



Monthly Stock Monitor
January 15, 2008



HIGHLIGHTS

MARKET COMMENTARY....."Happy New Year, because Last years stunk"
ALTRIA.....Completes UST purchase
DOMINION RESOURCES.....Raised to OUTPERFORM
HOMEOWNERS CHOICE.....Improved quarterly profits, attractive valuation
PRICESMART.....Improved quarterly profits
PROGRESS ENERGY.....New stock offerings, lowers guidance, raises dividend
SHUTTERFLY.....New agreement with Adobe

MARKET COMMENT ~ "Happy New Year, because last year stunk"

Many are happy to see 2008 end and the ushering in of 2009 given the mayhem which ran through the financial markets last year. The major equity averages turned in one of its worst performance in history and was accompanied by a contraction in credit market not seen since the 1930s.

The final number for 2008's equity markets are in & the year could not have ended to soon. For 2008 the DJIA was down 33.8%, S&P 500 declined 38.5%, and the NASDAQ fell 40.5%. The culprits for pushing the markets lower are by now well known; a contracting credit market and slowing of the global economy. Going forward, the pundits are attempting to predict when the markets will turn higher, expecting equities to rally 6 months before the economy does. Thus far, the guesstimates have ranged from an economic upturn by this June, 2H09, and 2010.

An interesting "Barrons" article last weekend pointed out that since 1900, January's trading has predicted the annual move of stocks for the upcoming year. For example, a positive January has spurred positive returns for stocks in the coming year 71% of the time with an average increase of 10.4%. The first week of 2009 saw the Dow rally 6.1% while the NASDAQ was up 6.7%.

We've been saying for the past few months a recovery in the debt markets would probably be needed to potentially cause a rally in the equity markets. The debt markets moved significantly lower in the summer of 2007 as concerns grew over a slowing economy and contracting credit markets. The "bear market" in stocks occurred roughly 3-6 months after the decline of the debt markets. We believe the debt markets will need to continue its current rally, indicating stability is returning to the world of credit, and could facilitate renewed lending by institutions to individuals/business, which has been sorely lacking in the current economic cycle. Renewed confidence in the credit/debt markets could lead to a rally in the stock market anticipating an end to the current recession. Thus, since the debt markets lead stocks lower, a rally in debt may lead to a stock market rally.

During the past few weeks, we've begun to see a positive turn in the corporate debt market. This rally came on the heels of GMAC's debt instruments rallying last month after the US Government agreed to buy \$5B of it s senior preferred equity to prop up the company. A debt rally ensued and yields on corporate bonds (both investment grade & junk) have declined.....A GOOD SIGN!! For example yields on some junk-rated issues have declined from 19% to 14%. Also, the 5

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year investment grade bonds recently issued by Altria (MO-\$16.37), at \$1000/bond, have since rallied to \$1100/bond in the secondary markets. Similar moves have been seen for 5 year investment grade bonds issued by Verizon (VZ-\$29.90). Many preferred stocks, another type of debt instrument, have also rallied during the past few weeks. A rally in the debt markets is one potential positive sign for stocks going into 2009.

Under the bullish scenario outlined in the above paragraph, continued improvement in the credit/debt markets could cause major players to return to the equity markets. Many of these same players exited the stock market in 2008 and are sitting on large cash positions. According to another recent "Barron's Magazine" article, there is a huge amount of cash sitting on the sidelines with market mavens estimating some hedge, pension, and mutual funds are holding as much as 25% in cash. One interesting statistic given by "Barron's" stated the number of NYSE stocks trading above their 200-day moving average is only 7%.....thus, offering the potential of stocks being in an oversold state and offering room for improvement.

There may be opportunities for investors seeking to buy equities with potentially attractive valuations. Along these lines, one can selectively buy stocks either in defensive names or cyclical names offering appreciation potential when it is perceived the economy has finally bottomed. In the defensive sectors consider tobaccos, beverages, foods, and utilities. For investors seeking equities for appreciation potential in equities when the economy hits a nadir, investors should seek cyclical stocks. Given the major declines in the averages this past year, there are many well-known cyclical names trading at compelling valuations. For assistance in finding these investment ideas consult with your Anderson & Strudwick financial consultant.

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COMMENTS AND UPDATES

Altria (MO-\$16.37) completed its acquisition of US Tobacco. The company issued bonds to help finance the purchase of the leading US producer of smokeless tobacco which MO believes will assist in its quest for future earnings growth. Management believes it can attain almost \$1.2 billion in cost synergies during the next 2 years and potentially increase annual cash flow from \$3.5 billion to over \$4 billion. MO's shares pay an attractive dividend yield of 8.5% and the company's intent is to pay out 75% of annual profits to shareholders in dividends. Potentially, this means future earnings growth could lead to dividend increases for shareholders. Given MO's business model, potential cash flow growth during the next few years, and 8.5% dividend yield, these shares are recommended for income/growth investors. These shares are rated OUTPERFORM and our price target is \$19. (SFM)

Dominion Resources (D-\$33.93) recently announced news on its capital expenditures program, earnings guidance, and the common stock dividend. Due to the ongoing economic slowdown facing many companies in the US lowered its plans for capital expenditures by approximately \$350 million to \$4.06 billion. In order to conserve cash flow, D plans to reduce certain 2009 non-fuel operating and maintenance expenses. While affirming its 2008 earnings guidance of \$3.10-\$3.15/share, management lowered 2009 guidance from \$3.30-\$3.45/share to \$3.20-\$3.30/share. The company anticipates 2009 operating earnings to grow 3%-6%, 4%-6% in 2010, and 6% in 2011. Common shareholders were given some good news as D increased its dividend by 10.8% from \$1.58/share from \$1.75/share, marking the 6th consecutive annual increase. D believes future dividend increases may be in the offering based on growth of its operating earnings. We raised our rating on D to OUTPERFORM from NEUTRAL, based on potential earnings and dividend growth. (SFM)

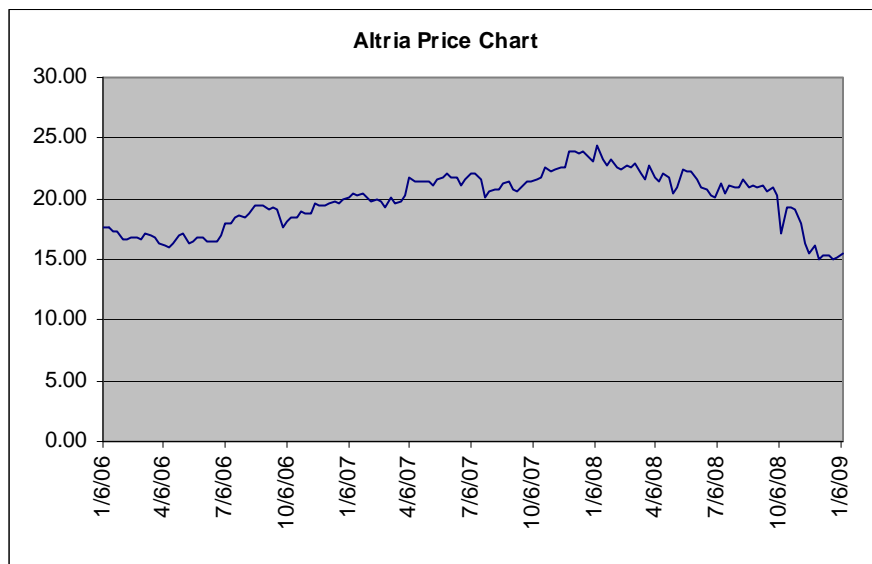
Homeowners Choice (HCII-\$4.90) reported 3Q08 earnings of \$0.12/share vs. (\$0.02)/share during 3Q07. The improved earnings occurred as net premiums earned increased to \$8.05 million from \$1.69 million while net investment income grew to \$425,000 from \$203,000. Other income, on a quarter-to-quarter comparison, was \$189,000 vs. \$0. HCII began operations in 7/07 and is ramping up revenues as the company has increased the assumption of insurance policies from Citizens (State of Florida) during the past year. After holding 17,000 policies through 3Q08, HCII recently received an additional 45,000 policies from Citizens which has been off-loading property/casualty insurance to HCII allowing the company to grow its revenue streams in a fairly easy manner. Since HCII began operations during the summer of 2007 the policies under its control have grown to 63,000. Taking possession of the additional 45,000 policies allowed HCII to reduce commissions ceded to Citizens from 16% to 6%. Management believes this will produce a \$3.6 million pre-tax gain during 4Q08. Potentially, these additional policies create a huge amount of revenues for HCII and if the company can avoid major claims, could produce significant earnings growth in 2009. Our 2008 earnings estimate is \$1.67/share equating to HCII trading at 3x current year earnings. This multiple appears low given potential 2009 earnings growth and with HCII trading at only 1.23x book. Our price target is \$7/share, equating to 1.7x book value. These shares are rated OUTPERFORM. (SFM)

PriceSmart (PSMT-\$17.63) recently reported 1Q09 EPS of \$0.37/share vs. \$0.23/share in 1Q08. PSMT also announced another land acquisition in Trinidad for their fourth club in that country. PriceSmart's December net sales increased 14.8% year over year. Total revenue for the first quarter was \$305.2 million compared to \$250.4 million in the prior year. PriceSmart had 25 clubs in operation as of November 30, 2008 compared to 24 warehouse clubs in operation as of 11/30/07. On 12/19/08, PSMT acquired 30,959 square meters of land in the city of San Fernando, Trinidad. PSMT is currently anticipated that the new PriceSmart warehouse club will open in the fall of 2009. The company also plans to develop a portion of the site as a commercial retail center, adjacent to the warehouse club. Since the current management took over 2 1/2 years ago, they have been basically executing almost flawlessly. While PSMT's same store sales are still coming in at low to mid teens (Dec. comps were up 13.8%), the stock is trading at about 15X earnings. Given the experience and execution by management, the premium valuation in the stock is warranted. We maintain a NEUTRAL rating on PSMT. (STT)

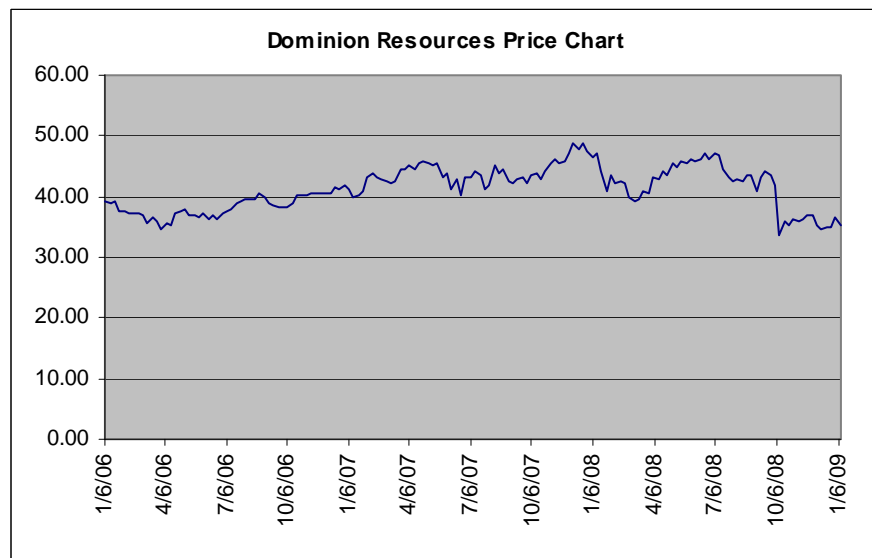
Progress Energy (PGN-\$38.11) completed its offering of 12.5 million shares of common stock at \$37.50/share, generating approximately \$469 million in gross proceeds. On another securities matter, Fitch Rating Agency gave the \$600 million of 5.3% of first mortgage bonds, due 1/15/19, issued by PGN's subsidiary, Carolina Power & Light, an "A+" rating. Similar to Dominion Resources (D-\$), PGN lowered its capital expenditures for 2009, earnings guidance, and raised its common stock dividend. The company announced it was reducing 2009 capital expenditures by approximately \$250 million due to a slowing US economy. Management lowered its 2009 earnings guidance to \$2.95-\$3.15/share from ongoing operations. Consensus 2009 estimates by analysts had anticipated \$3.11/share. PGN applied to the US Nuclear Regulatory Commission (NRC) for a 20-year license renewal for its Crystal River Nuclear Plant and was given

permission from the NRC to extend the operating license for its Harris Nuclear Power Plant till 2046. The Board of Directors increased the annual dividend by \$0.02 share to \$2.48/share marking the 21st consecutive years of rising dividends. These shares are recommended for income/growth investors seeking a high dividend yield of 6.6% with the prospect of rising dividends based on earnings growth. These shares are rated OUTPERFORM with a \$49 price target. (SFM)

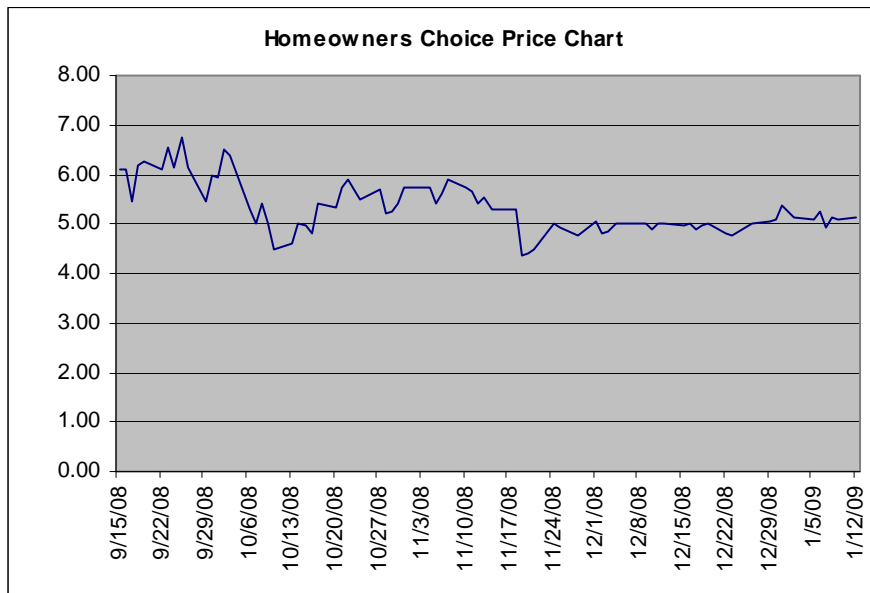
Shutterfly (SFLY-\$6.94) the leading Internet-based social expression and personal publishing service recently announced an agreement with Adobe Systems Incorporated (ADBE - \$20.83) that will help customers make the most of their digital images. Shutterfly's services are now integrated into Adobe Photoshop Elements 6 & 7®, Photoshop Album Starter® Edition and Photoshop.com making it easy for Adobe users to create quality photo books, cards, calendars and prints. SFLY was selected by Adobe to serve Adobe's large customer base. Digital scrapbook customers who consider Adobe a basic necessity will find significant value in the ease and integration of these two high-quality offerings. Shutterfly is now the default print solution for ADBE's Photoshop Elements, album starter and Photoshop.com. Investors anxiously await the most important holiday season 4Q results. Projected estimates for 4Q are \$97 million and \$0.38. We rate SFLY with an OUTPERFORM and price target of \$35. (STT)



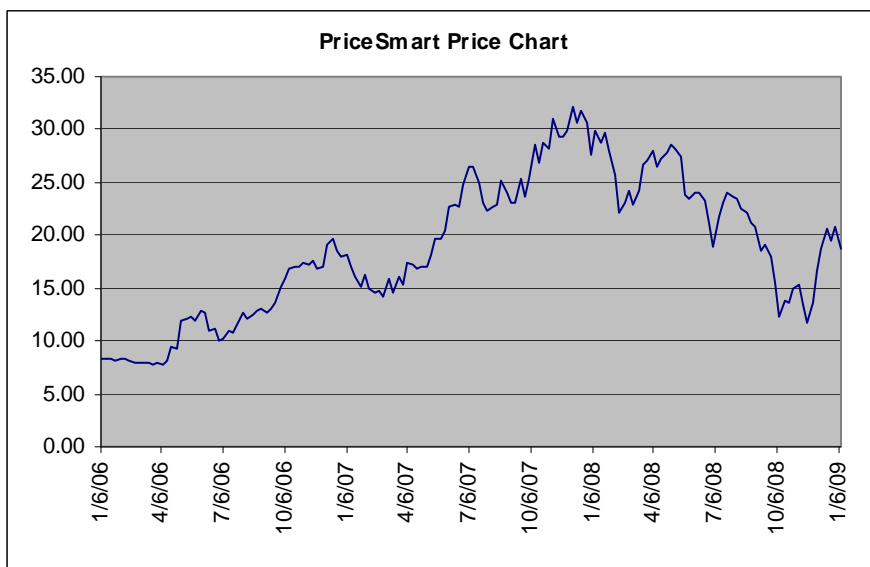
11/17/08 \$16.20 Initiate OUTPERFORM TP: \$19



11/3/04 \$58.16 Initiate NEUTRAL
1/13/09 \$35.14 Upgrade to OUTPERFORM TP: \$42



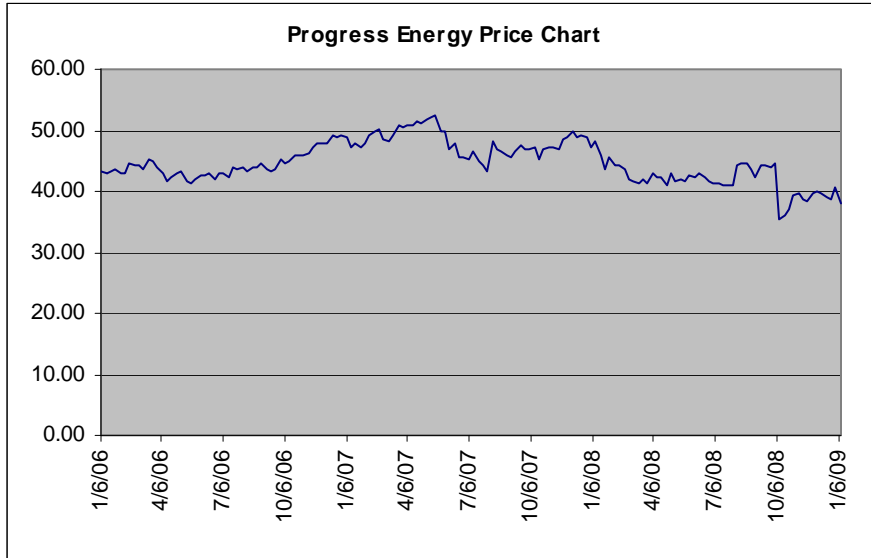
10/30/08 \$5.25 Initiate OUTPERFORM TP: \$7.00



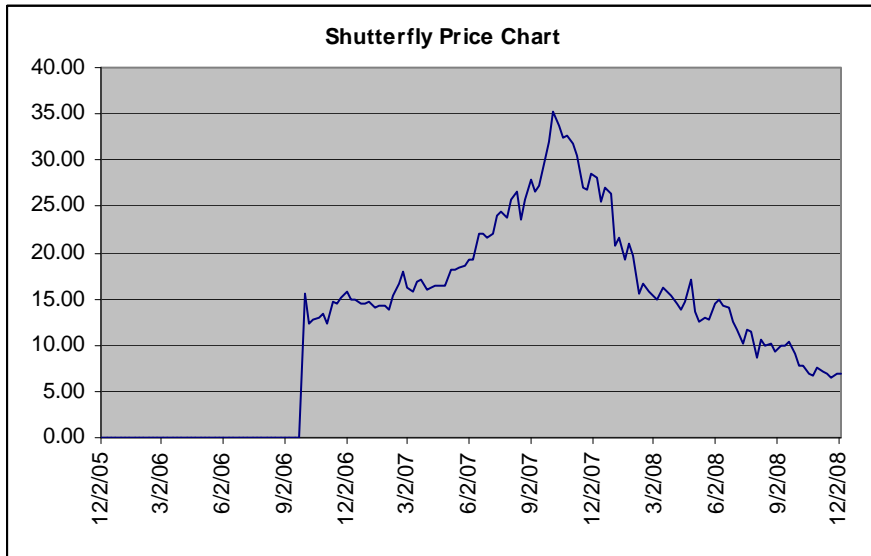
2/5/07 \$15.87 Initiate OUTPERFORM TP: \$23

4/11/07 \$17.06 Raised TP: \$26

7/2/07 \$25.40 Lowered Rating to NEUTRAL



PGN has been rated OUTPERFORM with a price target of \$49 for the entire 3 year period



11/15/07 \$26.70 Initiate OUTPERFORM TP: \$35

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- (3) Underperform—The Stock's total return including dividends is expected to be below the industry or market average by 10% or more over the next twelve months.

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