

Portfolio Manager Insights  
December 2008

## Bear Recovery Ranking

- **Introducing the Bear Recovery Ranking (BRR) to identify stocks that are disproportionately expected to benefit from a market rally.**
- **The BRR is comprised of mostly risk attributes that suffer the most in a bear market and while these characteristics are not sustaining over a market cycle, they have their moments of stunning performances.**
- **Stocks with the least risky attributes are at the bottom of BRR rankings and have had strong relative performance in the last year. For investors expecting a more subdued environment, relative weakness among these less-risky stocks may provide an attractive time to add or accumulate shares.**

Bear market rallies are often powerful upside moves with limited duration. In these rallies, stock attributes such as low price, high beta, and lower quality lead performances. These attributes reflect risk and are the bleeding edge of the bear market. Given the worst bear market in a generation, the window is wide open for risk attributes to provide sizeable gains. Using a composite of EquityCompass attribute indices, we are introducing a Bear Recovery Ranking (BRR). The ranking is a composite of five attributes that include volatility, price level, price trend, extreme valuation, and quality. The rankings are from 0–100 for each of the 3,000 stocks in the EquityCompass coverage universe. The higher the ranking, the greater the presence of attributes that are likely to benefit from a market rally. The lowest rankings are the inverse and represent stocks that are the least risky. For a complete list of EquityCompass BRR rankings, contact your Stifel Nicolaus representative.

While risk attributes provide hefty rewards in bear rallies and when transitioning to a more normalized market environment, they are not characteristics that produce excess returns over a market cycle. Their point of maximum risk/reward is when the overall market is suffering the most and investors' risk aversion is high. However, individual selection among these riskier stocks is also very high. As such, investors attempting to exploit the opportunities should do so in the context of a diversified portfolio and incorporate complementary insights such as fundamental research opinions.

### Bear Recovery Index

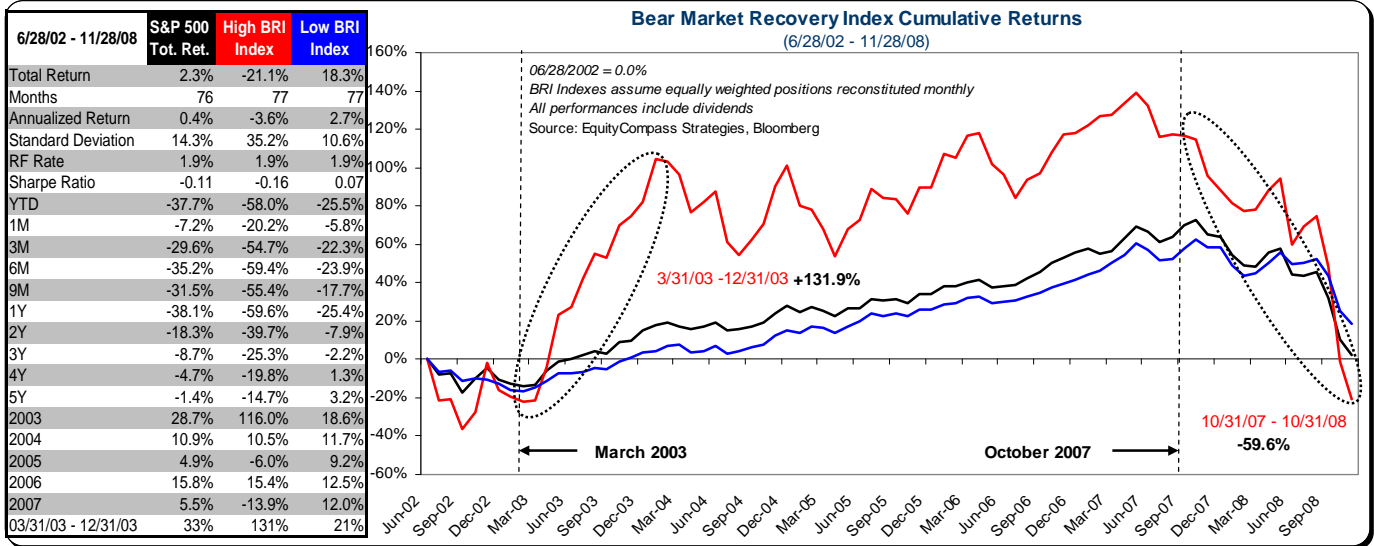
To demonstrate the risk and return properties of BRR, we created indices representing the top and bottom deciles of rankings. The top 10% of rankings are the riskiest and expected to outperform in a rally. The bottom 10% are the least risky and the stocks likely to underperform in a bear rally phase. Each of the Bear Recovery Index (BRI) components is equally-weighted and rebalanced monthly. Cumulative performance of the Bear Recovery Index from July 2002 is shown in **Chart 1** along with period performances.

The cumulative performance of the high and low BRI covers a market cycle. The high rankings outpaced the S&P 500 by about 5:1 in the market recovery in 2003, but beyond that period, underperformed the broader market and have been trampled in the last year (down 20.2% in November). As mentioned previously, the opportunity for higher risk stocks is limited and is the greatest when the market is at its worst. When the window is open, as it now appears to be, potential gains are significant.

The BRI low stocks are also at an interesting junction. These lower risk stocks have outperformed the S&P 500 in just about every period except in a market recovery. In the last year, the BRI low index has outperformed the S&P 500 by 1270 basis points and was a whopping 3570 basis points over the BRI high index. While buying stocks with lower risk attributes is a worthy tactic for long-term, risk-adjusted performance, their rewards in the last year have been extraordinary and well above their historical relative norm.

**All relevant disclosures appear on page 4 of this report.**

Chart 1



### Bear Recovery Rankings (BRR) for Stock Selection

Using the buy recommendations of Stifel Nicolaus equity research and BRR rankings at the end of November, we created two lists. The first list (**Table 1**) represents the 25 stocks with the highest BRR rankings that are Stifel Buy-rated. These stocks would be expected to outperform in a market rally for their risk attributes but also have an investment case for intrinsic value reasons. The second list (**Table 2**) is the 25 Stifel Buy-rated stocks with the lowest BRR rankings. These less risky stocks likely underperform in a rally phase. However, investors looking past a rally to a more subdued market environment may wish to use whatever relative weakness as an opportunity to buy shares that are lower risk and underpinned with solid fundamental analysis.

**Richard E. Cripps, CFA**  
 Chief Investment Officer

**Table 1**
**Stifel Nicolaus Equity Research Buy Recommendations  
25 Highest Bear Recovery Rankings (BRR)**

Symbol	Company Name	Price Nov. 28	52W High	52W Low	GICS Sector	BRR Rank
CBL	CBL & Associates Properties Inc.	\$4.07	\$29.23	\$2.53	Financials	97.9
SIRI	Sirius XM Radio Inc.	\$0.20	\$3.94	\$0.14	Consumer Discretionary	96.5
ACLI	American Commercial Lines Inc.	\$4.47	\$20.67	\$3.40	Industrials	95.5
LVS	Las Vegas Sands Corp.	\$5.17	\$122.96	\$2.89	Consumer Discretionary	95.1
MIC	Macquarie Infrastructure Co. LLC	\$4.66	\$40.98	\$2.02	Industrials	94.5
GRT	Glimcher Realty Trust	\$2.33	\$19.88	\$0.75	Financials	93.9
AMD	Advanced Micro Devices Inc.	\$2.36	\$10.49	\$1.62	Information Technology	92.6
ESC	Emeritus Corp.	\$6.82	\$27.00	\$5.00	Health Care	91.0
BEAV	BE Aerospace Inc.	\$8.18	\$54.09	\$5.37	Industrials	90.7
MTSN	Mattson Technology Inc.	\$1.80	\$9.02	\$1.16	Information Technology	90.4
XL	XL Capital Ltd. (CI A)	\$5.03	\$63.67	\$3.45	Financials	90.4
ADVNB	Advanta Corp. (CI B)	\$2.95	\$10.63	\$1.58	Financials	90.2
ISLE	Isle of Capri Casinos Inc.	\$3.36	\$18.13	\$2.25	Consumer Discretionary	89.4
CBI	Chicago Bridge & Iron Co. N.V.	\$10.17	\$63.50	\$5.12	Industrials	89.2
OWW	Orbitz Worldwide Inc.	\$2.43	\$10.00	\$2.07	Consumer Discretionary	87.9
AMR	AMR Corp.	\$8.78	\$22.66	\$4.00	Industrials	87.3
SGR	Shaw Group Inc.	\$18.40	\$69.25	\$11.47	Industrials	86.6
LSE	CapLease Inc.	\$2.09	\$10.39	\$1.50	Financials	86.0
RCL	Royal Caribbean Cruises Ltd	\$9.42	\$43.96	\$5.97	Consumer Discretionary	85.3
RTEC	Rudolph Technologies Inc.	\$3.30	\$12.59	\$2.03	Information Technology	85.3
LAMR	Lamar Advertising Co. (CI A)	\$14.87	\$52.70	\$8.69	Consumer Discretionary	84.9
TTEC	Teletech Holdings Inc.	\$8.82	\$26.88	\$6.72	Information Technology	84.5
CTV	CommScope Inc.	\$11.29	\$56.50	\$7.35	Information Technology	84.5
FCL	Foundation Coal Holdings Inc.	\$14.27	\$89.72	\$8.53	Energy	84.4
SHFL	Shuffle Master Inc.	\$4.28	\$13.38	\$2.50	Consumer Discretionary	84.2

Source: EquityCompass Strategies

**Table 2**
**Stifel Nicolaus Equity Research Buy Recommendations  
25 Lowest Bear Recovery Rankings (BRR)**

Symbol	Company Name	Price Nov. 28	52W High	52W Low	GICS Sector	BRR Rank
MDT	Medtronic Inc.	\$30.52	\$56.97	\$28.33	Health Care	0.7
PRE	PartnerRe Ltd.	\$69.96	\$83.99	\$47.70	Financials	1.0
PRA	ProAssurance Corp.	\$54.59	\$65.00	\$37.24	Financials	1.7
TDY	Teledyne Technologies Inc.	\$40.62	\$66.21	\$33.90	Industrials	2.2
SAI	SAIC Inc.	\$17.80	\$21.90	\$16.25	Information Technology	2.2
CHCO	City Holding Co.	\$35.42	\$54.25	\$30.05	Financials	3.1
CHKP	Check Point Software	\$20.61	\$25.81	\$16.80	Information Technology	3.2
PNRA	Panera Bread Co. (CI A)	\$44.44	\$65.00	\$30.60	Consumer Discretionary	3.5
RTN	Raytheon Co.	\$48.80	\$67.49	\$41.81	Industrials	3.6
NSC	Norfolk Southern Corp.	\$49.47	\$75.53	\$41.36	Industrials	3.7
APOL	Apollo Group Inc. (CI A)	\$76.84	\$81.68	\$37.92	Consumer Discretionary	3.8
MO	Altria Group Inc.	\$16.08	\$24.55	\$14.34	Consumer Staples	4.3
DGICA	Donegal Group Inc. (CI A)	\$15.72	\$23.00	\$11.24	Financials	4.3
HD	Home Depot Inc.	\$23.11	\$31.08	\$17.05	Consumer Discretionary	4.4
MANT	ManTech International Corp.	\$54.42	\$62.06	\$36.60	Information Technology	4.5
MCD	McDonald's Corp.	\$58.75	\$67.00	\$45.79	Consumer Discretionary	5.1
QSII	Quality Systems Inc.	\$30.07	\$47.94	\$26.90	Information Technology	5.2
CPLA	Capella Education Co.	\$59.86	\$75.34	\$34.78	Consumer Discretionary	5.3
T	AT&T Inc.	\$28.56	\$42.79	\$20.90	Telecommunication Services	5.6
DV	DeVry Inc.	\$57.48	\$61.57	\$39.25	Consumer Discretionary	6.0
K	Kellogg Co.	\$43.43	\$58.51	\$40.51	Consumer Staples	6.3
GIS	General Mills Inc.	\$63.17	\$72.01	\$51.00	Consumer Staples	6.4
PM	Philip Morris International	\$42.16	\$56.26	\$33.30	Consumer Staples	7.1
UNP	Union Pacific Corp.	\$50.04	\$85.80	\$43.78	Industrials	7.2
HNZ	H.J. Heinz Co.	\$38.84	\$53.00	\$36.83	Consumer Staples	7.7

Source: EquityCompass Strategies



### Important Disclosures

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### Special Note for the Bear Recovery Rankings

The opinions expressed in this report are based on a hybrid combination of quantitative/technical (EquityCompass) and fundamental (Stifel Nicolaus Equity Research) analyses. EquityCompass quantitative/technical ratings and opinions can and do differ from Stifel Nicolaus fundamental research opinions. Access to fundamental research is available through Stifel, Nicolaus & Company, Incorporated. Performance prior to December 2005 reflects data from Legg Mason EquityCompass published by Legg Mason Wood Walker, Incorporated, the prior owner of part of the Stifel Nicolaus Capital Markets business, during the period of time that the research analysts covering those stocks were employed by Legg Mason Wood Walker, Incorporated. Performance prior to July 2008 reflects data from the Stifel Nicolaus EquityCompass published by the Portfolio Strategy Group, part of the Stifel Nicolaus Capital Markets business, during the period of time that the research analysts covering those stocks were employed by Stifel, Nicolaus & Company, Incorporated. Stifel, Nicolaus & Company, Incorporated's research analysts receive compensation that is based upon (among other factors) Stifel Nicolaus' overall investment banking revenues. Stifel Nicolaus' investment rating system is three tiered, defined as follows:

**BUY** – Stifel Nicolaus expects this stock to outperform the S&P 500 by more than 10% over the next 12 months. For higher-yielding equities such as REITs and Utilities, we expect a total return in excess of 12% over the next 12 months.

**HOLD** – Stifel Nicolaus expects this stock to perform within 10% (plus or minus) of the S&P 500 over the next 12 months. A HOLD rating is also used for those higher-yielding securities where we are comfortable with the safety of the dividend, but believe that upside in the share price is limited.

**SELL** – Stifel Nicolaus expects this stock to underperform the S&P 500 by more than 10% over the next 12 months and believe the stock could decline in value.

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### Additional Information Available Upon Request

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