

# S&P 500 above April high, Dow Theory reaffirms buy signal

## S&P 500: Above the April high signals more upside

In a week that featured a mid-term election, the launch of QE2, and a nonfarm payrolls report, the US equity market remained strong. With the S&P 500 closing above the April high of 1220 on both Thursday and Friday, consolidated tape share volume expanded to 6.1bn on Thursday and 5.8bn on Friday, well above the 65-day average of 4.3bn shares. This is a positive sign for the market. A sustained break above 1220 on the S&P would point to a test of 1250 with the next resistance at 1300-1350. Should the S&P 500 fail to immediately follow-through above 1220, there is still a breakout in place and any pullbacks that hold the 1130-1120 area keep this breakout intact. Nearby support has developed at 1170-1150. Additional chart support remains at the summer lows at 1040-1010.

## Dow Theory Buy signal reaffirmed

Based on the Dow Theory, the US equity market remains on the buy signal generated in July 2009. Last week both the Dow Industrials and Dow Transports broke above their April highs, reaffirming last summer's buy signal and the primary uptrend for the US equity market. [Page 3.](#)

## Year 3 is the strongest year of the Presidential Cycle

With an average return of 13.9%, Year 3 is the strongest year of the Presidential Cycle. Based on the average monthly price returns for the S&P 500, the strongest period within the cycle is the rally from the mid-term year (Year 2) low into the end of Year 3, which averages 21.2%. The average advance from the mid-term year low into the end of Year 4 is 30.0%. What is interesting is that in the current cycle, the S&P 500 rallied 23.5% in 2009 (Year 1) and 9.9% so far in 2010 (Year 2). This means that the first two Years of the 2009 to 2012 cycle are well above the average Year 1 and Year 2 returns of 3.45% and 4.27%, respectively. But, in past cycles, strength in Years 1 and 2 has carried over into Years 3 and 4. [Page 4.](#)

## Markets on the move

US 10-year yields remain in a downtrend with risk to 2.2%-2.0% and resistances at 2.85%-2.90% and 3.10%-3.25%. 2-year yields are also in a downtrend, but are testing projected channel support in the 0.34%-0.27% area with major resistance at 0.60%. Gold and silver remain strong. Gold resistance is \$1500-1600 and support is \$1265-1225. Silver shows upside potential to \$30-32 with supports at \$25-24 and \$20-19. The US Dollar Index shows risk to 75-74 while below 79-80. Crude oil is positioned for a breakout above \$87 for a move in to \$98-103.

## Sectors on the move

Financials improved dramatically on QE2 and was the best performing sector last week, but this sector still needs to break through resistance and reverse a negative relative trend. Technology is breaking above major resistance and has the potential to reassert its longer term leadership trend. Energy continues to improve and is breaking out to new recovery highs with improving relative price strength vs. the S&P 500. Materials is breaking out and has a strong relative price trend. For charts and stock ideas see [pages 9-10.](#)

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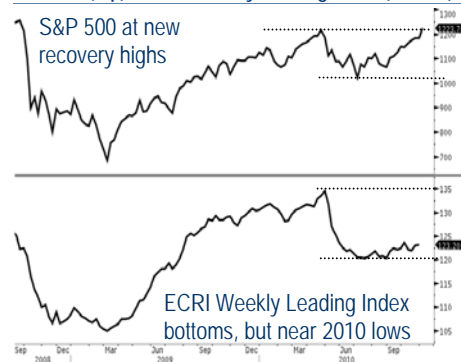
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## Watch the ECRI Weekly Leading Index

The Economic Cycle Research Institute's (ECRI) Weekly Leading Index of US economic growth bottomed, but this index is lagging the rally in the S&P 500. The ECRI Leading Index has been a good predictor of the equity market this year, but given the strength of the equity market, we would expect this Index to be stronger. Should this index weaken, it may provide a red flag for the market rally.

## S&P 500 (top) & ECRI Weekly Leading Index (bottom)



Source: BofA Merrill Lynch Global Research, Bloomberg

## Support and resistance levels

Support Levels	1st Support	2nd Support
S&P 500	1130-1120	1040-1010
DJIA	10700-10600	9935-9750
NASDAQ Comp	2340-2280	2100-2060
Resistance Levels	1st Resistance	2nd Resistance
S&P 500	1220-1250	1300-1350
DJIA	11645-11865	12000-12500
NASDAQ Comp	2500-2600	2725-2860

Source: BofA Merrill Lynch Global Research

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Refer to important disclosures on page 22 to 25. Analyst Certification on Page 21. Link to Definitions on page 21.

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The Volume Intensity Model (VIM) measures up volume (accumulation or buying) and down volume (distribution or selling).

The VIM has been positive since 10 September and is confirming the rally for the US equity market off the late August low. But since 29 September, distribution has ticked higher. If this trend continues and leads to a deterioration in the VIM, it would provide a headwind to the rally.

VIGOR pushed above the late August high and confirmed the S&P 500 break above 1130/1150. This signal reduces the risk that the market will form a major top. Should the S&P 500 sustain a break above 1220, we would look for continued strength in VIGOR. So far, VIGOR has lagged relative to the S&P 500 on the rally to the 1220 area.

VIGOR is an intermediate to longer-term indicator of accumulation vs. distribution.

Based on the Dow Theory, the US equity market is in a primary bull trend from the summer 2009 Dow Theory buy signal. This signal occurred when both the Dow Industrials and Dow Transports broke to new intermediate-term recovery highs for the rally off the March 2009 low.

Last week both the Dow Industrials and Dow Transports broke above their April highs, reconfirming last summer's buy signal. This reasserts the primary bull trend for the US equity market based on the Dow Theory.

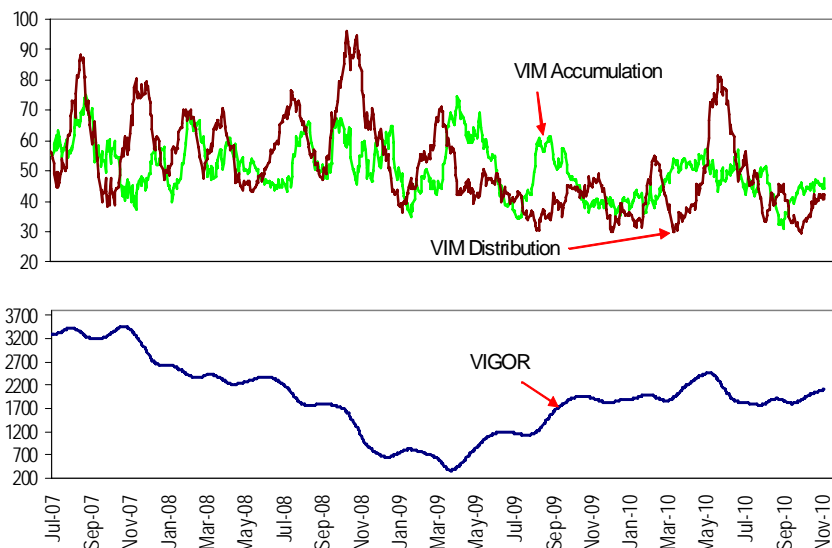
The key supports for the Dow Theory are the July lows.

## Volume Intensity Model is positive

**VIGOR confirmed the S&P 500 break above 1130/1150**

But the pick-up in Distribution since 29 September is a concern

BofAML Global Research Volume Intensity Model (VIM) and VIGOR – daily chart



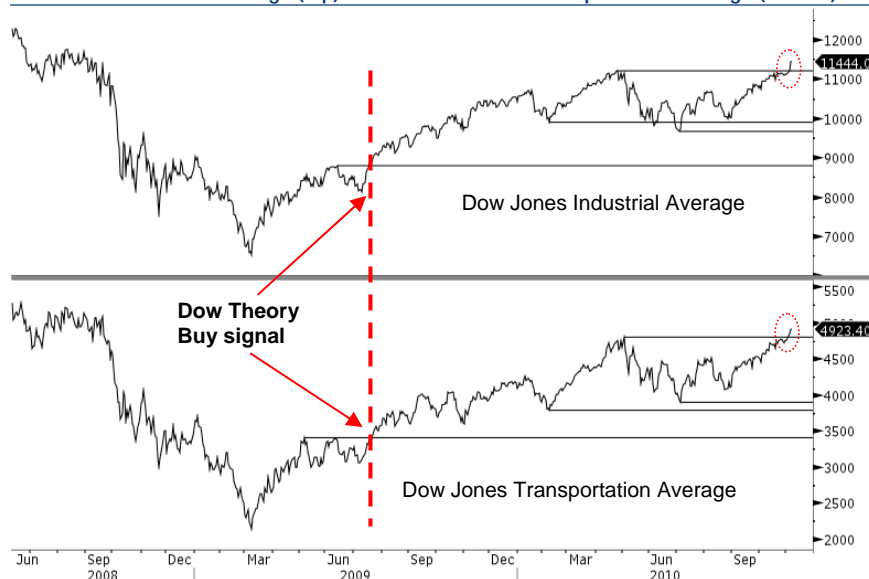
Source: BofA Merrill Lynch Global Research, FactSet, Bats Trading

## Dow Theory reconfirms bull trend

**Dow Theory buy signal from summer 2009 remains intact**

Based on the Dow Theory, the US equity market is in a primary bull trend with both the Industrials and Transports confirming this bull trend.

Dow Jones Industrial Average (top) and the Dow Jones Transportation Average (bottom)



Source: BofA Merrill Lynch Global Research, Bloomberg

### S&P 500 Presidential Cycle price returns

Year 1 (1929 - 2009)	3.45%
Year 2 (1930 - 2010 YTD)	4.27%
Year 3 (1931 - 2007)	13.95%
Year 4 (1928 - 2008)	7.25%
Average Annual Return (all years)	7.17%

Source: BofA Merrill Lynch Global Research, Bloomberg

Using the S&P 500 from 1928 to 2010 YTD, the Presidential Cycle underperforms the average annual price return of 7.17% for the S&P 500 in Years 1 and 2. This pattern changes in Year 3, which is the strongest year of the Presidential Cycle and with an average return of 14% shows significant outperformance. Year 4 performs inline with the average annual price return of the S&P 500 Index.

Between 1931 and 2007, Year 3 of the Presidential Cycle has shown a positive price return in 17 out of 20 years or 85% of the time.

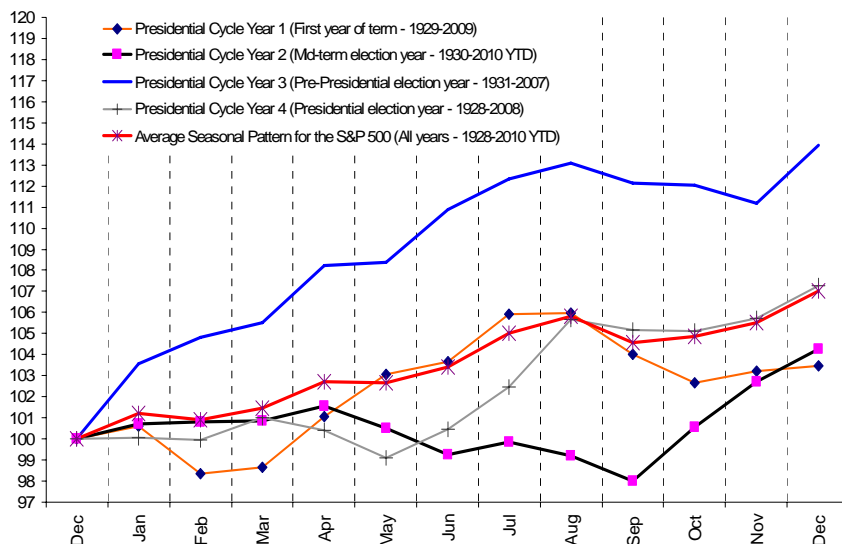
Based on the average monthly price returns for the S&P 500 for the Presidential Cycle, the strongest period within the cycle is the rally from the mid-term year (Year 2) low into the end of Year 3. The average return for this period is 21.2%. The average advance from the mid-term year low into the end of Year 4 is 30.0%.

What is interesting is that the S&P 500 has already rallied 35% from the end of 2008 to 2010 YTD. This equates to a 23.45% return for 2009 and a 9.93% return for 2010 YTD, meaning that the first two Years of the 2009 to 2012 Presidential Cycle are much stronger than the average returns of 3.45% and 4.27% for Year 1 and Year 2, respectively. But, in past cycles, strength in Years 1 and 2 has carried over into Years 3 and 4.

## A look into Presidential Cycle year 3

Year 3 is the strongest year of the Presidential Cycle  
Year 4 is the second strongest year of the Presidential Cycle

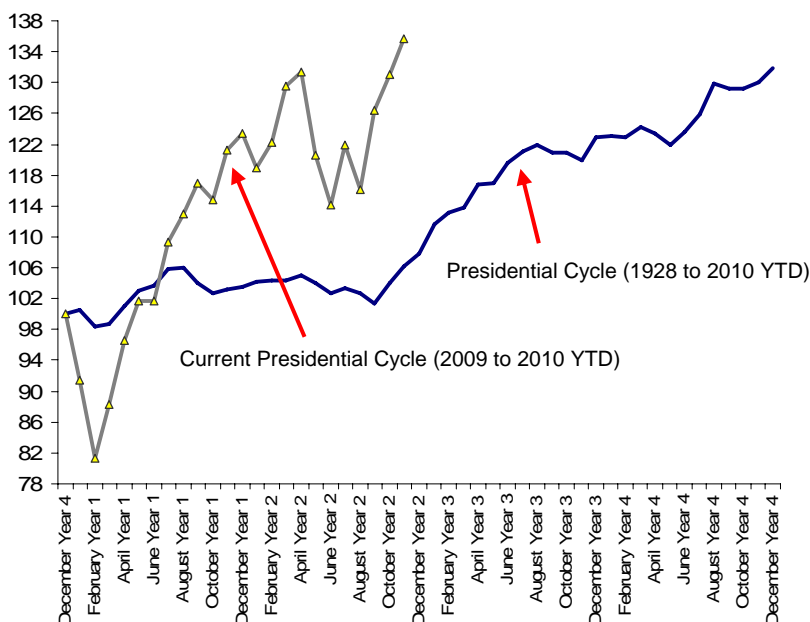
### Average S&P 500 monthly price chart for the Presidential Cycle – 1928 to 2010 YTD



Source: BofA Merrill Lynch Global Research, Bloomberg

## Presidential Cycle: strong rally off the mid-term year low

### S&P 500 Presidential Cycle (Year 1 through Year 4) – 1928 to 2010 YTD



Source: BofA Merrill Lynch Global Research, Bloomberg

## The FTSE 100 and the S&P 500

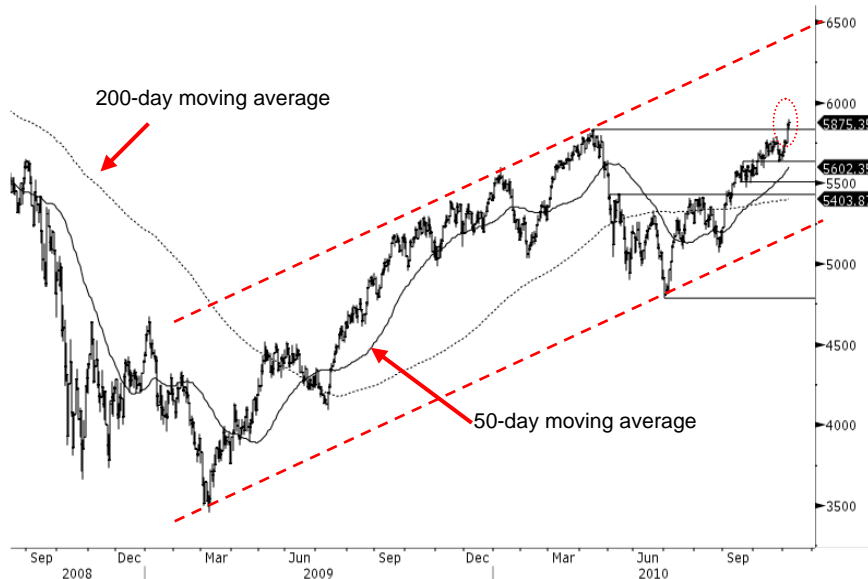
### The FTSE 100 closes above its April high

### The FTSE 100 leads & sets up more upside for the S&P 500

The FTSE is breaking above the April high of 5834 with projected channel resistance at 6400-6500 (9-10% from current levels). Supports are 5600 to 5400.

FTSE 100 Index – daily chart

The FTSE 100 has been leading the S&P 500. The breakout for the FTSE above the April 2010 high of 5834 bodes well for the S&P 500.



Source: BofA Merrill Lynch Global Research, Bloomberg

## The S&P 500 also closed above its April high

### Above 1220 points to a test of 1250 with next resistance at 1300-1350

Supports on the S&P 500 are 1170-1150, then 1130-1120

S&P 500 Index – daily chart

A break above 1220 on the S&P points to a test of 1250. The next level of resistance is 1300-1350 - 6% to 10% from current levels.

Should the S&P 500 fail to immediately follow-through on the upside, there is still an upside breakout in place and any pullbacks that hold above or within the 1130-1120 area keep this breakout intact.

Nearby support has developed at 1170-1150.

Additional chart support remains at the summer lows at 1040-1010.



Source: BofA Merrill Lynch Global Research, Bloomberg

## 10-year yields remain in downtrend

Projected support is 2.20%-2.00%

Resistances: 2.85%-2.90%, then 3.10%-3.25%

The double top off the 4.0% highs for cash 10-year US Treasury Note yields remains intact and projects downside to 2.20%-2.00%.

Nearby resistance has developed at 2.85%-2.90%. Holding below this resistance keeps the series of lower highs from the April 2010 high near 4% intact.

While below 3.10% to 3.25%, the breakdown from the double top remains intact and the bigger picture view remains for lower yields.

US 10-year Treasury Note yields – daily chart



Source: BofA Merrill Lynch Global Research, Bloomberg

## 2-year yields test downtrend support

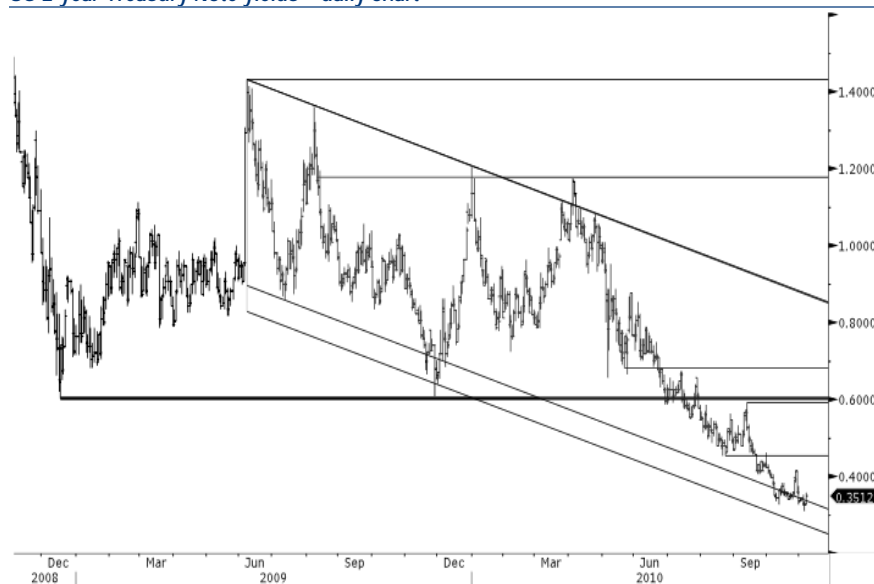
Projected channel supports are 0.34%-0.27%

Major resistance remains 0.60%

Cash 2-year Treasury Note yields remain in a downtrend, but are within a zone of projected down channel supports in the 0.34% to 0.27% area.

Nearby resistance is 0.41% to 0.45%, but while below the 0.60% area, the major breakdown remains intact and keeps the trend in favor of lower 2-year yields.

US 2-year Treasury Note yields – daily chart



Source: BofA Merrill Lynch Global Research, Bloomberg

## Gold remains in an uptrend

### Projected resistance is \$1500-1600

### \$1325-1315 is developing as support ahead of \$1265-1225

We remain firm believers in the secular bull market for commodities and gold.

Gold achieved the objective of the head and shoulders pattern completed in September 2009 at \$1335 and is set up for a test of projected rising channel resistance at \$1425.

Our next resistance for gold is \$1500-1600, but using point and figure charts, we can project gold up to \$2000-2300.

In terms of support, the \$1325 to \$1315 area is developing as support ahead of stronger chart and uptrend support in the \$1265 and \$1225 areas.

Gold futures – daily chart



Source: BofA Merrill Lynch Global Research, Bloomberg

## US Dollar remains in a downtrend

### Projected support for the Dollar Index is 75-74

### Interim rallies that stall by 78-80 keep the trend bearish for the DXY

The US Dollar Index remains within the downtrend from the June high and shows downside risk to support in the 75-74 area.

Interim rallies are not ruled out, but while below the 78 to 80 area, the risk remains for additional downside. The 79-80 area was prior support and is now a particularly strong resistance in our view.

US Dollar Index – daily chart



Source: BofA Merrill Lynch Global Research, Bloomberg

## The pattern for silver is bullish

### A test of a major retracement level at \$27

Projected resistance is \$30-32, then back to \$41.50

First support is \$25.00 to \$22.85 with major support at \$20.00-19.50

Silver has been strong. Since the late 2008 lows, silver is up 220% vs. 105% for gold.

Silver is testing a major 61.8% Fibonacci retracement level at \$27 and clearing this level would make the case for an eventual full upside retracement back to the 1980 high of \$41.50.

The recently completed base for silver projects up to \$30-32.

First support for silver has developed between the \$25 and \$23.00-22.85 areas. But the major support is the upside breakout point in the \$20.00-19.50 area.

Silver futures – monthly chart



Source: BofA Merrill Lynch Global Research, Bloomberg

## Crude Oil attempts breakout

### Clearing \$87 targets \$90, then \$98 to \$103

First support is \$80-78 with uptrend support at \$75

Crude Oil Futures – daily chart



Source: BofA Merrill Lynch Global Research, Bloomberg

The pattern for Crude Oil has improved and oil is attempting a breakout above resistance near \$87.

The next resistance is the 50% retracement level of the July 2008 to December 2008 decline near \$90.

Based on the price pattern and projected rising channel resistance, there is additional upside potential to the \$98 and \$103 areas. The \$103 area is the 61.8% retracement of the July-December 2008 decline.

First support is \$80-78 followed by uptrend support near \$75.

Additional supports are the recent range lows at \$68-65.

## Sectors on the move

### Financials show signs of life, but...

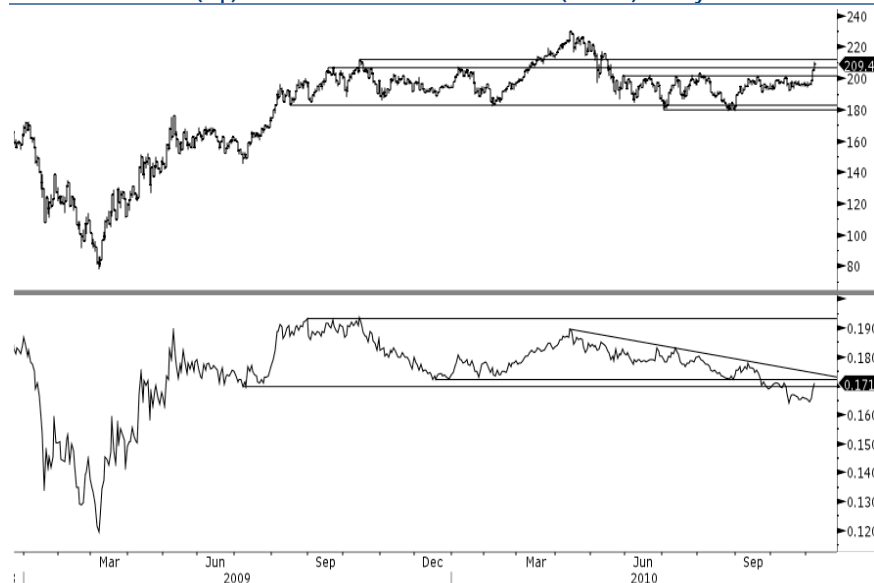
...can this sector reverse its weak relative price pattern

The Financials have been a market laggard as well as a potential headwind to the market recovery, but last week the sector benefited from the launch of QE2 and was the best performing sector for the week.

Financials broke above five-month range highs.

Last week Citigroup (C) broke out to the upside on heavy volume. Kimco Realty (KIM), which is on the Most Attractive Buy List (MAB List), also broke out.

S&P 500 Financials (top) and relative to the S&P 500 Index (bottom) – daily chart



Source: BofA Merrill Lynch Global Research, Bloomberg

## Technology breaks above major resistance

### The relative price pattern has improved, but is testing resistance

Since holding relative price support in early September, Technology has been a strong sector. Technology is in position to reassert its longer-term leadership trend.

There are quite a few technology stocks that have broken out from big bases. Please refer to [Weekly Stock Charts, 28 October 2010](#) for stocks with big bases.

Among these Technology names are IBM (IBM) and Oracle (ORCL), which are both on the MAB List and have upside breakouts from bases in place.

S&P 500 Technology (top) and relative to the S&P 500 Index (bottom) – daily chart



Source: BofA Merrill Lynch Global Research, Bloomberg

## Energy is breaking out & bottoming vs. the S&P

Attractive stocks in Energy include Buckeye Partners (BPL), Chevron (CVX), which is on the MAB List, Enbridge Energy Partners (EEP), Forest Oil (FST), Hess (HES), MarkWest Energy (MWE), Royal Dutch Shell (RDS/B), and Schlumberger (SLB).

ExxonMobil (XOM) is also improving and shows increasing volume on the current rally.

S&P 500 Energy (top) and relative to the S&P 500 Index (bottom) – daily chart



Source: BofA Merrill Lynch Global Research, Bloomberg

## Materials break out to the upside Relative pattern is strong and testing resistance

Last week, gold stocks perked up and rallied with volume. Agnico-Eagle Mines (AEM), Harmony Gold (HMY), and Hecla Mining (HL) broke out to the upside on higher volume.

Barrick Gold (ABX) and Goldcorp (GG) are testing their recent range highs on increasing volume – since volume tends to lead price both ABX and GG may be in position for upside breakouts. Barrick Gold is on the MAB List.

Other materials stocks with strong charts are Albermarle (ALB), Ball Corp. (BLL), Crown Holdings (CCK), DuPont (DD), and PPG Industries (PPG).

S&P 500 Materials (top) and relative to the S&P 500 Index (bottom) – daily chart



Source: BofA Merrill Lynch Global Research, Bloomberg

## MZM growth positive from late June

### MZM is still supportive for the equity market

#### M1, M2, and MZM money supply annualized rate of change

	13Wk RoC	6M RoC	1Y RoC	As of:
M1	13.6%	10.2%	6.0%	10/25/10
M2	7.3%	6.6%	2.9%	10/25/10
MZM	10.9%	7.9%	0.9%	10/25/10

Source: BofA Merrill Lynch Global Research, Bloomberg, Federal Reserve

After a period of negative growth for MZM money supply, the 13-week annualized rate of change for MZM turned positive in late June. In our view, this is a supporting factor for the US equity market.

#### M1, M2, and MZM money supply annualized rate of change

	10/25/2010	10/18/2010	10/11/2010	10/4/2010	9/27/2010	9/20/2010	9/13/2010	9/6/2010	8/30/2010
<b>M1</b>									
13 Wk RoC	13.64%	14.90%	17.46%	15.23%	7.90%	7.09%	14.83%	11.82%	11.07%
6M RoC	10.24%	8.68%	10.42%	9.77%	7.00%	4.16%	4.89%	7.48%	6.91%
1Y RoC	5.98%	5.06%	5.84%	7.42%	7.35%	5.99%	4.81%	6.80%	8.36%
<b>M2</b>									
13 Wk RoC	7.27%	7.99%	7.88%	7.84%	5.22%	4.34%	5.25%	3.17%	3.13%
6M RoC	6.59%	7.33%	6.62%	5.53%	5.40%	4.43%	4.01%	3.34%	2.86%
1Y RoC	2.93%	3.28%	3.30%	3.31%	2.93%	2.75%	2.79%	3.02%	3.00%
<b>MZM</b>									
13 Wk RoC	10.86%	11.53%	11.12%	11.56%	9.23%	8.61%	9.02%	6.74%	5.80%
6M RoC	7.92%	8.60%	7.35%	6.05%	5.27%	4.39%	3.01%	1.83%	0.72%
1Y RoC	0.89%	1.10%	0.81%	0.88%	0.16%	0.21%	0.11%	-0.07%	-0.11%

Source: BofA Merrill Lynch Global Research, Bloomberg, Federal Reserve

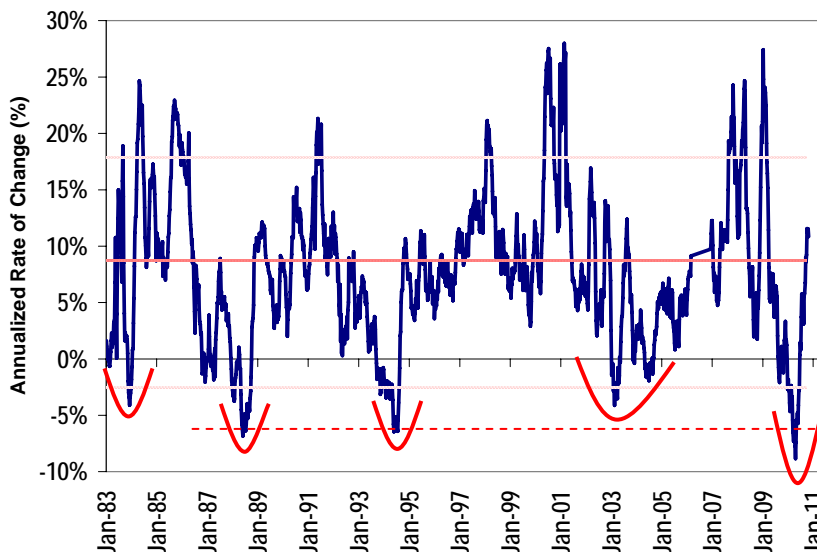
From December 2009 into April 2010, MZM money supply saw the worst contraction on a 13-week rate of change annualized basis since the 1980s. YoY growth for MZM reached -9.29% on 19 April 2010, exceeding the prior lows from May 1988 and May 1994 of -6.87% and -6.47%, respectively.

As of 25 October 2010, the YoY growth rate on an annualized 13-week rate of change basis was 10.9%. This improvement from the April lows is supportive for the US equity market. The MZM YoY growth rate has mean reverted, but history suggests that MZM growth can overshoot the mean. So far, this is proving to be the case.

## MZM growth is positive and mean reverts

History suggests that the MZM annualized growth rate has the potential to overshoot the mean and so far, this is proving to be the case.

#### MZM – 13-week rate of change (%) annualized – weekly chart



Source: BofA Merrill Lynch Global Research, Bloomberg, Federal Reserve

The barbell is working with new recovery highs for defensive & cyclical sectors.

The S&P 500 reached a new recovery high last week and seven out of the ten sectors have also reached new recovery highs.

The more cyclical Consumer Discretionary, Energy, Materials, and Technology sectors achieved new highs along with the S&P 500. These sectors joined the higher yielding, more defensive Consumer Staples, Telecom, and Utilities sectors, which recorded new recovery highs in late September/early October.

With both cyclical and defensive sectors moving to new highs, the barbell strategy for 4Q 2010 that focuses on cyclical as well as higher yielding quality stocks appears to be working. But, given the broader market rally, the cyclical are outperforming so far.

## Sector OBOS relative price model

### Consumer Discretionary, Technology, and Materials are top ranked

Consumer Discretionary, Technology, and Materials are part of the cyclical side of the "barbell" strategy for 4Q, where both the cyclical and high yield, high quality stocks should perform well. All three of these sectors are breaking to new recovery highs along with the S&P 500.

### Telecom remains strong

With a 2-year base in place that points to strong performance from Telecom, this sector is the higher yielding part of the "barbell" strategy for 4Q.

### Financials is the weakest sector and a market headwind

The Financials have been a market laggard as well as a potential headwind to the market recovery, but last week the sector benefited from the launch of QE2 and was the best performing sector for the week. If this sector cannot reverse its weak relative price trend, it may be difficult for the US equity market to sustain the rally.

### Energy continues to improve

Energy shows signs of a bottom on both a relative and an absolute price basis.

### Health Care, Staples, and Utilities are lower ranked

While Telecom is strong, these defensive sectors are weaker. But, Staples and Utilities reached new recovery highs.

### Sector relative price oscillator rankings as of 04-Nov-10

Rank	Sector	Overbought > 1, Oversold < 0
1	S&P 500 Consumer Discretionary	0.692 Neutral
2	S&P 500 Technology	0.626
3	S&P 500 Materials	0.618
4	S&P 500 Telecom	0.616
5	S&P 500 Energy	0.478
6	S&P 500 Health Care	0.432
7	S&P 500 Consumer Staples	0.428
8	S&P 500 Industrials	0.379
9	S&P 500 Utilities	0.352
10	S&P 500 Financials	0.338 Neutral

Source: BofA Merrill Lynch Global Research

## Historical sector ranks

The table below shows weekly ranks of the 10 sectors within the S&P 500 by relative momentum (1=highest 10=lowest). A sector that rises in rank indicates improving relative momentum and vice versa.

### Sector rankings: current and historical

	04-Nov-10	28-Oct-10	21-Oct-10	14-Oct-10	07-Oct-10	30-Sep-10	23-Sep-10	16-Sep-10	09-Sep-10
S&P 500 Consumer Discretionary	1	1	1	4	3	3	6	9	10
S&P 500 Consumer Staples	7	8	9	9	8	8	5	4	7
S&P 500 Energy	5	6	7	5	5	7	10	10	9
S&P 500 Financials	10	10	10	10	10	10	9	7	5
S&P 500 Health Care	6	2	6	7	9	9	7	6	6
S&P 500 Industrials	8	7	3	2	2	2	4	5	3
S&P 500 Technology	2	4	5	6	6	5	8	8	8
S&P 500 Materials	3	5	4	3	4	4	2	2	4
S&P 500 Telecom	4	3	2	1	1	1	1	1	1
S&P 500 Utilities	9	9	8	8	7	6	3	3	2

Source: BofA Merrill Lynch Global Research

## S&P 500 OBOS industry model

### 1 industry near oversold, none overbought

#### S&P 500 Relative Price Momentum Oscillator for 04-Nov-10

	Rank	Industry	Overbought > 1; Oversold < 0	Sector	2 Yr. Max	2 Yr. Min
↓	1	Office Electronics	0.692 Neutral	Information Technology	0.901	0.015
	2	Airlines	0.689	Industrials	1.240	-0.181
↑	3	Auto Components	0.673	Consumer Discretionary	2.178	-0.325
	4	Automobiles	0.664	Consumer Discretionary	2.694	-0.631
↓	5	Internet & Catalog Retail	0.661 Neutral - Downgraded	Consumer Discretionary	1.470	0.125
	6	Internet Software & Services	0.651	Information Technology	0.966	0.256
↑	7	Hotels Restaurants & Leisure	0.651	Consumer Discretionary	0.944	0.172
	8	Textiles Apparel & Luxury Goods	0.651	Consumer Discretionary	1.078	0.146
↑	9	Life Sci Tools & Svs	0.645	Health Care	0.879	0.083
↑	10	Energy Equipment & Services	0.644	Energy	0.917	-0.409
	11	Electrical Equipment	0.632	Industrials	1.162	0.013
	12	Diversified Telecommunication Services	0.626	Telecommunication Services	1.555	-0.063
	13	Chemicals	0.624	Materials	1.005	-0.112
	14	Machinery	0.612	Industrials	0.933	-0.268
↑	15	Specialty Retail	0.608	Consumer Discretionary	1.025	0.065
↑	16	Metals & Mining	0.601	Materials	1.313	-0.568
	17	IT Services	0.598	Information Technology	1.116	0.242
	18	Tobacco	0.596	Consumer Staples	0.780	0.218
↑	19	Software	0.594	Information Technology	0.914	0.223
	20	Computers & Peripherals	0.562	Information Technology	1.103	0.116
	21	Multiline Retail	0.548	Consumer Discretionary	1.227	-0.178
↑	22	Food & Staples Retailing	0.546	Consumer Staples	1.314	0.014
↑	23	Leisure Equipment & Products	0.545	Consumer Discretionary	1.097	0.040
	24	Road & Rail	0.543	Industrials	0.891	-0.106
	25	Health Care Tech	0.542	Health Care	1.499	0.035
	26	Media	0.538	Consumer Discretionary	1.098	0.013
↑	27	Semiconductors & Semiconductor Equipment	0.526	Information Technology	1.001	0.177
	28	Health Care Providers & Services	0.522	Health Care	1.164	0.122
	29	Communications Equipment	0.521	Information Technology	0.924	0.274
	30	Multi-Utilities	0.511	Utilities	0.956	0.134
↓	31	Electronic Equipment & Instruments	0.503	Information Technology	1.065	-0.111
↓	32	Insurance	0.474	Financials	1.383	-0.529
	33	Capital Markets	0.466	Financials	1.779	-0.343
	34	Wireless Telecommunication Services	0.458	Telecommunication Services	1.443	-0.110
↑	35	Paper & Forest Products	0.446	Materials	1.847	-0.402
	36	Real Estate Investment Trusts	0.444	Financials	1.033	-0.634
↓	37	Household Durables	0.438	Consumer Discretionary	1.087	-0.029
	38	Pharmaceuticals	0.436	Health Care	1.350	-0.056
	39	Building Products	0.428	Industrials	2.205	-0.466
	40	Oil Gas & Consumable Fuels	0.423	Energy	1.264	-0.022
	41	Distributors	0.423	Consumer Discretionary	1.437	-0.004
	42	Biotechnology	0.421	Health Care	1.081	-0.077
	43	Containers & Packaging	0.391	Materials	1.175	-0.024
	44	Thriffs & Mortgage Finance	0.387	Financials	0.771	-0.228
	45	Gas Utilities	0.384	Utilities	1.468	0.130
	46	Household Products	0.384	Consumer Staples	1.462	0.080
↓	47	Trading Companies & Distributors	0.370	Industrials	0.775	0.182
	48	Beverages	0.364	Consumer Staples	1.366	0.148
	49	Consumer Finance	0.361	Financials	2.197	-0.552
↓	50	Air Freight & Logistics	0.356	Industrials	1.202	0.056
	51	Ind Power Producers & Energy Traders	0.353	Utilities	1.198	-0.235
	52	Aerospace & Defense	0.352	Industrials	0.838	0.222
↓	53	Construction & Engineering	0.340	Industrials	0.953	-0.003
	54	Food Products	0.321	Consumer Staples	1.241	-0.014
	55	Commercial Banks	0.307	Financials	2.001	-0.792
	56	Diversified Financial Services	0.306	Financials	2.075	-1.066
	57	Electric Utilities	0.294	Utilities	1.121	-0.122
↑	58	Construction Materials	0.288 Upgraded	Materials	1.217	-0.323
↓	59	Industrial Conglomerates	0.287	Industrials	1.614	-0.803
	60	Health Care Equipment & Supplies	0.267	Health Care	1.071	-0.183
↑	61	Commercial Services & Supplies	0.228 Upgraded	Industrials	1.016	0.052
↓	62	Personal Products	0.211 Neutral	Consumer Staples	1.050	-0.247
↓	63	Diversified Consumer Services	0.060 Near Oversold	Consumer Discretionary	1.297	-0.178

Source: BofA Merrill Lynch Global Research

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## Top 100 S&P 500 stocks by market cap

### Top 100 stocks ranked by OBOS relative price momentum

3 stocks near overbought, 5 stocks near oversold

Top 100 S&P 500 stocks by OBOS reading as of 04-Nov-10

ID	Name	Rank		ID	Name	Rank	
1	WAG	WALGREEN CO	0.892 Near Overbought	51	NWSA	NEWS CORP	0.446 Neutral
2	EBAY	EBAY INC	0.890 Near Overbought	52	MRK	MERCK & CO	0.441
3	DOW	DOW CHEMICAL	0.820 Near Overbought	53	APA	APACHE CORP	0.440
4	TXN	TEXAS INSTRUMENTS INC	0.757 Neutral	54	KFT	KRAFT FOODS INC	0.437
5	CCL	CARNIVAL CORP/PLC (USA)	0.747	55	NEM	NEWMONT MINING CORP	0.436
6	QCOM	QUALCOMM INC	0.733	56	CELG	CELGENE CORP	0.433
7	PM	PHILIP MORRIS INTERNATIONAL	0.700	57	SPG	SIMON PROPERTY GROUP INC	0.425
8	MA	MASTERCARD INC	0.684	58	LOW	LOWE'S COMPANIES INC	0.425
9	ORCL	ORACLE CORP	0.682	59	BMJ	BRISTOL-MYERS SQUIBB CO	0.423
10	SLB	SCHLUMBERGER LTD	0.675	60	GS	GOLDMAN SACHS GROUP INC	0.422
11	FCX	FREEPORT-MCMORAN COP&GOLD	0.673	61	MSFT	MICROSOFT CORP	0.421
12	GOOG	GOOGLE INC	0.660	62	HAL	HALLIBURTON CO	0.418
13	UNP	UNION PACIFIC CORP	0.654	63	SO	SOUTHERN CO	0.418
14	BEN	FRANKLIN RESOURCES INC	0.632	64	GLW	CORNING INC	0.414
15	AMZN	AMAZON.COM INC	0.631	65	DIS	DISNEY (WALT) CO	0.413
16	DD	DU PONT (E I) DE NEMOURS	0.630	66	USB	U S BANCORP	0.412
17	APC	ANADARKO PETROLEUM CORP	0.629	67	CVX	CHEVRON CORP	0.410
18	VZ	VERIZON COMMUNICATIONS INC	0.629	68	BK	BANK OF NEW YORK MELLON CORP	0.397
19	MO	ALTRIA GROUP INC	0.595	69	TGT	TARGET CORP	0.393
20	F	FORD MOTOR CO	0.590	70	DVN	DEVON ENERGY CORP	0.392
21	EMR	EMERSON ELECTRIC CO	0.589	71	COP	CONOCOPHILLIPS	0.385
22	TRV	TRAVELERS COS INC	0.588	72	INTC	INTEL CORP	0.380
23	COST	COSTCO WHOLESALE CORP	0.585	73	MON	MONSANTO CO	0.379
24	V	VISA INC	0.584	74	CSCO	CISCO SYSTEMS INC	0.373
25	BAX	BAXTER INTERNATIONAL INC	0.580	75	CVS	CVS CAREMARK CORP	0.368
26	DE	DEERE & CO	0.576	76	AMGN	AMGEN INC	0.365
27	T	AT&T INC	0.569	77	GE	GENERAL ELECTRIC CO	0.358
28	CAT	CATERPILLAR INC	0.568	78	BA	BOEING CO	0.356
29	DHR	DANAHER CORP	0.558	79	MET	METLIFE INC	0.331
30	HON	HONEYWELL INTERNATIONAL INC	0.557	80	OXY	OCCIDENTAL PETROLEUM CORP	0.331
31	HD	HOME DEPOT INC	0.554	81	TWX	TIME WARNER INC	0.331
32	IBM	INTL BUSINESS MACHINES CORP	0.537	82	ABT	ABBOTT LABORATORIES	0.329
33	DTV	DIRECTV	0.533	83	WFC	WELLS FARGO & CO	0.324
34	AFL	AFLAC INC	0.531	84	UPS	UNITED PARCEL SERVICE INC	0.323
35	KO	COCA-COLA CO	0.528	85	FDX	FEDEX CORP	0.319
36	DELL	DELL INC	0.527	86	AXP	AMERICAN EXPRESS CO	0.317
37	CMCSA	COMCAST CORP	0.521	87	UTX	UNITED TECHNOLOGIES CORP	0.316
38	XOM	EXXON MOBIL CORP	0.507	88	MS	MORGAN STANLEY	0.310
39	C	CITIGROUP INC	0.505	89	BRK.B	BERKSHIRE HATHAWAY	0.294
40	MCD	MCDONALD'S CORP	0.500	90	JPM	JPMORGAN CHASE & CO	0.276
41	NKE	NIKE INC	0.499	91	CL	COLGATE-PALMOLIVE CO	0.265
42	AAPL	APPLE INC	0.498	92	LLY	LILLY (ELI) & CO	0.257
43	ESRX	EXPRESS SCRIPTS INC	0.491	93	PX	PRAXAIR INC	0.248
44	UNH	UNITEDHEALTH GROUP INC	0.489	94	BAC	BANK OF AMERICA CORP	0.242
45	PFE	PFIZER INC	0.478	95	PNC	PNC FINANCIAL SVCS GROUP INC	0.204 Neutral
46	JNJ	JOHNSON & JOHNSON	0.461	96	MMM	3M CO	0.198 Near Oversold
47	PG	PROCTER & GAMBLE CO	0.460	97	EXC	EXELON CORP	0.195 Near Oversold
48	EMC	EMC CORP/MA	0.460	98	HPQ	HEWLETT-PACKARD CO	0.192 Near Oversold
49	GILD	GILEAD SCIENCES INC	0.450	99	PEP	PEPSICO INC	0.156 Near Oversold
50	WMT	WAL-MART STORES INC	0.450 Neutral	100	MDT	MEDTRONIC INC	0.138 Near Oversold

Source: BoFA Merrill Lynch Global Research

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## S&P 500 OBOS top & bottom "tails" 1 stock overbought, none oversold

Large-cap stocks ranked by relative price momentum as of 04-Nov-10

Rank	Ticker	Company	Sector	Overbought > 1, Oversold < 0
1	KG	KING PHARMACEUTICALS INC	Health Care	1.136 Overbought
2	WAG	WALGREEN CO	Consumer Staples	0.891 Near Overbought
3	EBAY	EBAY INC	Information Technology	0.889 Near Overbought
4	TIF	TIFFANY & CO	Consumer Discretionary	0.849 Near Overbought
5	MHP	MCGRAW-HILL COMPANIES	Consumer Discretionary	0.847 Near Overbought
6	DOW	DOW CHEMICAL	Materials	0.820 Near Overbought
473	MMM	3M CO	Industrials	0.197 Near Oversold
474	MRO	MARATHON OIL CORP	Energy	0.197 Near Oversold
475	MTB	M & T BANK CORP	Financials	0.197 Near Oversold
476	DPS	DR PEPPER SNAPPLE GROUP INC	Consumer Staples	0.195 Near Oversold
477	EXC	EXELON CORP	Utilities	0.195 Near Oversold
478	ZMH	ZIMMER HOLDINGS INC	Health Care	0.194 Near Oversold
479	HPQ	HEWLETT-PACKARD CO	Information Technology	0.191 Near Oversold
480	KMB	KIMBERLY-CLARK CORP	Consumer Staples	0.185 Near Oversold
481	ECL	ECOLAB INC	Materials	0.178 Near Oversold
482	MI	MARSHALL & ILSLEY CORP	Financials	0.171 Near Oversold
483	SYT	SYSCO CORP	Consumer Staples	0.171 Near Oversold
484	CLX	CLOROX CO/DE	Consumer Staples	0.168 Near Oversold
485	FE	FIRSTENERGY CORP	Utilities	0.166 Near Oversold
486	WPO	WASHINGTON POST -CL B	Consumer Discretionary	0.158 Near Oversold
487	K	KELLOGG CO	Consumer Staples	0.157 Near Oversold
488	PBCT	PEOPLE'S UNITED FINL INC	Financials	0.157 Near Oversold
489	PEP	PEPSICO INC	Consumer Staples	0.155 Near Oversold
490	AVP	AVON PRODUCTS	Consumer Staples	0.155 Near Oversold
491	APOL	APOLLO GROUP INC -CL A	Consumer Discretionary	0.141 Near Oversold
492	MDT	MEDTRONIC INC	Health Care	0.138 Near Oversold
493	BF.B	BROWN-FORMAN -CL B	Consumer Staples	0.136 Near Oversold
494	NRG	NRG ENERGY INC	Utilities	0.125 Near Oversold
495	CCE	COCA-COLA ENTERPRISES INC	Consumer Staples	0.083 Near Oversold
496	ETR	ENTERGY CORP	Utilities	0.081 Near Oversold
497	EOG	EOG RESOURCES INC	Energy	0.074 Near Oversold
498	HRB	BLOCK H & R INC	Consumer Discretionary	0.035 Near Oversold
499	RSG	REPUBLIC SERVICES INC	Industrials	0.007 Near Oversold

Source: BofA Merrill Lynch Global Research

## Most Attractive Buy (MAB) List

### MAB List constituents as of 08 November 2010

#### Members of the MAB List by sector as of 08 November 2010

Addition date	Symbol	Name	Price (04 November 2010)	BofAML Rating	Footnotes
<b>Consumer Discretionary</b>					
1/26/09	MCD	McDonald's Corp.	\$79.18	B-1-7	BCObgijpsvw
<b>Consumer Staples</b>					
9/8/09	MO	Altria Group Inc.	\$26.15	B-1-7	BObjpw
6/15/09	CLX	Clorox Co.	\$62.14	B-2-7	BCObvw
3/24/08	WMT	Wal-Mart Stores Inc.	\$55.36	A-1-7	BCObgijpsv
<b>Energy</b>					
1/5/10	CVX	Chevron Corp.	\$85.14	A-2-7	Bbijopsv
<b>Financials</b>					
11/2/09	KIM	Kimco Realty Corp.	\$17.61	C-1-7	Bbgijpsv
<b>Healthcare</b>					
8/24/09	MRK	Merck & Co Inc	\$36.65	XRVW	BObjpsv
12/21/09	UNH	UnitedHealth Group Inc.	\$36.80	C-1-7	BCObgijpsv
<b>Industrials</b>					
7/26/10	BA	Boeing Co.	\$70.85	B-1-7	BObgijpsv
8/3/09	EMR	Emerson Electric Co.	\$56.75	B-1-7	BObjopsv
<b>Information Technology</b>					
10/19/09	ADP	Automatic Data Processing Inc.	\$45.76	B-1-7	Bbijpsvw
4/22/08	IBM	International Business Machines Corp.	\$146.79	B-1-7	BObjpsvw
1/5/10	ORCL	Oracle Corp.	\$29.47	B-1-7	BObgijpsv
<b>Materials</b>					
6/7/10	ABX	Barrick Gold Corp.	\$49.31	C-1-7	BObjopsv
<b>Telecom</b>					
3/9/09	VZ	Verizon Communications Inc.	\$33.52	A-2-7	BObjpsv
<b>Utilities</b>					
6/7/10	PGN	Progress Energy Inc.	\$45.11	A-1-7	Bbijpsv

\*\* RESTRICTED. SOLICITATION OF COMMISSION ORDERS IS PROHIBITED.

One or more Analysts Responsible for Recommending the Securities in this Report Owns Such Securities: None

Source: BofA Merrill Lynch Global Research

## Most Attractive Buy (MAB) List

The MAB List was introduced in February 2006. It is designed to identify common stocks that, in our view, are attractive based on technical analysis. The primary objective of the list is to generate superior risk-adjusted returns versus the benchmark (S&P 500) over the long term through both tactical and strategic stock selection. While the MAB List seeks to generate these returns by capturing short-to intermediate-term (three to six months) price appreciation for the selected stocks, positions can be held longer term. The primary strategy of the MAB List is to hold stocks that have strong performance while removing stocks from the list that are not performing as well. The list is always 100% invested in common stocks and has no cash or fixed income components. The MAB List is not intended to represent a diversified investment portfolio.

Our universe of candidates for entry into the MAB List begins with BofA Merrill Lynch Global Research Buy (1) or Neutral (2) rated stocks within the S&P 500. In addition, stocks covered by BofA Merrill Lynch Global Research outside of the S&P 500 with 1 or 2 ratings are also considered. Any stock that is Underperform (3) rated is not a candidate for addition to the MAB List.

To determine which of these candidates will enter the MAB List, our analysis starts with the ten S&P 500 GICS sector indices. From there we identify industry groups and then individual stocks within those groups that have positive or constructive technical price trends and chart patterns based on our analysis. We do not use a quantitative model to select securities for the MAB List.

The MAB List will hold at least one stock per sector. The list holds a greater number of stocks in sectors that are more attractive based on our analysis and a smaller number of stocks in sectors that are less attractive according to our analysis.

The MAB List is reviewed on a weekly basis. Any stock on the list that becomes Underperform (3) rated is removed immediately, even if the stock is considered technically attractive according to our work. Any additions and deletions will be published in our MAB List Constituent Changes report. The MAB List is also published weekly in our Market Analysis Comment report. All changes are effective as of the close on the trading day following the date of the release of the research report.

## Oscillator Methodology

The overbought/oversold oscillator is a relative price model, which means we calculate the ratio of the index of each industry group to the Index by dividing the current industry index value by the current Index value. We then take a 13-week rate of change of the ratio and compare with its historical trading pattern. An industry group is "overbought" or "oversold" relative to its historical levels when the ratio is  $\pm 2$  standard deviations (square root of the variance) away from its mean. We normalize the data to adjust for volatility so we can compare high-volatility industry groups such as technology to low-volatility industry groups such as utilities.

For the Top 500 Stocks, we apply the same methodology, but use the stock price relative to the Index.

## How to read the Oscillator

An industry group is "overbought" when the oscillator is greater than 1.0 and "oversold" when the oscillator is below 0. A group is "near overbought" between 0.8 and 1 and "near oversold" between 0.2 and 0. Those groups in between the range are ranked neutral.

A stock is overbought when the oscillator is greater than 1 and oversold when the oscillator is below 0. A stock is near overbought between 0.8 and 1.0 and near oversold between 0.2 and 0. Those stocks in between the range are ranked neutral.

## How to interpret the Oscillator

Under the Oscillator model, when an industry group or stock has a statistically significant move away from its historical normal trading pattern relative to the market, a mean reversion is generally anticipated, provided the fundamentals of the industry group have not been significantly altered. Therefore, we are flagging those industry groups and stocks that have moved or are close to moving  $\pm 2$  standard deviations away from their historical mean.

Industry groups and stocks with good fundamentals that are oversold or approaching oversold could be candidates for adding to a portfolio, while those groups and stocks that are overbought or approaching overbought with deteriorating fundamentals could be candidates for profit taking.

We do caution that: (a) The Oscillator is a quantitative model and its results may not coincide with Merrill Lynch's fundamental research opinion on the subject security. This model is best used in conjunction with fundamental analysis; (b) The Oscillator model attempts to measure relative price performance and, thus, even when successfully implemented, may result in returns that are negative in absolute terms; (c) Groups and stocks may remain overbought or oversold for several weeks or at times for months after such conditions are identified by the model; (d) the Oscillator model does not consider commissions or other transaction costs that may negatively impact investment returns.

Due to the nature of quantitative analysis, the issuers or securities recommended or discussed in this report are not continuously followed. Accordingly, investors must regard this report as providing stand-alone analysis and should not expect continuing analysis or additional reports relating to such issuers and/or securities.

## Footnotes

s - MLPF&S or an affiliate has received compensation for investment banking services from this company within the past 12 months.

i - The company is or was, within the last 12 months, an investment banking client of MLPF&S and/or one or more of its affiliates.

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o - The company is or was, within the last 12 months, a securities business client (non-investment banking) of MLPF&S and/or one or more of its affiliates.

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b - MLPF&S or one of its affiliates acts as a market maker for the equity securities recommended in the report.

(B and b are for US Exchange traded stocks only, there are some exceptions to this regarding London companies).

# - One or more analysts responsible for covering the securities in this report owns securities of the covered company.

G - MLPF&S or one of its affiliates acts as a market maker for the preferred securities recommended in the report. (For preferreds)

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q - In the US, retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale.

z - The country in which this company is organized has certain laws or regulations that limit or restrict ownership of the company's shares by nationals of other countries.

(z is applied to stocks from Taiwan, India and Brazil)

P - Class A shares are variable voting

Q - Class A shares are subordinate voting

R - Class A shares are nonvoting

S - Class B shares are limited voting

T - Class B shares are nonvoting

U - Class B shares are restricted voting

V - Class B shares are subordinate voting

W - Class S shares are subordinate voting

X - Common shares are subordinate voting

Y - Common shares are limited voting

## Link to Definitions

### Basic Materials

Click [here](#) for definitions of commonly used terms.

### Consumer & Retail

Click [here](#) for definitions of commonly used terms.

### Energy

Click [here](#) for definitions of commonly used terms.

### Financials

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### Healthcare

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### Industrials

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### Technology

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## Analyst Certification

I, Mary Ann Bartels, hereby certify that the views expressed in this research report about securities and issuers accurately reflect the research model applied in such analysis. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

## Important Disclosures

### Investment Rating Distribution: Aerospace/Defense Electronics Group (as of 01 Oct 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	18	50.00%	Buy	14	77.78%
Neutral	14	38.89%	Neutral	9	75.00%
Sell	4	11.11%	Sell	2	50.00%

### Investment Rating Distribution: Consumer Products Group (as of 01 Oct 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	35	53.85%	Buy	17	53.13%
Neutral	14	21.54%	Neutral	7	58.33%
Sell	16	24.62%	Sell	7	43.75%

### Investment Rating Distribution: Electrical Equipment Group (as of 01 Oct 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	20	52.63%	Buy	7	38.89%
Neutral	11	28.95%	Neutral	5	50.00%
Sell	7	18.42%	Sell	4	57.14%

### Investment Rating Distribution: Energy Group (as of 01 Oct 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	168	60.87%	Buy	96	63.16%
Neutral	55	19.93%	Neutral	26	57.78%
Sell	53	19.20%	Sell	19	40.43%

### Investment Rating Distribution: Health Care Group (as of 01 Oct 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	122	53.51%	Buy	52	45.61%
Neutral	55	24.12%	Neutral	31	59.62%
Sell	51	22.37%	Sell	16	32.00%

### Investment Rating Distribution: Non-Ferrous Metals/Mining & Minerals Group (as of 01 Oct 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	86	58.11%	Buy	21	28.77%
Neutral	38	25.68%	Neutral	11	35.48%
Sell	24	16.22%	Sell	1	4.76%

### Investment Rating Distribution: REITs (Real Estate Investment Trusts) Group (as of 01 Oct 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	41	45.56%	Buy	25	60.98%
Neutral	27	30.00%	Neutral	20	74.07%
Sell	22	24.44%	Sell	13	59.09%

### Investment Rating Distribution: Restaurants Group (as of 01 Oct 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	12	48.00%	Buy	8	66.67%
Neutral	8	32.00%	Neutral	5	62.50%
Sell	5	20.00%	Sell	4	80.00%

### Investment Rating Distribution: Retailing Group (as of 01 Oct 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	102	57.63%	Buy	38	39.18%
Neutral	41	23.16%	Neutral	17	45.95%
Sell	34	19.21%	Sell	13	38.24%

### Investment Rating Distribution: Technology Group (as of 01 Oct 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	125	54.11%	Buy	47	41.96%
Neutral	54	23.38%	Neutral	26	53.06%
Sell	52	22.51%	Sell	12	24.00%

### Investment Rating Distribution: Telecommunications Group (as of 01 Oct 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	93	51.96%	Buy	35	46.05%
Neutral	50	27.93%	Neutral	20	47.62%
Sell	36	20.11%	Sell	15	50.00%

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**Investment Rating Distribution: Tobacco Group (as of 01 Oct 2010)**

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	7	63.64%	Buy	0	0.00%
Neutral	2	18.18%	Neutral	0	0.00%
Sell	2	18.18%	Sell	0	0.00%

**Investment Rating Distribution: Utilities Group (as of 01 Oct 2010)**

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	75	40.98%	Buy	29	43.28%
Neutral	58	31.69%	Neutral	27	51.92%
Sell	50	27.32%	Sell	15	33.33%

**Investment Rating Distribution: Global Group (as of 01 Oct 2010)**

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1948	54.31%	Buy	821	46.73%
Neutral	891	24.84%	Neutral	397	49.07%
Sell	748	20.85%	Sell	259	37.16%

\* Companies in respect of which MLPF&S or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

\* Ratings dispersions may vary from time to time where BofAML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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