COMMENTARY

March 13, 2009

Dear clients and colleagues,

David and I attended the Raymond James 30th investor conference this week.
Over 300 companies were presenting and a total of 1500 attendees making it the largest generalist equity conference in the US. The conference focused on 8 different industries, energy, transportation, retailing, financials, healthcare, business services, technology and utilities. We met over 60 companies, 5 of which are holdings in the portfolio. Comstock resources in the energy sector, Waste Connection, Cerner in the healthcare IT sector, Zebra Technologies and of course Raymond James Financial.

Some of the highlights of the conference were:

The companies with debt took a significant portion of their time to explain the structure of that debt and their financing strategy, going at great lengths to reassure investors.

Many companies, outside housing and housing related industries saw an uptick in February over January and are seeing a similar trend, March being stronger than February. This week's release of February retail sales numbers would support that comment. In addition, many companies told us that current sales are running even below what would be considered replacement demand. Yes, things brake or get used and need to be replaced. At current sales level, items from electronic to cars and even houses are running below replacement demand, building pent-up demand.

Economic news this week, although still deteriorating, seem to indicate a bottoming process for the US economy. The markets after reaching new lows on Monday have rebounded strongly since. On another note, following Qing's note last week, we saw very strong car sales numbers in China for February, indicating that their stimulus programs to boost domestic consumption seem to be working.

We are expecting a stronger Q2 than Q1, which means the economy should grow in Q2. Why? Would you ask?

Part of it is in the fact that companies have been following consumers in cutting production and inventory, even a stabilization of demand would mean sequential growth.
Let me illustrate this using an example for a cell phone manufacturer selling to a cell phone retailer.

In Q3 last year, the phone retailer was predicting demand for Q4 at 1.2 million phones, up from 1 million in Q3, a normal seasonal uptick.

So the phone retailer ordered 1.2 million phones from the manufacturer.

But demand at Christmas did not go up, total sales actually went down for the first time to 900 000 phones. Meaning the retailer had 300 000 phones in inventory and was now expecting to sell only 800 000 phones in Q1.

So immediately, the phone manufacturer was asked to ship only 500 000 phones for the quarter, a sequential decline of more than 58%.

Sales in Q1 were 800 000 phones meaning the retailer was back with a normal inventory level. But still expecting a deterioration in Q2 at 750 000 phones and therefore ordered 750 000 phones from the manufacturer, a 50% increase over Q1 for the manufacturer.

So we expect strong growth in Q2. And the market should rebound strongly. There is a big risk however that this rebound will be short-lived as we experienced in prior recessions. But we still believe that the economy should bottom before the end of this year.

There were no changes in the portfolio this week.
A few of our companies reported results. Greggs PLC, the largest sandwich and bakery chain in the UK reported sales up 7.1% with same store sales up 4.1%. Profits were slightly down due to high energy and ingredient costs. The forecast was very positive as people seem to go for lower priced choices but still eat out. Casey's, a leading convenience store operator in the US Midwest, profiled in our of previous commentaries reported record results with same store gasoline sales volumes up 2.1% and grocery and merchandise sales up 7%. Finally, Hong Kong and Shanghai hotels reported results sharply down, but on the positive side, revenues per available room (revpar) were down only 4%. Autogrill reported sales up 19% and EBITDA up a similar %.

The company we will profile this week was our host, Raymond James Financial.

Raymond James Financial (RJF US - $16.91)
www.raymondjames.com

Founded in 1962, Raymond James is a diversified financial services holding company with subsidiaries engaged primarily in investment and financial planning, in addition to investment banking and asset management. With 5,000 financial advisors serving approximately 1.9 million accounts mainly in the US and Canada Raymond James is one of the largest independent financial services firms. The company has approximately $170 billion in assets under administration and $28 billion in aum.

Market cap $2.1B, div yield 2.6%, p/e 12/09 9.4x, roe 13.1%, p/cf (TTM) 6.1x, sales: $3.1B, 5 year sales growth: 16%, insider ownership 42%, last stock offering 1986, one year return -25%.

Target Market Size
The company has less than 5% market share in all its markets.

Competitive advantages
The company has weathered the downturn better than most. It is gaining market share in all its markets due to its strong balance sheet and reputation.

Growth strategy
In the private client business, the company has been able to recruit a record number of advisors mainly due to its franchise model (higher payout). In the capital markets, the company has been able to recruit entire teams from weakened competitors. For example, they hire an entire team of bond experts from Bear Stearns.

Risk
The company is converting to Bank status and its Banking operation is not well understood by the market.

Investment Theme
The wealth management industry is an attractive industry well positioned to benefit from demographic changes. In addition, RJ has a unique opportunity to emerge from this financial crisis with increased market share.

Valuation
Target price = $37 for a 120% return, using DCF model at growth rate of 10%, discount rate of 12% and payout ratio at maturity of 50%.

Have a good week.

Robert