer health care portfolio.

## *St. Jude Medical, Inc. – SELL*

| *Stock Symbol: STJ* | *Market Capitalization: 13.1B* |
|---|---|

| | |
|---|---|
| Last Trade: 39.85 | P/E (ttm): 14.2 |
| 52 Week Range: 31.24 – 41.96 | EPS (ttm): 2.43 |
| Dividend Yield: N/A | Z-Score: |
| Beta: 0.80 | Revenue From Abroad: 45% |

Founded in 1976, St. Jude Medical, Inc. designs, manufactures, and distributes cardiovascular medical devices including the world's most widely used mechanical heart valve, and implantable neurostimulation devices worldwide. It operates in four segments: Cardiac Rhythm Management, Cardiovascular, Atrial Fibrillation, and Advanced Neuromodulation Systems.

The company markets its products through a direct sales force and independent distributors. The company earns more than 45% of its revenue from its sales abroad. This could further improve when St. Jude's manufacturing facilities become operational in Costa Rica and Malaysia in late 2011. Overall, the medical supplies sub-sector has a positive outlook for the upcoming year. Morningstar expects 9% average annual growth through 2012.

St. Jude was originally a pioneer in mechanical heart valves but has branched out with various acquisitions. For example, in 2008, cardiac rhythm management devices accounted for 74% of total sales. And the Angio-Seal device still maintains the market leadership in the $550M vascular closure market. But the company faces stiff competition in cardioverter defibrillator market (from Boston Scientific) and pacemaker market (from Medtronic). Also, advances in minimally invasive heart- valve repair could reduce the demand for traditional heart- valve replacements St. Jude's offers.

Further, the recent economic downturn has led to tight budgetary constraints in the hospitals and it could greatly hamper St. Jude's profitability. But with the economy forecasted to improve and the new health care reform taking into effect in the near future, it will be prudent to reconsider this company in the following years.

For the current period, our analyst suggests selling our shares in this company and distributing those assets to other companies within the health care portfolio.

## *Stryker Corporation – BUY*

| | |
|---|---|
| ***Stock Symbol: SYK*** | ***Market Capitalization: 116.6B*** |

| | |
|---|---|
| Last Trade: 56.85 | P/E (ttm): 16.7 |
| 52 Week Range: 30.82 – 57.39 | EPS (ttm): 2.77 |
| Dividend Yield: 1.10% | Z-Score: |
| Beta: 0.80 | Revenue From Abroad: 34% |
| Recommended Holding Period: Short-term | |

Founded in 1941, Stryker develops, manufactures, and markets orthopedic implants and medical devices. It operates in two segments: Orthopedic Implants and MedSurg equipment. The orthopedic implants include multiple types of implant systems and the MedSurg equipment includes surgical equipment. The firm generates most of its revenue from reconstructive implants, such as knees and hips. Stryker also offers a wide range of operating room equipment and tools used for orthopedic and other procedures. Hospital beds, stretchers, and other hospital equipment account for the rest of Stryker's sales.

Sales grew 7% year-over-year, driven primarily by 10% orthopedic growth and 2% MedSurg growth. The company remained highly profitable during the fourth quarter of 2009 generating $500M in free cash flow. Also, with $1B in debt offering, the company is sitting on about $4B in cash which could be used for share repurchases or for offering dividends.

Also, 60% of the company’s revenue comes from orthopedic implants. The favorable demographic trend and a high entry barrier make the company highly favorable. Also, the company is developing two artificial spinal disks, which could improve the company’s prospects in the highly profitable spine business. But the health care reform could reduce the long term returns in Stryker’s US operations. Purchases of big ticket items may be delayed until the economic outlook improves. In addition, many resource-rich firms compete with Stryker. If it does not stay near the top of the innovation curve, it risks losing customers to those rivals.

With the economy forecasted to improve in the near future and with many innovative products under development, Stryker could perform better in the coming year. The increased sales in the last quarter of 2009 and the huge cash available for reinvestment are both positive signs for Stryker in the coming year. The different factors were weighed in and our analyst recommends a hold position for Stryker stock.

### *Teva Pharmaceutical Industries, Ltd. – BUY*

| | |
|---|---|
| ***Stock Symbol: TEVA*** | ***Market Capitalization: 58.2B*** |

| | |
|---|---|
| Last Trade: 64.43 | P/E (ttm): 14.6 |
| 52 Week Range: 63.01-63.96 | EPS (ttm): 4.50 |
| Dividend Yield: 1.1% | Z-Score: |
| Beta: 0.55 | Revenue From Abroad: 30% |
| Recommended Holding Period: Long-term | |

Teva Pharmaceutical Industries Ltd. is among the top-20 global pharmaceutical companies in the world. The company is headquartered in Israel and above 80% of Teva's sales, which totaled US$13.9 billion in 2009, is in North America and Europe. Teva USA markets products from a wide range of therapeutic areas including cardiovascular, anti-infective, CNS, anti-inflammatory, oncolytic, antidiabetic, analgesic, dermatology, respiratory, and female health care[63].

Teva's performance plunged in 2007 as competitors like Mylan, Novartis Sandoz, and Watson gained substantial scale through cross- border consolidation. But, in 2008, Teva regained the top position in the market with the acquisition of Barr. According to Morningstar, this acquisition could have influenced Teva to lower its price compared to its competitors which in turn resulted in higher sales. In fact, Teva USA's 2009 revenue was 25% higher compared to 2008 revenue. Teva also acquired Sicor, a leading provider of hard-to-make injectable, and globally diversified Ivax. This acquisition helped Teva gain leadership in growth markets like Russia, France, and Mexico.

One factor that distinguishes Teva from its competitors is that Teva manufactures more than 50% of its raw materials thereby reducing the manufacturing cost of its products. The recent acquisitions have allowed Teva to increase this percentage and the cost savings is in turn transferred to the customer. Product costs play a major role in determining sales in the generic drug market and Teva is predicted to lead the market in the near future.

Copaxone, a multiple sclerosis therapy accounts for about one fifth of Teva's revenue and it is predicted to grow until 2014 when the patent expires. On September 2008, the FDA accepted for filing Mylan's abbreviated new drug application for a generic version of Copaxone[64]. It is still not clear why Mylan had entered into a license and supply agreement with NATCO, an Indian pharmaceutical company for distribution rights so early. According to Teva, Copaxone is a very complicated product and it would be difficult to replicate by any other manufacturer. Also, Teva has indicated that it is already looking for possible alternatives in the multiple sclerosis market.

Taking into consideration all the above mentioned factors, our analyst predicts that investing in Teva is prudent and hence, maintains a buy position.

### *Abbott Laboratories – BUY*

| ***Stock Symbol: ABT*** | ***Market Capitalization: 81.8B*** |
|---|---|

[63] www.tevapharm.com
[64] www.bakerbotts.com

| | |
|---|---|
| Last Trade: 54.34 | P/E (ttm): 13.6 |
| 52 Week Range: 41.27 – 56.79 | EPS (ttm): 4.20 |
| Dividend Yield: 3.0% | Z-Score: |
| Beta: 0.60 | Revenue From Abroad: 54% |
| Recommended Holding Period: Short-term | |

Abbott manufactures and markets pharmaceuticals, medical devices, blood glucose monitoring kits, and nutritional health- care products. Products include prescription drugs, coronary and carotid stents, and nutritional liquids for infants and adults[65]. Following the acquisition of Advanced Medical Optics, Abbott also markets eye-care products. Abbott generates slightly less than 60% of revenue from pharmaceuticals.

Abbott has a wide lineup of patent- protected drugs, a leading diagnostics business, a strong nutritional division and an emerging vascular group[11]. Abbott's pharmaceutical division contains many blockbuster drugs including Humira, Kaletra, Tricor and Trilipix. Together these four drugs account for more than 26% of total sales. Humira, an autoimmune agent, grew by 20% in the past year. Humira could face significant competition from Pfizer's JAK-3 inhibitor which has shown strong efficacy in Phase II trials. Trilipix, used for cardiovascular treatment, is expected to grow much higher in the next few years.

In addition to the pharmaceutical division, Abbott runs top-tier diagnostic and nutritional segments that generate more than 30% of total sales. This could potentially help the company if the pharmaceutical division faces patent expirations in the coming years. Recently Abbott launched Xience, a drug coated stent used to treat coronary heart disease. The clinical trials for Xience are positive and experts believe that Xience could outperform Medtronic's Endeavor, the market leader. Also, Abbott does not have any major patent expiration in the near future.

Abbott's acquisition of Solvay's pharmaceutical units has increased the drugs in the pipeline, many of which have a potential to become blockbuster drugs. But, overall, the company does not have a large number of drugs in the pipeline compared to its rivals. This could be a major problem unless the company expands its drug pipeline either by R&D or by acquiring other biotech companies.

Overall, Crummer health care portfolio could be more diversified if we invest in a company like Abbott which in turn has a much diversified business. Hence, we decided to include Abbott as a part of Crummer portfolio.

[65] www.morningstar.com

## *Summary of Portfolio Allocation Changes*

| Holding | No. of Shares As of 4/12/10 | Proposed No. of Shares | Mkt Value As of 4/12/10 | Proposed Mkt Value |
|---|---|---|---|---|
| JNJ | 400 | 500 | $26,040 | $30,555 |
| PRGO | 550 | 0 | $28,122 | $0 |
| STJ | 200 | 0 | $7,970 | $0 |
| SYK | 150 | 150 | $8,528 | $8,646 |
| MRK | 100 | 150 | $3,830 | $5,528 |
| ABT | 0 | 125 | $0 | $6,529 |
| TEVA | 0 | 125 | $0 | $7,896 |

### *Want a Tech bargain? Head to Wal-Mart.*

As a general recommendation, the tech sector should be underweighted, at least for the next year. Having stated this, we would also recommend buying, or holding, companies that may benefit from the proliferation of mobile technology in the coming years. We feel that this is the best way to exploit the value that still remains in the tech market.

We recommend underweighting the tech sector because:

- **Any perceived value may already be built into current prices**
  Tech stocks have seen somewhat of a revival since March 2009. While this revival can be taken as a sign of optimism, it can also indicate that any good feeling towards these stocks for the coming year is already built into the price. This in-built value makes tech stocks, in general, poor value at current prices. Additional evidence that the tech sector is at least fair value can be seen in the historical performance of the sector. The S&P Tech sector has seen a -8.37% return annualized over 10 years, and in the previous year alone, has seen a 64% gain. This would suggest that a correction may be likely in the sector to align returns with historical levels.[66]

- **Spending on tech is need based rather than driven by tech advancement**
  The tech sector has always been about the next big innovation and having the most up to date hardware, software, or device available. In the current economic climate, this sector is driven less by what consumers and businesses want, and more by what they need. This view is supported by the NetAdvantage software sector report which states that "corporate buyers are taking a holistic view of their investment in software, evaluating not only the initial cost of the software, but also the long-term cost of support and viability of the vendor".[67] This highly scrutinized and necessity based spending has resulted in a reduction in discretionary dollars in the tech sector as consumers and business hold off on buying what they desire and either only buy what they need, or alternatively, make do with what they have. With the variables that feed into the equation of discretionary spending, such as unemployment, expected to improve at a restricted rate at best, there seems to be no dramatic increase in tech spending on the horizon.

Having looked at the downside of the tech sector in general, it is important that this generalized view can be overridden by certain catalysts that elevate expectations for certain subsectors or companies above the sector as a whole. We have identified one such catalyst that may propel certain market participants within the tech sector to higher returns than the sector as a whole:

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66 S&P Indices Market Attributes, US Equities, Feb 2010

67 NetAdvantage Software Industry Report

- **Mobile Devices – Mobile devices are growing in popularity and their increased use can be expected to have a threefold effect on the tech sector.**

1) It is expected that over 200 million devices will ship in 2010. While the increase in sales volume is partly down to a reduction in price point, this additional volume will far outweigh any concerns about margins. This higher sales volume will benefit handset manufacturers.
2) The Semiconductors that power these devices will be in high demand due to the increased sales. This is a great opportunity for chip manufacturers who are capable of providing the specialized hardware that power these devices.
3) As more consumers are provided with information on, and work with, mobile devices, the market for mobile advertising will grow. In 2009, sales in this area were just under $1 billion and this is expected to grow to $13 billion by 2013. This will provide a great source of income for the likes of Yahoo, Google, Microsoft, or any company that has a sizable amount of income from online advertising.

## CISCO Systems Inc. – BUY

| ***Stock Symbol: CSCO*** | ***Market Capitalization: 148.18B*** |
|---|---|
| Last Trade: 25.88 | P/E (ttm): 24.91 |
| 52 Week Range: 15.25-26.48 | EPS (ttm): 1.05 |
| Dividend Yield: N/A | Z-Score: 4.105 |
| Beta: 1.2116 | Revenue From Abroad: 46% |
| Recommended Holding Period: Long-term | |

Cisco Systems designs, manufactures, and sells Internet Protocol (IP)-based networking and other products relating to the communications and information technology industry worldwide. The company offers routers that interconnect IP networks and moving information between networks; switching systems, which provide connectivity to end users, workstations, and servers; application networking solutions; home networking products, such as voice and data modems, network cards, media adapters, Internet video cameras, network storage, and USB adapters; and Cisco security solutions to protect information systems.

There can be some optimism regarding a spending recovery in IT that would reflect value in CISCO stock at the current price. CISCO is aligning itself with the right technologies, notably video conferencing and collaboration, which should enable the company to take advantage of the main tech trends developing over the course of the next 3 years. Also, the recent announcement to push for greater broadband speeds should benefit CISCO as it is one of few companies ready with routers that can handle the increased speed. For these reasons, it is recommended that the current holding in CISCO is added to and that the company should be viewed as a long term investment.

## *INTEL Corporation – BUY*

| ***Stock Symbol: INTC*** | ***Market Capitalization: 117.5B*** |
|---|---|
| Last Trade: 21.27 | P/E (ttm): 27.48 |
| 52 Week Range: 14.14 – 21.55 | EPS (ttm): 0.77 |
| Dividend Yield: 2.7% | Z-Score: 8.140 |
| Beta: 1.1667 | Revenue From Abroad: 43% |
| Recommended Holding Period: Long-term | |

Intel Corporation designs, manufactures, and sells integrated circuits for computing and communications industries worldwide. It offers microprocessor products used in desktops, nettops, workstations, servers, embedded products, communications products, notebooks, netbooks, mobile Internet devices, and consumer electronics, as well as in embedded designs, such as industrial equipment, point-of-sale systems, panel PCs, automotive information/entertainment systems, and medical equipment. In addition, it offers platforms that include a microprocessor, chipset, and enabling software to incorporate various components and technologies. Intel sells its products primarily to original equipment manufacturers, original design manufacturers, PC and network communications products users, and other manufacturers of industrial and communications equipment.

Pent up demand for Intel's main semiconductor offerings combined with manufacturing efficiency improvements contribute to Intel looking like a solid long term buy at the current price. For this reason, the current holding should be added to modestly.

## *Microsoft Corporation – BUY*

| ***Stock Symbol: MSFT*** | ***Market Capitalization: 256.71B*** |
|---|---|
| Last Trade: 29.27 | P/E (ttm): 16.13 |
| 52 Week Range: 16.18 – 31.50 | EPS (ttm): 1.62 |
| Dividend Yield: 1.8% | Z-Score: 4.873 |
| Beta: 0.9827 | Revenue From Abroad: 72% |
| Recommended Holding Period: Long-term | |

Microsoft provides software products for computing devices worldwide. Its Client segment offers Windows product family that comprises Windows Vista; Windows XP Professional and Home; Media Center Edition; Tablet PC Edition; and other Windows operating systems. The company's Server and Tools segment provides integrated server infrastructure and middleware software that support software applications and tools built on the Windows Server operating system. It's Entertainment and Devices Division offers the Xbox video game system, including consoles and accessories, third-party games, games published under the Microsoft brand, and Xbox Live operations. This division also provides Zune digital music and entertainment device; PC software games; online games; Mediaroom, an Internet protocol television software; mobile and embedded device platforms; and Surface computing platform.

According to Valueline, there is a good chance that business will undertake a software replacement cycle towards the end of 2010. If this is the case, Microsoft's Windows 7 and Office 2010 offerings should be positive income generators for the company. Microsoft is also well poised to take advantage of the mobile technology boom, although the impact of this will not be seen until the 3-5 year horizon. For these reasons, the recommendation is to add moderately to the current holding and for the stock to be viewed as a long-term investment.

## *IBM Corporation – HOLD*

| ***Stock Symbol: IBM*** | ***Market Capitalization: 166.19B*** |
|---|---|
| Last Trade: 127.94 | P/E (ttm): 12.78 |
| 52 Week Range: 89.29 – 134.25 | EPS (ttm): 10.01 |
| Dividend Yield: 1.7% | Z-Score: 2.846 |
| Beta: 0.8152 | Revenue From Abroad: 65% |
| Recommended Holding Period: Long-term | |

International Business Machines Corporation (IBM) develops and manufactures information technology products and services worldwide. Its Global Technology Services segment offers IT infrastructure and business process services, such as strategic outsourcing, integrated technology, business transformation outsourcing, and maintenance. The company's Global Business Services segment provides professional services and application outsourcing services, including consulting and systems integration, and application management. Its Systems and Technology segment offers computing and storage solutions, including servers, disk and tape storage systems and software, semiconductor technology and products, packaging solutions, engineering and technology services, and retail store solutions. IBM's Software segment primarily offers middleware and operating systems software comprising WebSphere software for Web-enabled applications.

Upgrades in the business market are more likely to come in the form of software rather than hardware, and IBM should benefit from this. These upgrades should generate additional income for IBM in the next 12 months and when combined with internal cost cutting measures should result in a healthy bottom line. The uncertainty over when hardware purchases will pick up prevents a more bullish recommendation for IBM, as a portion of the company's business is generated in this area, and therefore the current holding should be maintained.

### *Flextronics International Ltd. – SELL*

| ***Stock Symbol: IBM*** | ***Market Capitalization: 6.01B*** |
|---|---|
| Last Trade: 7.39 | P/E (ttm): N/A |
| 52 Week Range: 2.32 – 7.97 | EPS (ttm): -7.41 |
| Dividend Yield: N/A | Z-Score: 2.405 |
| Beta: 2.4097 | Revenue From Abroad: 67% |

Flextronics International provides design and electronics manufacturing services to original equipment manufacturers of a range of products in infrastructure; mobile communication devices; computing; consumer digital devices; industrial, semiconductor, and white goods; automotive, marine, and aerospace; and medical devices markets. Its services include printed circuit board (PCB) and flexible circuit fabrication; and systems assembly and manufacturing, including enclosures, testing services, materials procurement, and inventory management. The company also offers design and engineering services comprising user interface and industrial design, mechanical engineering and tooling design, electronic system design, and PCB design.

Many of Flextronics largest customers are struggling. Companies such as Motorola and Sony Ericsson are finding it tough in the mobile sector. As Flextronics relies heavily on these larger customers, they are a risky proposition. Flextronics should have a better 2010 than 2009, but not enough upside exists for a buy, or even a hold recommendation on the stock.

## *Computer Sciences Corporation – BUY*

| ***Stock Symbol: CSC*** | ***Market Capitalization: 8.21B*** |
|---|---|
| Last Trade: 53.45 | P/E (ttm): 8.75 |
| 52 Week Range: 34.16 – 58.36 | EPS (ttm): 7.31 |
| Dividend Yield: N/A | Z-Score: 2.290 |
| Beta: 1.0246 | Revenue From Abroad: 38% |
| Recommended Holding Period: Long-term | |

Computer Sciences offers what it believes is a broad array of services to clients in the global commercial and government markets. The company specializes in the application of complex information technology (IT) to achieve the strategic objectives of its customers. Offerings include IT and business process outsourcing, and IT and professional services.

Outsourcing involves operating all or a portion of a customer's technology infrastructure, including systems analysis, applications development, network operations, desktop computing, and data center management. CSC also provides business process outsourcing, which involves managing key functions for clients such as claims processing, credit checking, logistics, and customer call centers.

CSC has had a relatively good 2009 in terms of new contract awards. This leaves the company with a healthy balance sheet and a good backlog of work. At the current price, CSC seems undervalued and a P/E of 8.75 supports this conclusion. According to Valueline, CSC is also a ripe target for acquisition which shows its attractiveness to other players in the market. The trend towards IT outsourcing is also helping CSC to increase revenue. It is recommended that the stability and future potential of CSC would be an excellent addition to the portfolio.

## *Accenture*[68] *– HOLD*

| ***Stock Symbol: ACN*** | ***Market Capitalization: 26.26B*** |
|---|---|
| Last Trade: 42.40 | P/E (ttm): 17.48 |
| 52 Week Range:26.33 – 43.89 | EPS (ttm): 2.38 |
| Dividend Yield: 1.80% | Z-Score:4.793 |
| Beta: 0.72 | Revenue From Abroad: 64% |
| Recommended Holding Period: Long-term | |

Accenture operates as a management consulting, technology services, and outsourcing company. Its management consulting services include customer relationship management; finance and performance management, strategy service line that helps clients turn insights into results; and supply chain management.

Accenture also provides various system integration and technology services, such as enterprise solutions and enterprise resource planning, information management services, service-oriented architecture, custom solutions, software as a service, mobility solutions. Furthermore, Accenture offers IT consulting services in IT strategy and transformation, enterprise architecture, infrastructure and security consulting, application portfolio optimization and renewal, research and development, and digital solutions.

As outsourcing of the IT function becomes more commonplace, Accenture is well placed to take advantage of the additional revenue that can be generated due to this trend. This outsourcing trend should be seen in the short terms and for this reason we recommend holding the existing shares in Accenture

68 All information compiled from Morningstar, Yahoo! Finance, FinViz, and NetAdvantage

## *Automatic Data Processing[69] – HOLD*

| **Stock Symbol: ADP** | **Market Capitalization: 22.34B** |
|---|---|
| Last Trade: 44.24 | P/E (ttm): 16.34 |
| 52 Week Range: 33.26 – 45.22 | EPS (ttm): 2.69 |
| Dividend Yield: 3.10% | Z-Score: 1.813 |
| Beta: 0.61 | Revenue From Abroad: 18.5% |
| Recommended Holding Period: Long-term | |

Automatic Data Processing provides technology-based outsourcing solutions to employers, vehicle retailers, and manufacturers. It operates in three segments: Employer Services, Professional Employer Organization Services, and Dealer Services.

The Employer Services segment offers a range of human resource information, payroll processing, and tax and benefits administration products and services, including traditional and Web-based outsourcing solutions.

The Dealer Services segment offers integrated dealer management systems and business management solutions to automotive, heavy truck, motorcycle, marine, and recreational vehicle retailers in North America, Europe, South Africa, and the Asia Pacific region.

Like other holdings in the tech sector, ADP will benefit from the continuing trend to outsource. In addition its customer base differs from that of the other outsourcing companies held and this provides a certain level of diversification.

[69] All information compiled from Morningstar, Yahoo! Finance, FinViz, and NetAdvantage

## *EMC Corp.*[70] *– HOLD*

| ***Stock Symbol: EMC*** | ***Market Capitalization: 38.57B*** |
|---|---|
| Last Trade: 18.56 | P/E (ttm): 35.47 |
| 52 Week Range: 10.91 – 19.04 | EPS (ttm): 0.53 |
| Dividend Yield: N/A | Z-Score: 3.496 |
| Beta: 0.97 | Revenue From Abroad: 47% |
| Recommended Holding Period: Long-term | |

EMC Corporation develops, delivers, and supports information infrastructure technologies and solutions. The company's Information Storage segment offers networked information storage systems, networked attached storage, content addressed storage, or direct attached storage environment. EMC's Content Management and Archiving segment offers software, which optimizes business processes, as well as creates, manages delivers, and archives information from documents and discussions, e-mail, Web pages, images, XML, reports, records, rich media, and application data.

The company's RSA Information Security segment delivers products, packaged solutions, and services to guard the integrity and confidentiality of information. This segment offers security product and services, such as enterprise identity and access management products, and encryption and key management software that enable companies to collect, monitor, analyze, and report on security event-related activity.

EMC's expertise in the information security sphere should see the company fair well in the short term. As the move to paperless workplaces gathers pace, the storage and protection of valuable documents makes knowledge of electronic security a valuable commodity. Technology to secure data sent through wireless means will also be a growing area that the company can take advantage of. Given this information, it is recommended that EMC be held at its current level.

[70] All information compiled from Morningstar, Yahoo! Finance, FinViz, and NetAdvantage

## *Hewlett-Packard*[71] *– HOLD*

| *Stock Symbol: HPQ* | *Market Capitalization: 122.88B* |
|---|---|
| Last Trade: 53.42 | P/E (ttm): 16.13 |
| 52 Week Range: 30.98 – 53.79 | EPS (ttm): 3.32 |
| Dividend Yield: 0.60% | Z-Score: 2.645 |
| Beta: 1.04 | Revenue From Abroad: 64% |
| Recommended Holding Period: Long-term | |

Hewlett-Packard Company provides a range of products, technologies, software, solutions, and services worldwide. The company's Enterprise Storage and Servers segment offers storage and server products in industry standard servers, business critical systems, and storageworks offerings.

HP's Services segment provides a portfolio of multi vendor IT services, such as technology, consulting and integration, and outsourcing services.

The company's HP Software segment provides enterprise IT management software, information management and business intelligence solutions, and opencall solutions. Its Personal Systems Group segment offers a line of personal computers (PCs) consisting of commercial PCs, consumer PCs, workstations, handheld computing devices, digital entertainment systems, calculators and other related accessories, and software and services for the commercial and consumer markets.

Like Intel, HP should be well placed to take advantage once the pent up demand in the tech sector releases. It is important to note, however, that HP will have more competitors for this new influx of business and this poses a potential risk. For that reason, HP should be held at its current level as the company does offer a potential upside even taking this risk into account.

[71] All information compiled from Morningstar, Yahoo! Finance, FinViz, and NetAdvantage

## *Summary of Portfolio Allocation Changes*

| Holding | No. of Shares As of 4/12/10 | Proposed No. of Shares | Mkt Value As of 4/12/10 | Proposed Mkt Value |
|---|---|---|---|---|
| FLEX | 700 | 0 | $5,677 | $0.00 |
| CSCO | 300 | 600 | $5,306 | $15,918 |
| INTC | 300 | 530 | $6,762 | $11,946 |
| MSFT | 300 | 550 | $9,096 | $16,676 |
| CSC | 0 | 277 | $0 | $15,185 |

## *Now Is Not The Time…*

We recommend a substantial reduction in the portfolio's fixed-income holdings because the near-record steepness of the yield curve and the uncertain timing of rising interest rates by the Federal Reserve create a high risk for a significant loss of capital.

**The Yield Curve**

The near record steepness of the yield curve is a clear indicator for investors to reassess current investments in the bond market. Net U.S. Treasury fixed-income issuance was $190 billion in 2009, and Morgan Stanley estimates it will reach $2.55 trillion in 2010. An increase in supply should lead to increasing yields. To the point, David Greenlaw, Morgan Stanley's chief fixed-income economist, has a bearish forecast, predicting 10-year yields will touch 5.5% in 2010.[72]

**Rising Interest Rates**

During his testimony in front of Congress on February 24, 2010, Federal Reserve Chairman Ben Bernanke stated the Federal Reserve intends to keep rates extraordinarily low for an "extended period." We believe the Fed will work to keep interest rates low, per Bernanke's testimony; however, we also believe an increase in interest rates is inevitable as the Fed drains liquidity to prevent inflation. According to Dan Fuss, manager of Loomis Sayles bond fund, bonds prices fall when interest rates rise. The *Associated Press* reports the fallout could be costly for investors who poured more than $400 billion into bond funds since the start of 2009.[73]

**Conclusion**

Our recommendation to underweight the fixed-income sector stems from near record steepness of the yield curve and the likelihood that the Fed will be forced to increase interest rates in 2010. Specifically, we recommend selling all current short- and long-term bond holdings, and purchasing $30,000 in Vanguard Inflation-Protected Securities (VIPSX). Our strategy should protect the portfolio against a significant loss of capital due to inflation and rising interest rates.

### *Proposed Changes in Fixed-Income Portfolio*

- Sell all short- and long-term bonds.
- Purchase 2,375 shares of Vanguard Inflation-Protected Securities (VIPSX) at $12.63 per share for $29,996.25.

[72] http://www.bloomberg.com/apps/news?pid=20601009&sid=agXHcHY4QAbE
[73] Carpenter, D. (2010, February 26). *Get ready: interest rate hikes bring good and bad*. Retrieved from http://www.google.com/hostednews/ap/article/ALeqM5iz0wEG0mqAwwxBaiQ-yTHEkz8bUgD9E3VFB80

## *Detailed Company Overviews*

### *Fidelity Government Income Fund – SELL*

| ***Symbol: FGOVX*** | |
|---|---|
| **Net Asset Value: 10.50** | Net Assets: 5.7B |
| **Expense Ratio: 0.45%**<br>**Average Duration: 4.67 yrs** | Average Maturity: 5.20 yrs<br>Average Credit Rating: AAA |
| **Yield: 2.88%** | Morning Star Rating: ☆☆☆☆ |

We recommend selling all shares of FGOVX, which is currently held in the Crummer Portfolio.

### *T. Rowe Price High-Yield – SELL*

| ***Symbol: PRHYX*** | |
|---|---|
| **Net Asset Value: 6.53** | Net Assets: 6.9B |
| **Expense Ratio: 0.80%**<br>**Average Duration: 3.33 yrs** | Average Maturity: 6.41 yrs<br>Average Credit Rating: B |
| **Yield: 7.55%** | Morning Star Rating: ☆☆☆☆ |

We recommend selling all shares of PRHYX, which is currently held in the Crummer Portfolio.

### *Vanguard Intermediate-Term Investment-Grade – SELL*

| ***Symbol: VFICX*** | |
|---|---|
| **Net Asset Value: 9.82** | Net Assets: 13.8B |
| **Expense Ratio: 0.21%**<br>**Average Duration:5.33 yrs** | Average Maturity: 7 yrs<br>Average Credit Rating: A |
| **Yield: 4.87%** | Morning Star Rating: ☆☆☆☆ |

We recommend selling all shares of VFICX currently held in the Crummer Portfolio.

### *Vanguard Long-Term Investment-Grade – SELL*

| ***Symbol: VWESX*** | |
|---|---|
| **Net Asset Value: 8.96** | Net Assets: 7.9B |
| **Expense Ratio: 0.23%**<br>**Average Duration: 12.10 yrs** | Average Maturity: 23.40 yrs<br>Average Credit Rating: A |
| **Yield: 5.86%** | Morning Star Rating: ☆☆☆ |

We recommend selling all shares of VWESX, which is currently held in the Crummer Portfolio.

## *Vanguard Inflation Protected Secs – BUY*

| *Symbol: VIPSX* | |
|---|---|
| **Net Asset Value: 12.63** | Net Assets: $27.6B |
| **Expense Ratio: 0.20%**<br>**Average Duration: 4.24 yrs** | Average Maturity: 8.60 yrs<br>Average Credit Rating: AAA |
| **Yield: 1.70%** | Morning Star Rating: ☆☆☆ |

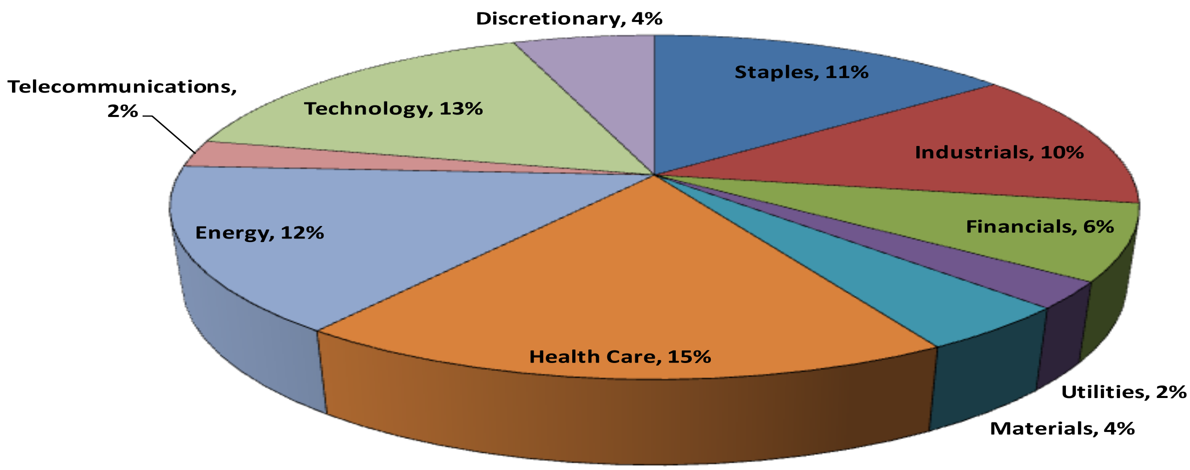
The addition to providing inflation protection, Treasury Inflation-Protected Securities (TIPS) provide income consistent with investment in inflation-indexed securities. The fund invests at least 80% of assets in inflation-indexed bonds issued by the U.S. government. It may invest in bonds of any maturity, though the fund typically maintains a dollar-weighted average maturity of seven to 20 years.

## *Summary of Portfolio Allocation Changes*

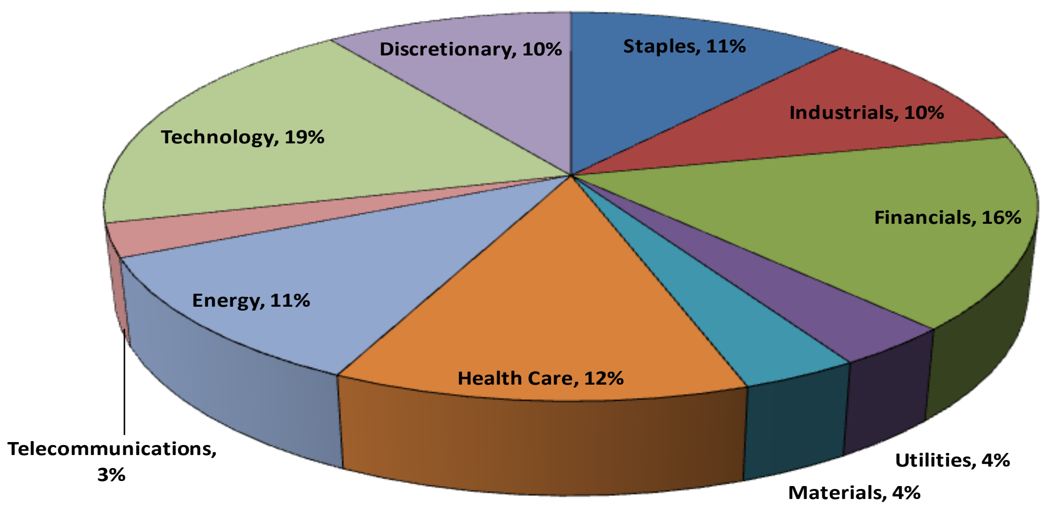
| Holding | No. of Shares As of 4/12/10 | Proposed No. of Shares | Mkt Value As of 4/12/10 | Proposed Mkt Value |
|---|---|---|---|---|
| FGOVX | 3,548 | 0 | $37,255 | $0 |
| PRHYX | 2,474 | 0 | $16,079 | $0 |
| VFICX | 3,652 | 0 | $50,361 | $0 |
| VWESX | 5,596 | 0 | $49,744 | $0 |
| VIPSX | 0 | 2,375 | $0 | $29,996 |

# Visual Portfolio Allocation

## *Current Portfolio Allocation*




## *Proposed Portfolio Allocation*



# Value-at-Risk

Value at Risk (VaR) is a widely used risk measure of the risk of loss on a specific portfolio of financial assets. VAR calculates the maximum loss expected (or worst case scenario) on an investment, over a given time period and given a specified degree of confidence.

We used the VaR method to determine the maximum amount of the portfolio, with a 1% probability, that we could lose over a one-year period, assuming markets are normal and there is no trading.

Our findings:

- **VaR with *current* weights:**

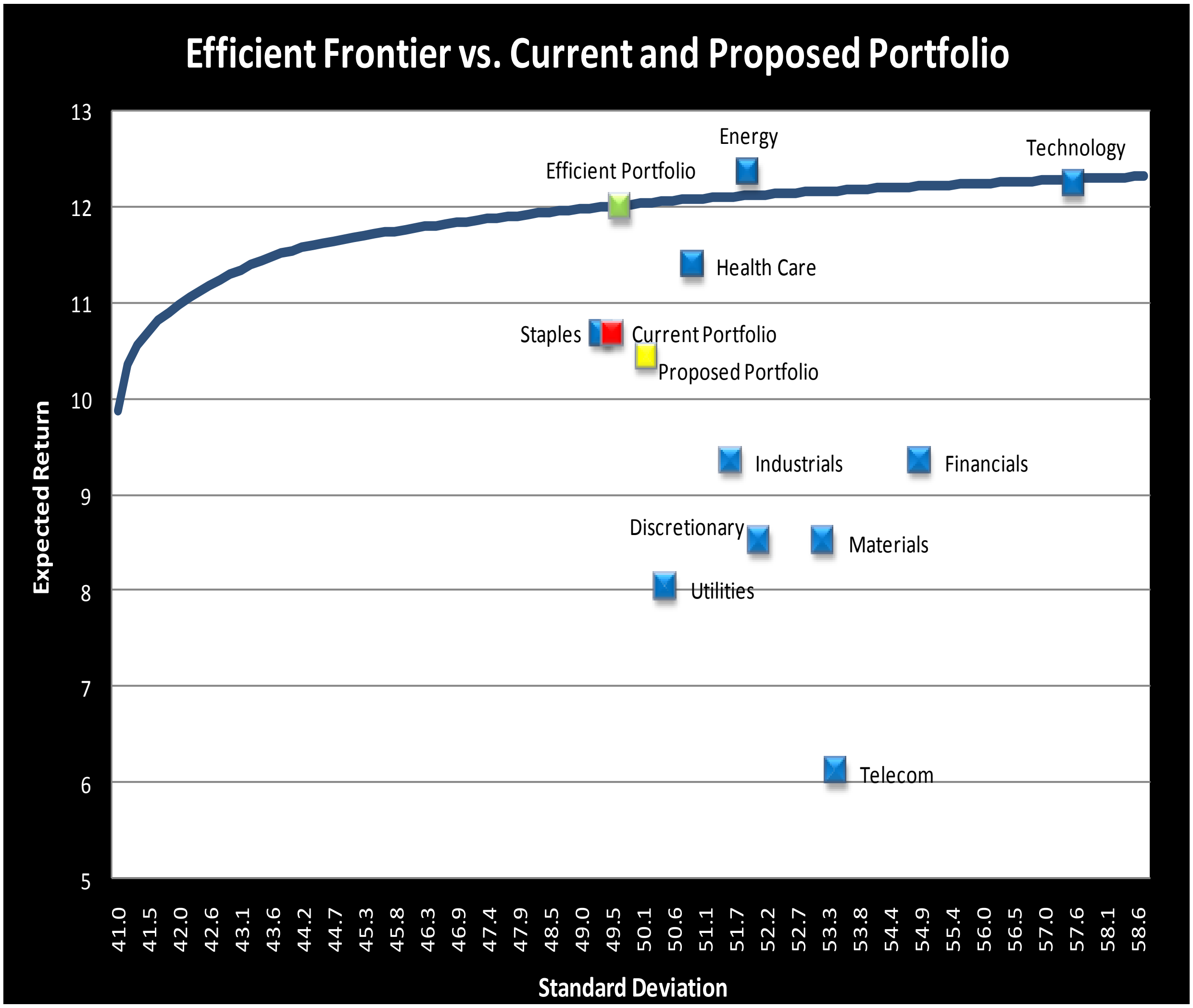
  **$614,439**

- **VaR with *proposed* weights:**

  **$579,468**

Therefore, although we are reallocating over $100,000 of the portfolio from fixed income to stocks, we are still reducing the VaR of the portfolio.

# Efficient Frontier



# Appendix 1 : Z-Score

The z-score bankruptcy measure was initiated in 1968 by Edward Altman. While this multivariate analysis of ratios remains controversial, it can be used with 80-90% accuracy in identifying bankrupt firms. The z-score evaluates 22 variables related to leverage, coverage, and profitability, ending with a figure known as "Z". If Z is less than 1.81, there is a high probability of bankruptcy. If Z is greater than 3, there is a low probability. Along with the score's high accuracy in predicting bankrupt firms, it is less than ten percent inaccurate in falsely identifying firms as potentially bankrupt. As such, we believed this was a worthwhile figure to add to company analysis for the portfolio.

# Appendix 2: Proposed Trade List

| Sector | Holding | Buy/Sell |
|---|---|---|
| Staples | **Sysco Corp** | **Sell 250 shares** |
| Staples | **Procter & Gamble Co** | **Sell 230 shares** |
| Technology | **Flextronics Intl** | **Sell all shares** |
| Telecommunications | **iShares S&P** | **Sell 100 shares** |
| Health Care | **Perrigo Co** | **Sell 100 shares** |
| Health Care | **St Jude Medical Inc** | **Sell all shares** |
| Industrials | **Caterpillar Inc** | **Sell all shares** |
| Industrials | **General Electric Co** | **Sell all shares** |
| Fixed Income | **Fidelity Government Income** | **Sell all shares** |
| Fixed Income | **T. Rowe Price High-Yield** | **Sell all shares** |
| Fixed Income | **Vanguard Interm-Term Investment-Grade** | **Sell all shares** |
| Fixed Income | **Vanguard Long-Term Investment-Grade** | **Sell all shares** |
| Energy | **First Solar** | **Sell all shares** |
| Energy | **Chevron** | **Sell 120 shares** |
| Energy | **Clean Energy Fuels Corp.** | **Sell 130 shares** |
| Staples | **CVS/Caremark Corp.** | **Buy additional 200 shares** |
| Staples | **Church & Dwight Co Inc** | **Buy 146 shares** |
| Technology | **Cisco Systems Inc** | **Buy additional 400 shares** |
| Technology | **Intel Corp** | **Buy additional 230 shares** |
| Technology | **Microsoft Corp** | **Buy additional 250 shares** |

| | | |
|---|---|---|
| Technology | **Computer Sciences Corp** | **Buy 277 shares** |
| Telecommunications | **American Tower Corp** | **Buy 130 shares** |
| Telecommunications | **Crown Castle International Corp** | **Buy 103 shares** |
| Discretionary | **Amazon.com Inc** | **Buy additional 75 shares** |
| Discretionary | **McDonald's Corp** | **Buy additional 150 shares** |
| Discretionary | **Autoliv Inc** | **Buy 75 shares** |
| Discretionary | **Hasbro Inc** | **Buy 75 shares** |
| Health care | **Johnson & Johnson** | **Buy additional 100 shares** |
| Health care | **Stryker Corp** | **Buy additional 25 shares** |
| Health care | **Merck & Co Inc** | **Buy additional 50 shares** |
| Health care | **Abbott Laboratories** | **Buy 125 shares** |
| Health care | **Teva Pharmaceutical** | **Buy 125 shares** |
| Industrials | **Jacobs Engineering** | **Buy additional 30 shares** |
| Energy | **Exxon Mobil Corp** | **Buy additional 95 shares** |
| Financials | **J.P. Morgan Chase & Co** | **Buy 350 shares** |
| Financials | **Bank of America** | **Buy 515 shares** |
| Financials | **Goldman Sachs** | **Buy 15 shares** |
| Financials | **Northern Trust Corp** | **Buy 137 shares** |
| Financials | **BB&T Corp** | **Buy 415 shares** |
| Financials | **US Bancorp** | **Buy 103 shares** |
| Financials | **Annaly Capital Mgmt** | **Buy 501 shares** |
| Fixed Income | **Vanguard Inflation-Protected Secs** | **Buy 2,375 shares** |

| | | |
|---|---|---|
| Utilities | **Vanguard Utilities ETF** | **Buy additional 130 shares** |
| Materials | **Helmerich & Payne Inc** | **Buy additional 20 shares** |
| Materials | **Monsanto Co** | **Buy additional 17 shares** |