The Turnaround Letter

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BANK STOCKS: NICE GAINS BUT PLENTY MORE AHEAD

Banks seem to be the companies that everyone loves to hate these days. Many politicians and journalists are still bashing the banks for helping cause the financial meltdown in 2008. And those who have finally moved beyond 2008 are now criticizing the banks for a whole new panoply of sins such as being too restrictive in their lending policies, being too lenient in their lending policies, taking too many risks, not taking enough risks, etc. (Politicians and journalists do not appear to be very concerned with being consistent.)

For investors who have been brave (or contrarian) enough to venture into bank stocks, they have been quite rewarding. For example, Bank of America stock has quadrupled from its low in 2009, and since the end of 2011 it is up by 119%. Despite this type of gain, we believe that the bank stocks have a lot further to run. It probably won't happen overnight, but if you are willing to buy some bank stocks and hold them for several years, you should be handsomely rewarded.

There are a number of reasons why we like banks right now. First, they are cheap by historical measures. A number of banks today are still trading below book value; just a few years ago, many traded at two or three times book value. Second, loan growth (which, as long as the loans are made prudently, leads to profit growth) is likely to accelerate as the economy continues to improve and lending polices become a little more liberal. (After 2008, many banks became ultra-conservative; in other words, closed the barn door after the cow was already out.)

Another reason we like the banks is that they are generally faring well on the government's "stress tests" (which are probably another example of closing the barn door too late, but that's another story). This means that the banks are less risky than in the past. Moreover, after a bank passes its stress test, the government is likely to allow it to raise dividends and initiate stock buybacks – both of which should boost the stock price.

Finally, we think banks will benefit when interest rates eventually begin to rise. With rates held low by the Federal Reserve, lending margins have been compressed, which holds down profitability. As rates rise, margins should expand, leading to more profits.

The banks discussed below are a mix of money center banks and regional banks that have strong business franchises and that we think could be particularly rewarding for investors. ➔

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Banks: Undervalued Assets for The Long Haul

Company	Symbol	Recent Price	6-Year Range	Market Cap. Bil.	Price to Book	Forward P/E
Bank of America*	BAC	12.18	52.94 – 2.53	131.8	0.60	9.3
Citigroup	C	44.24	555.50 – 9.70	134.4	0.72	8.5
Fifth Third Bancorp*	FITB	16.31	43.32 – 1.01	14.3	1.08	9.7
JPMorgan Chase & Co.	JPM	47.46	53.25 – 14.96	180.5	0.93	8.2
PNC Financial Services Group	PNC	66.50	87.99 – 16.20	35.1	0.99	9.7
Regions Financial	RF	8.19	36.66 – 2.35	11.6	0.77	9.8
Suntrust Banks	STI	28.81	94.18 – 6.00	15.4	0.76	9.8
US Bancorp	USB	33.93	42.23 – 8.06	63.2	1.84	10.3
Wells Fargo & Co.	WFC	36.99	44.69 – 7.80	195.0	1.34	9.5
Zions Bancorporation	ZION	24.99	87.07 – 5.90	4.6	0.94	13.0

** Previous TL recommendation*

Bank of America was both a victim and beneficiary of the financial crisis. While it took big hits from an operating perspective, it was able to greatly expand its reach by buying Countrywide Financial and Merrill Lynch. Management has done a good job of realigning the asset base and bolstering the balance sheet. The Fed just approved its plan to buy back $5 billion of stock and $5.5 billion worth of preferred shares. Bank of America is benefiting from the revival in the housing market, and it has made significant headway in resolving mortgage-related litigation.

Citigroup was in the infamous position of being the largest recipient of federal bailout money during the financial crisis. But it has come a long way, disposing of non-core businesses and shoring up its capital base. Following the latest stress test, Citi obtained Fed approval to repurchase up to $1.2 billion in stock and maintain the dividend. A new CEO took over last October, and management should soon be able to move beyond balance sheet repair to return to focusing on the company's substantial international growth opportunities.

Fifth Third Bancorp operates mostly in Ohio and Michigan but has a presence in ten other largely Midwestern states. Since the financial meltdown in 2008, the company has refocused its efforts on its core commercial lending business. After the latest round of stress tests, Fifth Third received approval of its plans to raise the dividend and increase its share repurchase program to $984 million. Fifth Third reported solid operating results for 2012 and ended the year with a lower level of nonperforming loans than many competitors.

JPMorgan Chase & Co. has had more than its share of negative headlines recently. But despite its botched "whale trade" that led to a more than $6 billion trading loss, the company was still able to report a $21.3 billion profit for 2012. Notwithstanding the negative press, JPMorgan remains a global powerhouse. Although the company still has some issues to resolve with the Fed, we expect the company to get approval to increase the dividend and repurchase roughly $6 billion in stock over the course of the next twelve months.

PNC Financial Services Group operates primarily in Pennsylvania, Ohio and New Jersey, but its reach extends into 19 Eastern states. During the financial crisis, PNC was able to expand its reach by buying National

City, a struggling competitor. Management has received a green light from the Fed to raise the dividend, but share buybacks will probably be deferred in light of PNC's recent acquisition of RBC Bank's southeastern US assets. PNC currently owns about 21% of the investment company Blackrock (BLK), which is another valuable asset.

REGIONS FINANCIAL is focused on the Southeastern U.S. What a difference a year makes: last year Regions was selling its brokerage unit for $1.2 million and issuing common stock to raise another $900 million; this year, the company has received Fed approval to increase its dividend as well as buy back up to $350 million in common stock and another $500 million in trust preferred securities. The stock's valuation doesn't appear to reflect the company's balance sheet and operating improvements.

SUNTRUST BANKS, as its name implies, has a major presence in Florida (33% of deposits) and Georgia (29%). The Florida market was one of the epicenters of the subprime collapse, and Suntrust is still digging out from that debacle. The company's 2012 capital plan fell short, but its rebuilding efforts led to it passing this year's tests. While it continues to unload loans on distressed properties, it will be able to pursue a $200 million share-repurchase program and boost the dividend.

US BANCORP was among the first of the nation's banks to repay its federal bailout funds. Management gets high marks for maintaining strong financials, which have allowed the company to make acquisitions during a time when many banks are still selling assets. And it just received approval to increase the dividend by 18% and institute a new $2.25 billion stock repurchase program. It is also among a small group of banks that are not only expected to survive under the worst-case, stress-test scenario but to actually remain profitable.

WELLS FARGO & CO.'S product line covers nearly every imaginable aspect of consumer, commercial and investment banking services. As one of the largest originators of mortgages, Wells should benefit from the rebound in the housing market. Management has also made a commitment to managing costs. Wells recently received permission from the Fed to raise its dividend and increase its share buyback program.

ZIONS BANCORPORATION has its largest presence in Utah and California, followed by Texas, Arizona and Nevada. The California and Nevada markets were particularly hard hit during the financial crisis, but Zions has subsequently done a good job of reducing its non-performing assets. Management received Fed approval for actions that will bolster the firm's capital position. Zions is well positioned to capitalize as its geographic markets recover.

Disclosure Note: Accounts managed by an affiliate of the Publisher own securities of a number of the companies discussed in this article.

AIRLINE STOCKS: GAINING ALTITUDE BUT COULD FLY HIGHER

The airlines are another group that can't seem to get any respect from investors. While the airlines' past behavior provides some justification for fear and loathing, they appear to have learned their lessons. As a result, investors who are willing to let by-gones be by-gones will find that airline stocks could give them a good ride in the months to come.

Over the last few decades, many of the airlines went through boom and bust cycles. When times were good, they expanded ➔

Airlines: Prices Rise But Valuations Still Grounded

Company	Symbol	Recent Price	6-Year Range	Market Cap. Bil.	Price to Book	Forward P/E
Alaska Air Group	ALK	63.96	64.55 – 5.05	4.5	0.96	10.1
AMR (American)	AAMRQ	4.15	In bankruptcy	1.39	NSE	NA
Delta Air Lines	DAL	16.51	21.80 – 3.51	13.97	NSE	5.4
JetBlue Airways	JBLU	6.90	12.32 – 2.81	1.94	1.03	9.7
Southwest Airlines	LUV	13.48	16.96 – 4.95	9.81	1.38	11.1
United Continental Holdings	UAL	32.01	51.60 – 2.80	10.65	NM	6.6
US Airways Group	LCC	16.97	50.47 – 1.45	2.76	3.43	5.6

** NSE Negative shareholder equity NM Not meaningful NA Not applicable*

rapidly, buying new planes, adding routes, adding debt and letting operating costs creep up. Then there would be an economic downturn, and the companies would be unable to cut back fast enough, and so they would be forced into Chapter 11 – or even Chapter 22 or 33 (the informal name for a company's second or third bankruptcy). Having been burned a few times by this behavior, investors became very reluctant to buy airline stocks, even when the financial results looked pretty good.

Now, however, the airlines appear to have finally mended their ways. After US Air, Delta and United emerged out of Chapter 11 in the mid-2000's, the carriers began to show some discipline. They did not expand rapidly when things were good in 2005-07, and they cut back rapidly at the first hint of the 2008 downturn. They have continued to show good discipline ever since. The result is that planes are full, and the companies can raise ticket prices and charge extra fees for many services that used to be free.

But many investors are still unwilling to buy airline stocks because they expect the carriers to revert to their past behavior pattern. As a result, the stocks look cheap. Earnings and cash flows are strong and growing. Moreover, the coming merger of US Air and American will further reduce both capacity and competition, which should boost profitability across the industry. There is always a risk that some airlines might go back to their bad ways, but we don't expect that, and we think the gain potential outweighs that risk. Moreover, if cash flows remain strong, we might even begin to see meaningful dividends on some of these stocks.

ALASKA AIR GROUP has moved from being a gatekeeper to Alaska via its Seattle operations to offering service to most of the largest US markets. It also operates Horizon Air, which is a regional airline serving six states, mostly in the Northwest, Canada and Mexico. Management has expanded operations while maintaining a strong reputation for customer service and delivering consistent operating gains. Alaska has been able to pay down some $1.3 billion in debt in recent years.

DELTA AIR LINES emerged from bankruptcy in 2007 and then merged with Northwest in 2008 to become the world's largest airline at that time. Today, the company serves 318 destinations in 59 countries. Long-term debt has been reduced by roughly $4.5 billion over the last three years, but cash has remained at healthy levels – $3.4 billion at the end of 2012. Management is leveraging the strong financials to invest in new routes as well as upgrade facilities. In an interesting twist, Delta has purchased its own refinery to stabilize the company's fuel costs.

JETBLUE AIRWAYS began operations in 2000 with two planes connecting New York with South Florida; today, the company reaches 75 destinations in the U.S. and Caribbean. By offering low fares with extras like satellite TV and pre-assigned seating, JetBlue has grown rapidly and is now categorized as a major airline. A somewhat younger fleet is helping keep operating costs down, allowing the company to maintain a competitive advantage and capture market share.

SOUTHWEST AIRLINES began operations in the early 1970s as a Texas-centric regional carrier. It has since grown to become the largest domestic airline in terms of passenger miles. They've built their loyal following via low fares with high customer satisfaction. The 2011 acquisition of AirTran expanded Southwest's presence in the Atlanta market, and it is adding its first international flights to Central America. With 39 years of profitability and one of the strongest balance sheets, Southwest is well positioned.

UNITED CONTINENTAL HOLDINGS was born from the merger between United and Continental in late 2010. The merger led to integration issues that are finally being resolved. Now management can focus on growth and profitability initiatives. United has long been a leader in the lucrative Asia routes. With its own integration problems behind it, United Continental is well positioned to grab market share if there are any merger-related problems at American and US Airways.

US AIRWAYS GROUP is seeking to buy **AMR** out of bankruptcy. The combined company – (assuming the merger is approved) will eventually be a formidable competitor, but we expect near-term dislocations that will adversely affect operating results. That said, the longer-term potential for this new mega-carrier is substantial. Assuming the proposed merger goes through, the AMR stock is just a slightly more leveraged way to buy US Air stock.

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RECOMMENDATIONS

Purchase Recommendation: Chiquita Brands International

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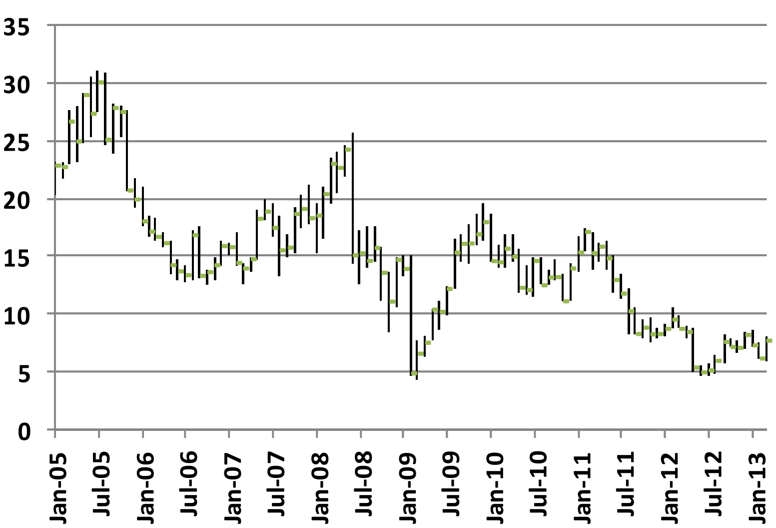
CHARLOTTE, NC 28202
980-636-5000 *www.chiquita.com*

CATEGORY: SMALL-CAP ($360 MIL.)
SYMBOL: CQB EXCHANGE: NYSE
BUSINESS: FRESH PRODUCE
ANNUAL REVENUE: $738 MIL. (12/31/12)
EARNINGS: ($335) MIL.
3/29/13 PRICE: 7.76
12 MONTH RANGE: 9.11—4.62
MAX. REC PRICE: 12
EST DIVIDEND YIELD: NIL



BACKGROUND: Chiquita traces its history back to a ship captain who in 1870 sailed 160 bunches of bananas from Jamaica to New Jersey and sold them for a profit. In 1899 the ship captain's company merged with another banana company to become the United Fruit Company. United Fruit dominated the banana business for many decades, and is alleged to have controlled several Central American countries as well.

During the latter decades of the 20th century, Chiquita made various attempts to diversify into other food products, and it also took on a substantial amount of debt. When the company was hurt by a "banana war" in Europe around the turn of the century, it could no longer service its debt and was forced into Chapter 11. The company emerged from bankruptcy in 2002 with an improved balance sheet. In 2005 it acquired Fresh Express, a large producer of packaged salads. Results were variable for several years, but then began to steadily decline in the latter half of 2011.

ANALYSIS: Chiquita has many of the features that we like to see in a turnaround candidate. First and foremost, it has a powerful brand. The Chiquita brand dominates the banana market, and it is probably the most widely-recognized name in any form of fresh produce. Moreover, the banana and fresh produce markets are likely to remain strong as consumers around the globe become more health conscious.

Second, Chiquita has a new CEO. In late 2012 the company brought in Edward Lonergan. Prior to coming to Chiquita, Lonergan led the turnaround of a cleaning products company. Before that he had a distinguished career in branded consumer products with Gillette and Proctor & Gamble.

Even before Lonergan arrived, the company had begun to restructure its operations. It sold off a number of non-core businesses – another thing we like to see – to focus on bananas and salads & healthy snacks. It moved its headquarters, reduced headcount and realigned management to reduce costs and improve efficiencies.

In February of this year Chiquita refinanced much of its balance sheet, pushing the bulk of its debt maturities out to 2021. This gives the company plenty of breathing room to carry out its restructuring plans.

While there is risk in any agricultural product business, we believe that the current stock price represents an attractive level to get into a company with a dominant brand that appears to be well into a turnaround. <u>We recommend buying Chiquita up to 12.</u>

Sale Recommendations: Campbell Soup and Amgen

Both **Campbell Soup** and **Amgen** have ridden the strong stock market to new highs, and we recommend taking advantage of this strength to sell both stocks. Given Campbell's limited growth prospects, we think the stock may have gotten ahead of itself. Amgen's growth prospects are better, but biotech stocks are notoriously volatile. At these levels, we believe the risks in Amgen now outweigh the potential for further gains.

NEWS NOTES & UPDATES

Several of our recommended stocks have moved up through our maximum buying prices, and we are revising our buying ceilings as follows: **Newell Rubbermaid –** 30; **United Continental –** 35; **Time Warner –** 62 and **Weyerhaeuser –** 35.

PERFORMANCE

The tables below and on the next page show the performance of all of our currently active recommendations, plus recently closed out recommendations. The categories are based on market capitalization on the recommendation date, except that recommendations made prior to August 2004 are categorized by their 8/20/04 market cap.

SMALL CAP (under $1 billion) CURRENT RECOMMENDATIONS

RECOMMENDATION	SYMBOL/ EXCHANGE (1)	REC. ISSUE	PRICE AT REC.	3/28/13 PRICE	TOTAL RE-TURN (3)	CURRENT STATUS (2)
Bristow Group	BRS/N	Nov 86	0.75	65.94	+8852	Hold
Kadant Inc	KAI/N	Apr 02	14.28	25.00	+75	Hold
Newpark Resources	NR/N	June 06	5.65	9.28	+64	Buy (10)
Electro Scientific Ind.	ESIO/O	Feb 07	21.24	11.05	-46	Buy (20)
CTS Corporation	CTS/N	Nov 07	12.54	10.44	-12	Buy (15)
Wet Seal	WTSLA/O	Oct 09	3.93	3.02	-23	Buy (6)
ACCO Brands	ACCO/N	Mar 10	7.17	6.68	-7	Buy (12)
Superior Industries	SUP/N	Sept 10	14.75	18.68	+39	Buy (30)
Kemet	KEM/N	Feb 11	14.75	6.25	-58	Buy (11)
Drew Industries	DW/N	Mar 11	23.13	36.31	+66	Hold
Fairpoint	FRP/O	July 11	9.42	7.47	-21	Buy (14)
Builders FirstSource, Inc.	BLDR/O	May 12	4.17	5.86	+41	Buy (7)
Felcor Lodging Trust, Inc.	FCH/N	Nov 12	4.39	5.95	+36	Buy (7)

MID CAP ($1 billion - $10 billion) CURRENT RECOMMENDATIONS

RECOMMENDATION	SYMBOL/ EXCHANGE (1)	REC. ISSUE	PRICE AT REC.	3/28/13 PRICE	TOTAL RE-TURN (3)	CURRENT STATUS (2)
Newell Rubbermaid	NWL/N	June 04	23.24	26.10	+34	Buy (30)
Goodyear Tire	GT/N	July 04	9.14	12.60	+38	Buy (20)
Tenet Healthcare	THC/N	Sept 04	41.08	47.58	+16	Hold
Janus Capital Group	JNS/N	Aug 05	15.27	9.40	-31	Buy (17)
Portland General	POR/N	Nov 06	25.70	30.33	+43	Buy (33)
Interpublic Group	IPG/N	Dec 06	11.94	13.03	+14	Buy (14)
Tellabs	TLAB/O	Feb 08	6.66	2.09	-65	Buy (7)
Federal-Mogul	FDML/O	May 08	21.00	6.03	-71	Buy (15)
Old Republic	ORI/N	June 08	14.64	12.71	+11	Buy (14)
Calpine	CPN/N	Dec 09	11.12	20.60	+85	Buy (21)
Lear	LEA/N	June 10	33.84	54.87	+66	Buy (58)
Boston Scientific	BSX/N	Aug 10	5.60	7.81	+39	Buy (9)
MGIC	MTG/N	Jan 11	10.11	4.95	-51	Buy (8)
Delta Air Lines	DAL/N	Oct 11	8.11	16.51	+104	Buy (19)
MetroPCS	PCS/N	Dec 11	8.38	10.90	+30	Hold
Wendy's	WEN/O	Mar 12	5.18	5.68	+11	Buy (8)
E*Trade Financial	ETFC/O	Aug 12	7.53	10.71	+42	Buy (12)
Veolia Environnement S.A.	VE/N	Oct 12	10.82	12.70	+17	Buy (16)
United Continental Holdings	UAL/N	Dec 12	20.22	32.01	+58	Buy (35)
Cypress Semiconductor	CY/O	Jan 12	10.63	11.03	+5	Buy (16)
New York Times	NYT/N	Mar 13	9.64	9.80	+2	Buy (14)

KEY: (1) Exchanges: N = New York; O = OTC; (2) Maximum recommended buy prices in parentheses; (3) Total return includes dividends as well as price changes.

LARGE CAP (over $10 billion) CURRENT RECOMMENDATIONS

RECOMMENDATION	SYMBOL/	REC. ISSUE	PRICE AT REC.	3/28/13 PRICE	TOTAL	CURRENT
Carnival Corporation	CCL/N	Jan 01	30.50	34.30	+43	Buy (45)
A T & T Inc.	T/N	May 03	23.05	36.69	+122	Buy (44)
Ford	F/N	Dec 03	13.00	13.15	+11	Buy (15)
Schwab	SCHW/N	Mar 04	12.20	17.69	+67	Buy (20)
Time Warner	TWX/N	Dec 04	53.46	57.62	+31	Buy (62)
Campbell Soup	CPB/N	Apr 05	28.14	45.36	+88	Sell
Microsoft	MSFT/O	Oct 06	27.94	28.61	+16	Buy (40)
Pfizer	PFE/N	Mar 07	25.84	28.86	+32	Buy (30)
General Electric	GE/N	July 07	38.12	23.12	-28	Buy (25)
Motorola Solutions	MSI/N	Aug 07	68.52	64.03	-4	Buy (70)
Amgen	AMGN/O	Oct 07	56.56	102.51	+84	Sell
DuPont	DD/N	Jan 08	45.07	49.16	+26	Buy (60)
Sprint	S/N	Mar 08	8.09	6.21	-23	Hold
Bank of America	BAC/N	Oct 08	35.00	12.18	-64	Buy (14)
Sysco	SYY/N	Nov 09	27.01	35.17	+43	Buy (36)
Marsh & McLennan	MMC/N	Feb 10	21.71	37.97	+87	Buy (40)
Applied Materials	AMAT/O	Apr 10	13.45	13.48	+8	Buy (20)
Fifth Third	FITB/O	Nov 10	12.56	16.31	+34	Buy (17)
Coca-Cola	KO/N	Apr 11	32.86	40.44	+32	Buy (45)
General Motors	GM/N	May 11	32.09	27.82	-13	Buy (40)
Xerox	XRX/N	Aug 11	9.58	8.60	-8	Buy (14)
Sony	SNE/N	Sept 11	22.01	17.40	-21	Buy (32)
Johnson & Johnson	JNJ/N	Jan 12	65.45	81.53	+28	Buy (85)
Corning, Inc.	GLW/N	Feb 12	12.61	13.33	+8	Buy (18)
Weyerhaeuser Co.	WY/N	Apr 12	21.89	31.38	+46	Buy (35)
Hewlett-Packard	HPQ/N	Jun 12	22.74	23.84	+7	Buy (30)
Cisco Systems, Inc.	CSCO/N	Sept 12	19.18	20.90	+10	Buy (26)
MetLife	MET/N	Feb 13	37.20	38.02	+3	Buy (45)

RECENTLY CLOSED OUT RECOMMENDATIONS (ALL CATEGORIES)

RECOMMENDATION	SYMBOL/ EXCHANGE (1)	REC. CAT.	BUY ISSUE	PRICE AT BUY	SELL ISSUE	PRICE AT SELL	TOTAL % RETURN (3)
Presstek	PRST/O	Small	June 05	8.58	Apr 12	0.58	-93
Midas	MDS/N	Small	July 08	13.50	May 12	11.50	-15
U.S. Airways	LCC/N	Small	May 09	3.79	June 12	12.69	+235
Sara Lee	SLE/N	Large	Apr 06	15.28	July 12	20.28	+57
Bristol-Myers Squibb	BMY/N	Large	Aug 03	26.07	Aug 12	35.63	+78
ExxonMobil	XOM/N	Large	Oct 10	61.79	Sept 12	87.90	+49
M/I Homes, Inc.	MHO/N	Small	July 10	10.08	Oct 12	19.34	+92
Kraft	KRFT/O	Large	Aug 08	30.24	Nov 12	45.56	+51
Mondelez	MDLZ/N	Large	Aug 08	19.32	Nov 12	26.55	+37
Emerson Electric	EMR/N	Large	Aug 09	36.03	Jan 13	52.14	+60
OfficeMax, Inc.	OMX/N	Small	Nov 11	5.12	Mar 13	12.17	+139
Exide Technologies	XIDE/O	Small	Jul 12	3.36	Mar 13	2.60	-23

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