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Faithfully, *Jean Seaman Luttrell*

## The Value Line View

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*In Three Parts: Part 1 is the Summary & Index. This is Part 2, Selection & Opinion. Part 3 is Ratings & Reports. Volume LXIV, Number 27.*

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### ECONOMIC AND STOCK MARKET COMMENTARY

**The country faces a difficult opening half of 2009.** Results for the final three months of 2008 showed that the U.S. gross domestic product contracted by 3.8%. Reports issued so far this year—ranging from auto sales, to homebuilding, to employment, and to manufacturing—suggest that GDP may fall by 5%, or more, in the first quarter of 2009. Even assuming that last year's stimulus package starts to help (the just-passed stimulus plan will take months to have an effect), it is likely that the economy will contract by 3%, or so, in the second quarter of this year. It is a disturbing economic picture by any account.

**We are cautious about the final six months of this year.** We think the government's most recent efforts (headlined by the passage of the stimulus and tax-cutting package in mid-February) may start to bear fruit by late 2009. However, the fissures in the economy are so deep (notably on the auto and housing fronts) that little more than a token business recovery, at best, appears likely before 2010.

**Housing remains the key part of the recovery equation.** Housing was among the first sectors to struggle in the current severe down cycle, with progressively worse construction and sales numbers

being released since the slump first surfaced three years ago. Unfortunately, the latest surveys are most disheartening, with January housing starts falling still further. Such construction, which is off some 80% in three years, should begin a bottoming out process later this year, as falling prices and more available credit encourage buyers to gradually tiptoe into the icy homebuying waters.

**Industrial activity will need to be watched closely too.** Here, as well, data for January were troubling, with industrial production falling 1.8%, the third sharp monthly drop in a row and the fourth in the past five months. The rate of factory use also declined, a pattern that may continue for several more months, before some hoped-for stabilization starts to emerge.

**Investors remain frightened and fickle,** opting to buy selectively on any hint of good news, but choosing to sell—and often abruptly—when those hopes are dashed soon after.

**Conclusion:** We think high levels of volatility will remain the rule in the equity market until we get favorable economic news that proves to be largely sustainable. Please refer to the inside back cover of *Selection & Opinion* for our Asset Allocation Model's current reading.

#### CLOSING STOCK MARKET AVERAGES AS OF PRESS TIME

	2/11/2009	2/18/2009	% Change 1 week	% Change 12 months
Dow Jones Industrial Average	7939.53	7555.63	-4.8%	-38.8%
Standard & Poor's 500	833.74	788.42	-5.4%	-41.6%
N.Y. Stock Exchange Composite	5252.68	4924.54	-6.2%	-45.1%
NASDAQ Composite	1530.50	1467.97	-4.1%	-36.8%
NASDAQ 100	1227.05	1188.77	-3.1%	-33.2%
American Stock Exchange Index	1403.19	1341.99	-4.4%	-40.2%
Value Line (Geometric)	204.71	191.50	-6.5%	-52.8%
Value Line (Arithmetic)	1308.65	1227.83	-6.2%	-41.6%
London (FT-SE 100)	4234.2	4006.8	-5.4%	-30.8%
Tokyo (Nikkei)	7945.94	7534.44	-5.2%	-44.7%
Russell 2000	447.95	423.18	-5.5%	-39.7%

## Model Portfolios: Recent Developments

### PORTFOLIO I

We are purchasing *McKesson Corp.* shares for Portfolio I this week. The company operates two segments—Distribution Solutions, a distributor of drugs, medical supplies, and health and beauty products, and Technology Solutions, a supplier of healthcare information systems to hospitals, physicians, retail pharmacies, etc. We note that Distribution has been performing well recently, benefiting from the increasing availability of generic drugs. Too, Technology appears to be holding its own, despite the general scaling back of capital budgets in the current business environment. Meanwhile, despite a return of investor support in the wake of the release of the company's December-period financials, the shares still appear to offer respectable upside, making them a good choice for our group. To make room for *MCK* stock, we are selling our holdings in Martek Biosciences. Although the issue remains favorably ranked for Timeliness, the sense is the new addition provides better near-term prospects for the risk being assumed.

### PORTFOLIO II

Bleak economic news, ranging from poor housing starts to soaring unemployment levels, continues to spur on the stock market bears. And, despite the conservative nature of its holdings, Portfolio II is feeling the impact of jittery investors. That said, we are banking on the strength and stability of the companies here, which have become vital amid the growing macroeconomic pressures, to help minimize the damage. Indeed, the portfolio contains a number of industry leaders, such as *Coca-Cola*, *McDonald's*, and *Colgate-Palmolive*. Though not completely recession proof, these companies have been able to maintain earnings momentum, thanks largely to effective cost management and time-tested and geographically diverse revenue streams. In sum, all but one company within Portfolio II holds a Financial Strength rating of A or better. Meantime, retail giant *Wal-Mart Stores* has contributed gains of late, as it continues to benefit from discount-hungry shoppers. We are making no changes to the portfolio this week.

### PORTFOLIO III

As February draws to a close, the bears continue to hold the reins on Wall Street, much to the chagrin of bullish investors and regular observers of Portfolio III. Yet, the group did get some good news recently, when *Medtronic* posted a solid, double-digit share-net advance for its January quarter. The better-than-expected gain was supported by tight cost controls (part of the "ONE Medtronic" savings initiatives) and brisk demand for the medical device maker's latest stents and pain management products. These factors offset reduced sales of heart devices, including pacemakers and implantable cardioverter defibrillators (ICDs) that are used to shock racing hearts back to normal. Looking ahead, we remain impressed with *Medtronic's* long-term prospects. Indeed, over the next 3 to 5 years, we believe that product upgrades will help the company to regain share in the key ICD and spine categories. Also, further cost cuts and inroads in the markets for vascular and neurology products ought to bolster results. Portfolio III is unaltered this week.

### PORTFOLIO I: STOCKS WITH ABOVE-AVERAGE YEAR-AHEAD PRICE POTENTIAL

(primarily suitable for more aggressive investors)

Ratings & Reports Page	Ticker	Company	Recent Price	Timeliness	Safety	P/E	Yield%	Beta	Financial Strength	Industry Name
2573	ACN	Accenture Ltd.	30.33	1	2	10.6	1.6	0.90	A	Computer Software/Svcs
662	AMGN	Amgen	56.41	1	2	12.4	Nil	0.60	A+	Biotechnology
179	BAX	Baxter Int'l Inc.	57.94	1	1	15.8	1.9	0.65	A++	Medical Supplies
2536	HRB	Block (H&R)	21.07	1	3	12.8	2.8	1.00	B+	Financial Svcs. (Div.)
1254	CELG	Celgene Corp.	51.87	1	3	27.6	Nil	0.75	A	Drug
347	CLH	Clean Harbors	49.35	2	3	17.9	Nil	0.85	B++	Environmental
935	CL	Colgate-Palmolive	61.10	2	1	14.9	2.8	0.60	A++	Household Products
1258	ENDP	Endo Pharmac. Hldgs.	22.06	1	3	10.0	Nil	0.70	B++	Drug
328	EXPD	Expeditors Int'l	30.31	2	3	21.7	1.1	1.10	A	Industrial Services
770	ESRX	Express Scripts 'A'	56.16	1	3	15.9	Nil	1.00	A	Pharmacy Services
1261	GENZ	Genzyme Corp.	71.23	2	3	30.2	Nil	0.60	B+	Drug
1262	GILD	Gilead Sciences	48.72	1	2	20.3	Nil	0.70	A	Drug
212	MCK	McKesson Corp.	44.50	1	2	10.5	1.1	0.85	A+	Medical Supplies
2607	ORCL	Oracle Corp.	16.96	1	2	11.8	Nil	0.95	A+	Computer Software/Svcs
478	PX	Praxair Inc.	64.93	2	2	16.4	2.5	1.05	A	Chemical (Specialty)
223	RMD	ResMed Inc.	42.02	1	2	22.7	Nil	0.80	A	Medical Supplies
351	SRCL	Stericycle Inc.	46.19	1	3	24.3	Nil	0.75	B+	Environmental
2009	STRA	Strayer Education	188.90	1	3	29.2	1.1	0.55	A	Educational Services
1287	TEVA	Teva Pharmac. (ADR)	45.78	1	2	15.3	1.1	0.60	A	Drug
230	VAR	Varian Medical Sys.	36.24	2	2	14.0	Nil	0.80	A	Medical Supplies

To qualify for purchase in the above portfolio, a stock must have a Timeliness Rank of 1 and a Financial Strength Rating of at least B+. If a stock's Timeliness rank falls below 2, it will be automatically removed. Stocks in the above portfolio are selected and monitored by Charles Clark, Associate Research Director.

**PORTFOLIO II: STOCKS FOR INCOME AND POTENTIAL PRICE APPRECIATION***(primarily suitable for more conservative investors)*

Ratings & Reports Page	Ticker	Company	Recent Price	Time-liness	Safety	P/E	Yield%	Beta	Financial Strength	Industry Name
1247	ABT	Abbott Labs.	53.93	2	1	14.9	2.7	0.55	A++	Drug
688	ALE	ALLETE	29.13	3	2	12.3	6.0	0.65	A	Electric Util. (Central)
709	T	AT&T Inc.	23.22	3	1	8.1	7.1	0.75	A+	Telecom. Services
399	CVX	Chevron Corp.	66.18	2	1	6.6	3.9	0.90	A++	Petroleum (Integrated)
595	CB	Chubb Corp.	39.40	2	1	6.8	3.4	0.90	A	Insurance (Prop/Cas.)
1960	KO	Coca-Cola	42.60	2	1	13.5	3.8	0.55	A++	Beverage
935	CL	Colgate-Palmolive	61.10	2	1	14.9	2.8	0.60	A++	Household Products
1007	EMR	Emerson Electric	29.87	3	1	10.7	4.5	1.00	A++	Electrical Equipment
1917	HNZ	Heinz (H.J.)	33.00	2	1	12.5	5.3	0.65	A+	Food Processing
1391	ITT	ITT Corp.	41.50	2	1	10.8	1.7	1.00	A+	Diversified Co.
207	JNJ	Johnson & Johnson	55.98	1	1	12.6	3.4	0.55	A++	Medical Supplies
1069	LLTC	Linear Technology	23.22	3	3	22.5	3.8	0.95	B++	Semiconductor
303	MCD	McDonald's Corp.	55.68	1	1	14.7	3.8	0.75	A++	Restaurant
2609	PAYX	Paychex, Inc.	24.01	2	2	16.8	5.2	0.85	A	Computer Software/Svcs
1970	PEP	PepsiCo, Inc.	51.82	2	1	13.8	3.3	0.60	A++	Beverage
1284	SNY	Sanofi-Aventis	29.01	1	1	10.4	5.9	0.70	A+	Drug
1365	SNA	Snap-on Inc.	27.02	3	2	7.2	4.4	1.05	A	Machinery
1954	SYI	Sysco Corp.	23.01	2	1	12.7	4.2	0.65	A++	Food Wholesalers
737	VZ	Verizon Communic.	28.26	2	1	10.7	6.5	0.70	A+	Telecom. Services
2147	WMT	Wal-Mart Stores	48.24	2	1	13.9	2.0	0.60	A++	Retail Store

To qualify for purchase in the above portfolio, a stock must have a yield that is in the top half of the Value Line universe, a Timeliness Rank of at least 3 (unranked stocks may be selected occasionally), and a Safety Rank of 3 or better. If a stock's Timeliness Rank falls below 3, that stock will be automatically removed. Stocks are selected and monitored by Jason A. Smith, Senior Analyst.

**PORTFOLIO III: STOCKS WITH LONG-TERM PRICE GROWTH POTENTIAL***(primarily suitable for investors with a 3- to 5-year horizon)*

Ratings & Reports Page	Ticker	Company	Recent Price	Time-liness	Safety	P/E	Yield%	Beta	3- to 5-yr Appreciation Potential	Industry Name
1201	AFL	Aflac Inc.	17.64	3	3	5.1	6.3	0.90	270 - 380%	Insurance (Life)
768	CVS	CVS Caremark Corp.	27.30	2	2	10.4	1.1	0.80	155 - 250	Pharmacy Services
749	CSCO	Cisco Systems	15.29	3	1	11.8	Nil	0.95	130 - 195	Telecom. Equipment
2179	COH	Coach Inc.	13.97	3	3	7.4	Nil	1.25	185 - 330	Retail (Special Lines)
2322	DIS	Disney (Walt)	17.84	3	1	8.1	2.0	1.00	150 - 290	Entertainment
2628	GOOG	Google, Inc.	342.66	2	3	18.9	Nil	0.90	110 - 215	Internet
2398	HAL	Halliburton Co.	16.36	3	3	6.8	2.2	1.30	175 - 330	Oilfield Svcs/Equip.
1920	HRL	Hormel Foods	30.79	3	1	14.0	2.5	0.70	95 - 145	Food Processing
2336	IGT	Int'l Game Tech.	9.44	5	3	8.6	6.1	1.30	165 - 325	Hotel/Gaming
207	JNJ	Johnson & Johnson	55.98	1	1	12.6	3.4	0.55	70 - 105	Medical Supplies
214	MDT	Medtronic, Inc.	34.56	2	1	11.4	2.3	0.65	130 - 190	Medical Supplies
726	NIHD	NII Holdings	17.64	3	3	7.1	Nil	1.75	410 - 695	Telecom. Services
560	NOC	Northrop Grumman	44.99	3	1	8.7	3.8	0.75	155 - 210	Aerospace/Defense
1970	PEP	PepsiCo, Inc.	51.82	2	1	13.8	3.3	0.60	75 - 110	Beverage
2211	PETM	PetSmart, Inc.	19.44	2	3	12.9	0.6	0.90	55 - 130	Retail (Special Lines)
1282	PFE	Pfizer, Inc.	14.25	3	2	11.0	4.5	0.70	40 - 75	Drug
645	DGX	Quest Diagnostics	50.52	1	3	14.2	0.8	0.70	10 - 70	Medical Services
2344	HOT	Starwood Hotels	12.25	4	3	9.4	7.3	1.50	510 - 800	Hotel/Gaming
648	UNH	UnitedHealth Group	28.42	2	2	9.6	0.1	0.90	95 - 180	Medical Services
1085	XLNX	Xilinx Inc.	17.25	3	3	14.4	3.2	0.95	75 - 160	Semiconductor

To qualify for purchase in the above portfolio, a stock must have worthwhile and longer-term appreciation potential. Among the factors considered for selection are a stock's Timeliness and Safety Rank and its 3- to 5-year appreciation potential. (Occasionally a stock will be unranked (NR), usually because of a short trading history or a major corporate reorganization.) Stocks in the above portfolio are selected and monitored by Justin Hellman, Senior Industry Analyst.

## Industry Analysis: Public/Private Equity

The Public/Private Equity Industry consists of specialty finance companies and alternative investment managers. Firms operating in this industry invest in other companies, fixed income securities, and various assets, usually collecting management and advisory fees, interest income, and investment gains. Competition is keen, as private equity funds, hedge funds, asset managers, and other financial institutions search for attractive investments and seek to retain top talent. In times of economic growth, the number and size of these companies grow, as credit is usually readily available to support investment. When credit dries up, however, the focus shifts toward maintaining liquidity, a healthy balance sheet, and a high quality investment portfolio. Therefore, during economic downturns, companies with sufficient liquidity and performing assets may be able to take advantage of available opportunities, making investments at favorable terms, while competitors pull back or exit certain businesses.

### Alternative Investment Managers

These firms usually raise funds from clients to be invested in a range of assets, including real estate, debt and debt-backed securities, equity, commodities, currencies, and other private equity and hedge funds. The managers earn two fees—one based on assets under management and another on the performance of their funds. Performance-based fees can come with a claw back provision, wherein fees are returned if performance is not realized, or a high watermark provision, which requires fund values to achieve prior levels following periods of underperformance before new performance fees are paid out. Because income is based on assets managed, earnings will be hurt during times of generally declining asset values as well as when the funds experience large client redemption requests. Some companies also make principal investments in their own funds, and receive interest and other distributions from such funds as another source of income.

### Specialty Finance Companies

These firms are typically organized as business development companies (BDCs). They seek to take positions in a number of small and middle-market companies via various forms of debt issuance, which may be supplemented by equity investment. BDCs provide managerial, operations, or other business advice, and usually attain board representation. In addition, BDCs may also receive warrants for ownership rights in their portfolio companies. Depending on the relative attractiveness and availability, BDCs usually borrow funds, though they can sell shares, to fund investments, seeking to make their return on the spread between borrowing and lending rates. They can exit positions through secondary sales, or if the underlying company retires the debt, merges, or undergoes a public offering. Again depending on market conditions, BDCs may also bundle a number of their loans to be sold to other investors, in order to pay down debt or fund further portfolio growth.

These companies usually choose to be taxed as registered investment companies, meaning they must distribute at least 90% of their investment company taxable income (generally ordinary income plus short-term capital gains) to avoid being taxed on the distributed amount. Because of the importance of this dividend, stocks of these companies usually trade based on their anticipated dividend yield. That is, the stock price will vary depending on the size of the distribution that is seen as likely. A metric for cash flow available for distribution is net investment income, as opposed to GAAP earnings, since the GAAP figure includes both realized and unrealized gains and losses. Usually, BDCs plan to hold their securities to maturity, and unrealized charges are not cash flow items, whereas interest income and other received fees are.

### Leverage and Earnings

A company that carries its portfolio investments at market value will tend to have

low Earnings Predictability, because the periodic variability in asset values will be recorded as gains or losses. Although these items may not affect the current distribution, they should not be disregarded, since they may act as an indicator for those investments that can either be sold at a profit or amounts that may not be recovered when exiting the position.

When combined with leverage, asset valuation variability will also increase earnings volatility. During periods of generally rising asset prices, the use of borrowed funds can magnify gains on investments. In periods of declining values, however, losses may exceed the amount invested. Too, companies with excess leverage may be forced to sell assets as they drop in value in order to meet collateral requirements or to avoid tripping debt covenants. For example, BDCs may generally borrow as long as assets are at least two times debt and preferred stock. As a portfolio is written down, the company may need to pay down the outstanding debt with funds that might otherwise be invested or paid out as dividends.

### Other Considerations

Overall, investors should be aware of the general economic climate, a company's underwriting/investing track record, and the industries included in its underlying portfolio investments. For business development companies, proceeds from the issuance of debt or from the sale of shares should be followed by growth in the loan portfolio, as interest income will need to be higher to service the debt load, and dividends will need to be paid to an increasing shareholder base. Similarly, sales of investments should also be invested back into the portfolio. Because these stocks will often trade on the sustainability of the distribution to shareholders, investors should pay attention to the source of earnings and other cash flow measures, as well as the company's ability to cover the dividend.

*William Kuo*  
Analyst



## Income Stocks with Worthwhile Total Return Potential

This screen focuses on stocks with good current dividend yields that have average or better prospects for relative price performance over the next three to five years. This combination should result in a group of stocks with worthwhile total return potential.

In the first two steps of the selection process, we limited the field to equities with Timeliness ranks of 3 (Average), or better, and Safety ranks of at least 3 (Average). Next, we pared our universe with respect to income generation. We selected issues with current dividend yields of at least 4.4%, 100 basis points

(1.0%) above the current median of 3.4% for all dividend-paying stocks under Value Line's review; projected 2012-2014 dividend yields were pegged to be at least 3.0%. At that point, equities with three- to five-year projected price appreciation of less than 140% were cast aside (the current median is 140%). We then selected the remaining issues with a projected average annual total return to 2012-2014 (price gains plus dividends) of at least 29%, which is quite favorable in light of the fact that we may experience a period of lower economic growth with a reduction in available investment returns. Finally, to

be included in our list, a company had to have a financial strength rating of no lower than B, and a recent stock price at least \$10 a share.

Investors seeking above-average current income, along with worthwhile three- to five-year total return potential, may find these equities of interest. We note, however, that a number of the current selections operate in the real estate and real estate management arenas, and the stocks have been bid sharply lower as a result. Accordingly, a careful evaluation should be undertaken before considering a commitment.

<i>Ratings &amp; Reports Page</i>	<i>Ticker</i>	<i>Company</i>	<i>Recent Price</i>	<i>Time-liness</i>	<i>Safety</i>	<i>Current Yield</i>	<i>3-5 Year Est. Yield</i>	<i>3-5 Year Appreciation Potential</i>	<i>3-5 Year Avg. Total Return</i>
709	T	AT&T Inc.	23.22	3	1	7.1%	4.3%	160%	31%
1176	AVB	AvalonBay Communities	41.89	3	3	8.8	3.8	185	34
464	AVY	Avery Dennison	21.33	3	2	8.0	3.0	250	40
2502	BBT	BB&T Corp.	14.26	3	3	13.2	5.0	165	33
1905	CALM	Cal-Maine Foods	22.69	3	3	8.0	3.1	255	41
1989	CM.TO	Can. Imperial Bank	43.60	3	3	8.1	3.6	150	30
436	EPD	Enterprise Products	22.55	2	3	9.7	6.0	145	31
1188	LRY	Liberty Property	18.74	3	3	10.1	5.7	165	33
1189	CLI	Mack-Cali R'lty	18.24	3	3	14.0	4.9	200	38
409	REP	Repsol-YPF ADR	16.57	3	3	9.2	4.5	170	33
1196	VNO	Vornado R'lty Trust	38.15	3	3	10.0	4.6	140	30
1198	WRI	Weingarten Realty	12.57	3	3	17.0	5.7	240	42

## Growth Stocks with Moderate Risk

This list is designed for investors seeking stocks with worthwhile long-term appreciation potential and low-to-moderate risk.

We began by screening for companies whose share earnings have compounded at a minimum 12% annual rate over the past five years and which are expected to at least maintain a 10% annual growth rate over the next 3 to 5 years.

Next, we pared the list to stocks with price appreciation potential of 160% or more over the next three to five years, measured from the mid-point of each issue's target price range. By way of comparison, the current projected median appreciation for the entire Value Line universe is 140%. To control for risk, we required that all stocks selected have a Safety rank of at least 3 (Average). Going one step further, we also set better-than-average hurdles for the

two measures that determine the Safety rank. We required that each company have a Financial Strength rating of B+ or better and a score of 80 or more on the Price Stability Index, the range of which runs from 5 to 100. These factors should help select those companies with lower-than-average risk profiles. Finally, to guard against near-term underperformance, we required a Timeliness rank of at least 3 (Average).

Given these relatively stringent criteria, it isn't surprising that there were not too many issues in our universe that made the final cut. In fact, selecting growth stocks with the combination of worthwhile appreciation potential and low-to-moderate risk remains a difficult task, especially at a time when the prospects for economic activity are weak. Thus, the stocks listed below comprise an elite group. Many growth stocks, including some with better historical and prospec-

tive appreciation potential, were eliminated due to their less-than-stellar marks for Financial Strength or their volatile share price movements. We note, however, that the equities included below are likely to provide investors with worthwhile returns over the next 3 to 5 years, reflecting each issue's prospects for price appreciation during that time frame.

This is a short list, and it draws companies from a narrower range of industries than is usually the case for this screen. Those wanting to hold less-risky stocks with good prospects may consider most of the choices listed below. As always, we strongly urge investors to consult the individual analyses in Part 3, *Ratings & Reports*, before committing to any of the issues that appear in this screen.

Ratings & Reports Page	Ticker	Company	Timeliness	Safety	3-5 Year Apprec. Potential	Annual E.P.S. Growth		Price Stability Index	Financial Strength Rating	Industry	
						Last 5 Years	Next 5 Years				
768	CVS	CVS Caremark Corp.	2	2	200%	14.0%	15.0%	90	A	Pharmacy Services	
749	CSCO	Cisco Systems	3	1	160	22.0	11.5	80	A++	Telecom. Equipment	
2591	DST	DST Systems	2	2	180	14.0	10.0	90	A	Computer Software/Svcs	
2322	DIS	Disney (Walt)	3	1	220	21.5	11.5	90	A	Entertainment	
2594	FISV	Fiserv Inc.	2	2	265	17.5	16.5	90	B++	Computer Software/Svcs	
2597	INTU	Intuit Inc.	1	2	175	21.0	11.0	85	A	Computer Software/Svcs	
2042	558	LMT	Lockheed Martin	2	1	170	26.5	15.5	100	A++	Aerospace/Defense
214	MDT	Medtronic, Inc.	2	1	160	14.5	10.0	95	A++	Medical Supplies	
133	MTD	Mettler-Toledo Int'l	3	3	175	14.0	11.0	90	B+	Precision Instrument	
560	NOC	Northrop Grumman	3	1	185	15.0	13.0	95	A+	Aerospace/Defense	
2607	ORCL	Oracle Corp.	1	2	180	19.5	15.0	85	A+	Computer Software/Svcs	
222	PDCO	Patterson Cos.	3	2	180	17.0	10.0	80	A	Medical Supplies	
228	SYK	Stryker Corp.	2	2	195	24.0	15.0	85	A	Medical Supplies	

## Equity Funds Average Performance

	TOTAL RETURN*				
	Percent Change through January, 2009				
	Year-to-Date	Three Month	Six Month	One Year	Five Year (Annualized)
<b>Performance Objective</b>					
Aggressive Growth	-5.3	-11.9	-36.4	-38.8	-4.7
Growth	-6.5	-12.2	-35.5	-38.8	-4.0
Growth/Income	-7.7	-12.6	-32.8	-37.6	-3.8
Income	-7.4	-10.8	-29.5	-34.4	-2.1
Balanced	-4.6	-6.4	-24.0	-27.7	-1.7
<b>International</b>					
European Equity	-10.2	-11.7	-43.1	-46.9	-1.1
Foreign Equity	-9.5	-9.2	-43.4	-46.9	0.2
Global Equity	-8.0	-10.2	-38.1	-42.0	-2.4
Pacific Equity	-9.0	-5.8	-39.5	-45.4	-0.3
<b>Sector</b>					
Energy/Natural Resources	-1.8	-11.2	-50.0	-44.8	8.2
Financial Services	-16.9	-25.7	-42.6	-52.7	-11.4
Health	-1.1	-2.2	-22.2	-20.6	-0.6
Precious Metals	-0.6	39.8	-27.9	-33.8	9.7
Real Estate	-14.8	-22.8	-46.7	-49.0	-4.5
Technology	-3.0	-10.8	-37.6	-39.3	-7.0
Utilities	-4.1	-3.9	-31.4	-35.5	2.8
<b>Other</b>					
Convertible	-0.7	-0.9	-27.9	-30.3	-2.9
Flexible	-5.4	-7.6	-27.6	-30.6	-2.1
Specialty	-8.4	-12.2	-36.1	-39.5	-3.5
Small Company	-8.6	-14.6	-37.3	-38.7	-4.8
<b>S&amp;P 500</b>	<b>-8.4</b>	<b>-14.1</b>	<b>-34.0</b>	<b>-38.8</b>	<b>-4.3</b>

Source: The Value Line Mutual Fund Survey

\* Dividends plus capital appreciation. Dividends are reinvested as of the ex-dividend date. The returns are arithmetic averages based on the performances of all funds within each category.

## Fixed-Income Funds Average Performance

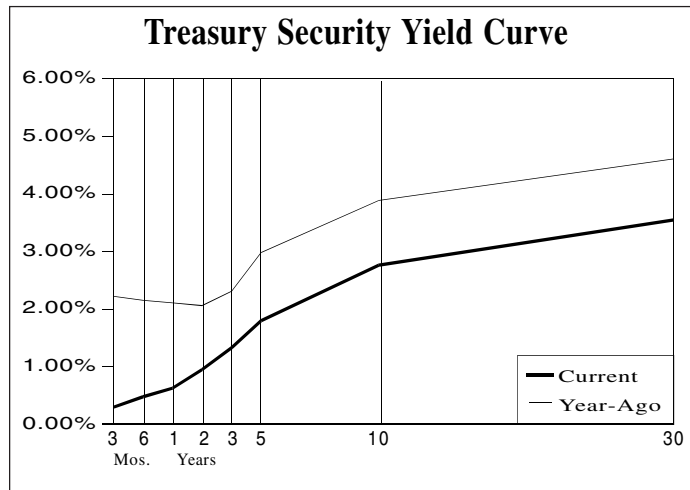
	TOTAL REINVESTMENT*				
	Percent Change through January, 2009				
	Year-to-Date	Three Month	Six Month	One Year	Five Year (Annualized)
<b>U.S. Government and Agency Bond</b>					
U.S. Government	-0.5	4.0	0.7	-0.5	2.4
GNMA	0.5	2.1	-3.0	-5.2	1.5
<b>Corporate Bond</b>					
High Quality	0.2	2.7	-4.9	-8.0	1.0
High Yield	3.6	0.8	-18.2	-20.0	-1.6
International	-1.4	4.7	-11.4	-11.7	1.9
<b>Municipal Bond</b>					
California Tax Exempt	4.6	2.5	-4.2	-6.0	1.0
New York State Tax Exempt	4.2	3.3	-3.4	-5.1	1.1
National Tax Exempt	3.7	2.2	-4.4	-6.2	0.9

Source: The Value Line Mutual Fund Survey

\* The cumulative rate of investment growth, including the reinvestment of dividend income and capital gains distributions as of the ex-dividend date. The investment objective averages are arithmetic averages calculated on the basis of the total reinvested rates of return produced by all funds within each investment objective category.

# Selected Yields

	Recent (2/18/09)	3 Months Ago (11/19/08)	Year Ago (2/20/08)		Recent (2/18/09)	3 Months Ago (11/19/08)	Year Ago (2/20/08)
<b>TAXABLE</b>							
<b>Market Rates</b>							
Discount Rate	0.50	1.25	3.50				
Federal Funds	0.00-0.25	1.00	3.00				
Prime Rate	3.25	4.00	6.00				
30-day CP (A1/P1)	0.52	2.60	3.05				
3-month LIBOR	1.25	2.17	3.08				
<b>Bank CDs</b>							
6-month	0.87	1.59	2.20				
1-year	1.20	1.95	2.19				
5-year	2.14	3.32	2.82				
<b>U.S. Treasury Securities</b>							
3-month	0.30	0.06	2.22				
6-month	0.48	0.65	2.15				
1-year	0.63	0.97	2.11				
5-year	1.80	2.02	2.98				
10-year	2.76	3.32	3.89				
10-year (inflation-protected)	1.61	3.51	1.41				
30-year	3.55	3.91	4.61				
30-year Zero	3.43	3.92	4.76				
<b>Mortgage-Backed Securities</b>							
GNMA 6.5%	4.05	5.82	5.10				
FHLMC 6.5% (Gold)	3.92	5.73	5.31				
FNMA 6.5%	3.78	5.67	5.09				
FNMA ARM	3.90	3.90	5.19				
<b>Corporate Bonds</b>							
Financial (10-year) A	8.33	8.73	5.82				
Industrial (25/30-year) A	6.14	7.23	6.29				
Utility (25/30-year) A	5.74	7.34	6.15				
Utility (25/30-year) Baa/BBB	7.07	8.20	6.33				
<b>Foreign Bonds (10-Year)</b>							
Canada	2.86	3.51	3.93				
Germany	2.99	3.54	4.03				
Japan	1.26	1.48	1.43				
United Kingdom	3.39	4.04	4.69				
<b>Preferred Stocks</b>							
Utility A	6.03	7.10	6.08				
Financial A	13.57	7.94	7.00				
Financial Adjustable A	5.52	5.52	5.52				



<b>TAX-EXEMPT</b>							
<b>Bond Buyer Indexes</b>							
20-Bond Index (GOs)	4.89	5.14	4.47				
25-Bond Index (Revs)	5.67	5.98	4.82				
<b>General Obligation Bonds (GOs)</b>							
1-year Aaa	0.55	1.10	1.70				
1-year A	0.65	1.20	1.80				
5-year Aaa	1.85	2.84	2.80				
5-year A	2.15	2.94	3.10				
10-year Aaa	2.90	3.83	3.55				
10-year A	3.40	4.03	3.84				
25/30-year Aaa	4.72	5.20	4.64				
25/30-year A	5.72	5.60	4.77				
<b>Revenue Bonds (Revs) (25/30-Year)</b>							
Education AA	5.80	5.85	4.80				
Electric AA	5.90	5.90	4.80				
Housing AA	6.15	6.00	5.10				
Hospital AA	6.10	6.10	5.15				
Toll Road Aaa	5.95	5.95	4.80				

# Federal Reserve Data

## BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

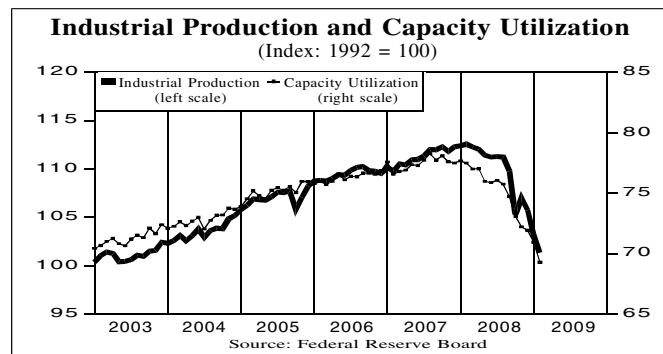
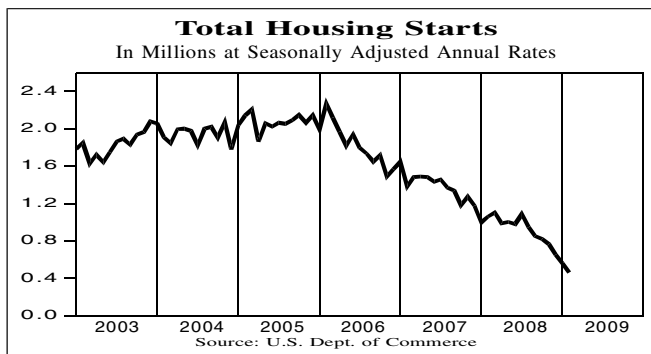
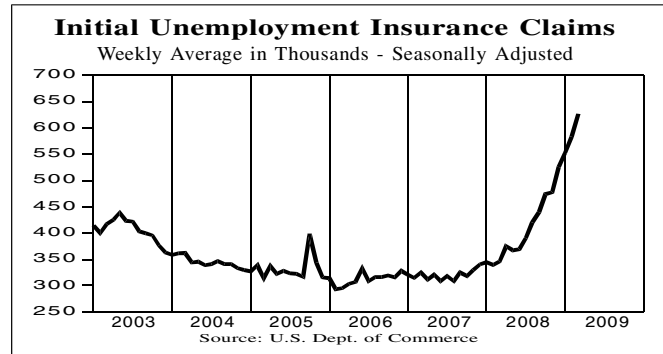
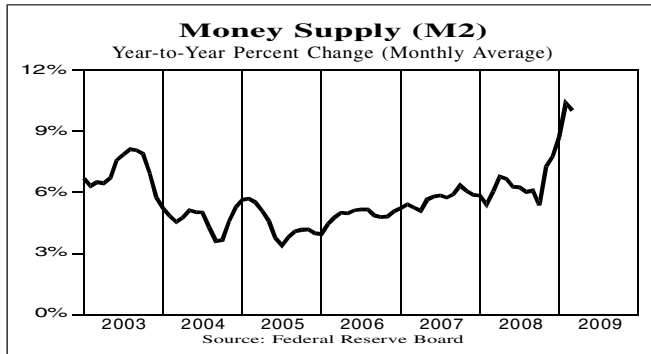
	Recent Levels			Average Levels Over the Last...		
	2/11/09	1/28/09	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	611390	793044	-181654	716470	419399	218520
Borrowed Reserves	561332	565099	-3767	627457	505338	324816
Net Free/Borrowed Reserves	50058	227945	-177887	89012	-85939	-106296

## MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	2/2/09	1/26/09	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1568.0	1548.2	19.8	11.6%	23.3%	13.6%
M2 (M1+savings+small time deposits)	8249.6	8277.4	-27.8	17.6%	14.8%	9.6%

## Tracking the Economy



## Major Insider Transactions†

### PURCHASES

Latest Full-Page Report	Timeliness Rank	Company	Insider, Title	Date	Shares Traded	Shares Held	Price Range	Recent Price
596	3	Cincinnati Financial	J.J. Schiff Jr., Chair.	2/6/09	44,000	4,124,937	\$22.07	21.24
2370	4	Harte-Hanks	L. Franklin, CEO	2/10/09	100,000	1,249,691	\$6.10	5.98
1039	3	Micrel Inc.	R.D. Zinn, CEO	2/11/09	200,000	11,509,346	\$6.25	7.36
758	4	Motorola, Inc.	G.Q. Brown, CEO	2/6/09	525,000	2,178,303	\$3.83	3.70
758	4	Motorola, Inc.	S.K. Jha, Officer	2/5/09	200,000	3,867,422	\$3.67	3.70
2514	4	PNC Financial Serv.	P.W. Chellgren, Dir.	2/5/09	10,000	12,640	\$29.79-\$29.87	26.47
2519	4	SunTrust Banks	A.D. Correll, Dir.	2/10/09	50,000	146,764	\$9.27	7.11

### SALES

Latest Full-Page Report	Timeliness Rank	Company	Insider, Title	Date	Shares Traded	Shares Held	Price Range	Recent Price
1247	2	Abbott Labs.	L.J. Schumacher, V.P.	2/6/09	37,700	104,142	\$57.00-\$57.03	53.93
2162	3	Aerpostale	J.R. Geiger, Chair.	2/9/09	203,152	123,796	\$23.03	21.70
2190	3	Gap (The), Inc.	J.J. Fisher *	2/6/09	675,183	19,794,992	\$11.86	11.41
1425	4	Goldman Sachs	M.S. Sherwood, Officer	2/4/09	45,000	3,977	\$83.12	85.71
2604	3	Microsoft Corp.	W.H. Gates III, Dir.	2/3/09-2/4/09	5,000,000	760,132,479	\$18.18-\$18.82	18.09
871	3	NVR, Inc.	J.M. Toups, Dir.	2/9/09	4,000	8,839	\$412.20	375.14
1304	3	Robert Half Int'l	F.P. Furth, Dir.	2/5/09	144,000	113,872	\$17.34	16.62

\* Beneficial owner of more than 10% of common stock.

† Includes only large transactions in U.S.-traded stocks; excludes shares held in the form of limited partnerships, excludes options & family trusts.

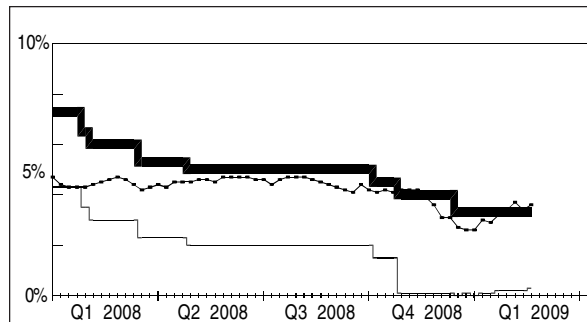
Major Insider Transactions are obtained from Vickers Stock Research Corporation.

# Market Monitor

Valuations and Yields	2/18	2/11	13-week range	50-week range	Last market top (7-13-2007)	Last market bottom (10-9-2002)
Median price-earnings ratio of VL stocks	11.7	11.8	10.1 - 12.4	10.1 - 17.2	19.7	14.1
P/E (using 12-mo. est'd EPS) of DJ Industrials	17.1	14.8	12.3 - 17.1	11.7 - 17.1	16.1	15.2
Median dividend yield of VL stocks	3.5%	3.4%	3.0 - 3.6%	2.1 - 3.6%	1.6%	2.4%
Div'd yld. (12-mo. est.) of DJ Industrials	3.9%	3.7%	3.5 - 3.9%	2.5 - 3.9%	2.2%	2.6%
Prime Rate	3.3%	3.3%	3.3 - 4.0%	3.3 - 6.0%	8.3%	4.8%
Fed Funds	0.3%	0.2%	0.0 - 1.0%	0.0 - 3.0%	5.3%	1.8%
91-day T-bill rate	0.3%	0.3%	0.0 - 0.3%	0.0 - 1.9%	5.0%	1.6%
AAA Corporate bond yield	5.2%	5.1%	4.7 - 5.5%	4.7 - 6.3%	5.8%	6.1%
30-year Treasury bond yield	3.6%	3.4%	2.6 - 3.7%	2.6 - 4.7%	5.1%	4.7%
Bond yield minus average earnings yield	-3.4%	-3.4%	-4.6 - -3.0%	-4.6 - -0.2%	0.7%	-1.0%
<b>Market Sentiment</b>						
Short interest/avg. daily volume (5 weeks)	9.1	9.4	8.7 - 10.9	7.3 - 16.2	8.1	5.3
CBOE put volume/call volume	1.01	.78	.78 - 1.06	.78 - 1.26	.91	.96

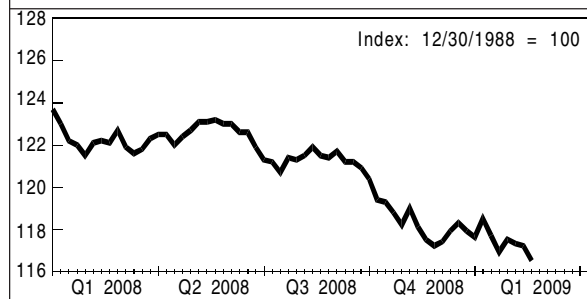
**VALUE LINE ASSET ALLOCATION MODEL**  
*(Based only on economic and financial factors)*

	Current (effective 10/24/08)	Previous
<b>Common Stocks</b>	75%-85%	70%-80%
<b>Cash and Treasury Issues</b>	25%-15%	30%-20%



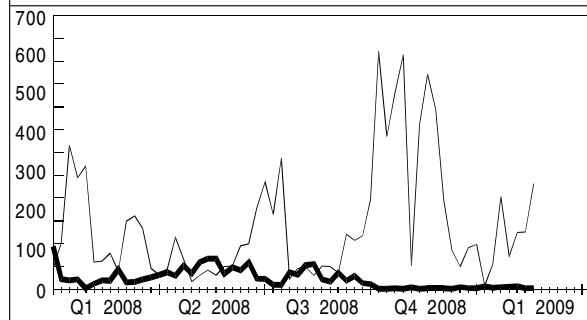
**INTEREST RATES**

	Recent	Previous Week
<b>Prime Rate</b>	3.3%	3.3%
<b>Federal Funds</b>	0.3%	0.2%
<b>30-Year Treasury Bond</b>	3.6%	3.4%



**VALUE LINE UNIVERSE**

	Recent	Previous Week
Advances	314	757
Declines	1379	930
Issues Traded	1704	1701
Market Value (\$ Trillion)	11.037	11.555



**VALUE LINE COMPOSITE**

	Recent	Previous Week
<b>New Highs</b>	6	5
<b>New Lows</b>	463	252

**INDUSTRY PRICE PERFORMANCE**  
**LAST SIX WEEKS ENDING 2/17/2009**

**7 Best Performing Industries**

Water Utility	+13.7%
Tobacco	+2.1%
Medical Supplies	+1.7%
Oil/Gas Distribution	-1.7%
Medical Services	-2.7%
Drug	-3.0%
Natural Gas Utility	-4.2%

**7 Worst Performing Industries**

Bank	-47.0%
Newspaper	-46.2%
Insurance (Life)	-44.9%
Bank (Midwest)	-44.5%
Hotel/Gaming	-42.3%
Auto Parts	-42.1%
Entertainment	-35.9%

**The corresponding change in the Value Line Arithmetic Average is -17.6%**

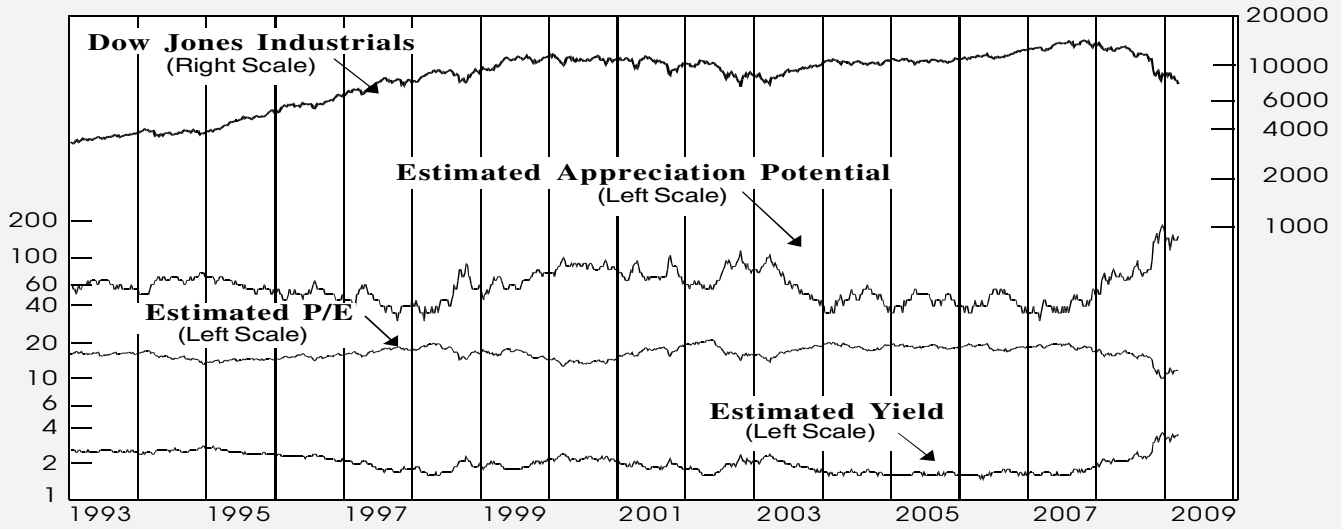
**CHANGES IN FINANCIAL STRENGTH RATINGS**

Company	Prior Rating	New Rating	Ratings & Reports Page
Bard (C.R.)	A	A+	178
Baxter Int'l	A+	A++	179
CBS Corp.	B++	B	2321 *
Cutera Inc.	B+	B	191
Cyberonics, Inc.	C+	B	192
Dow Chemical	A	B+	1237 *
Keithley Instruments	B+	B	131
McKesson Corp.	A	A+	212

\* Supplementary report in this week's Ratings & Reports.

# Stock Market Averages

**VALUE LINE ESTIMATED P/E, YIELD, APPRECIATION POTENTIAL  
VERSUS DOW JONES INDUSTRIALS (JANUARY 2, 1993 - FEBRUARY 17, 2009)**



**THE VALUE LINE GEOMETRIC AVERAGES**

	Composite 1672 stocks	Industrials 1557 stocks	Rails 8 stocks	Utilities 107 stocks
2/12/2009	205.43	164.50	1784.06	199.84
2/13/2009	204.26	163.51	1780.51	199.86
2/16/2009		HOLIDAY		
2/17/2009	193.73	155.04	1683.30	190.41
2/18/2009	191.50	153.28	1690.44	186.92
%Change last 4 weeks	-9.0%	-9.1%	-0.9%	-7.7%

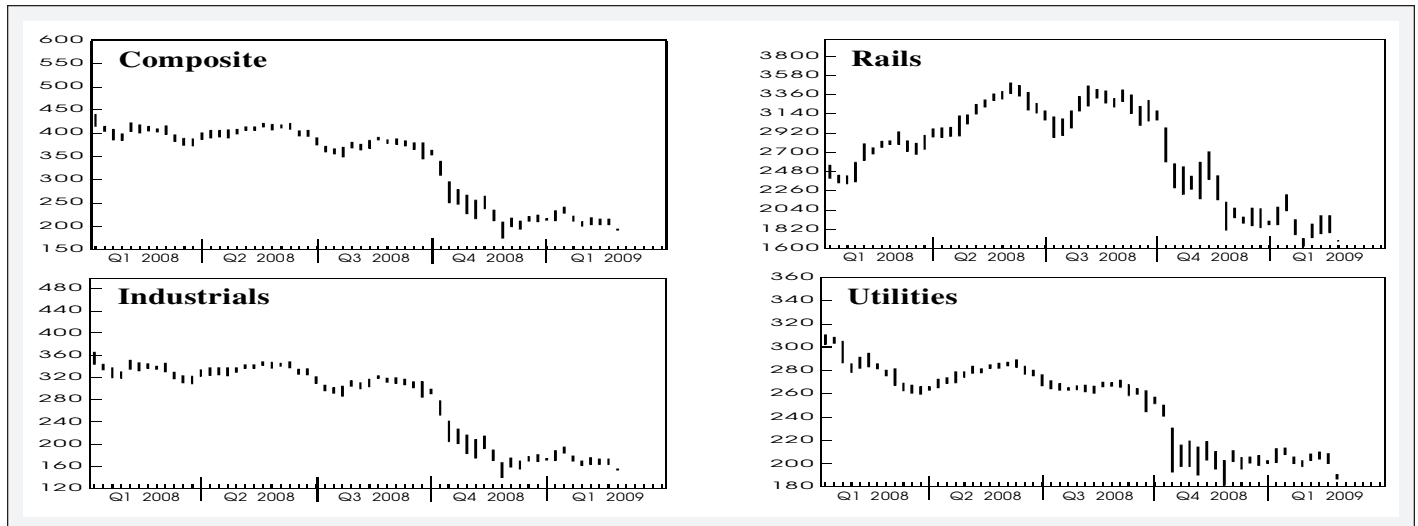
**Arithmetic  
Composite  
1672 stocks**

1314.07
1307.47
HOLIDAY
1241.34
1227.83
-7.5%

**THE DOW JONES AVERAGES**

Composite 65 stocks	Industrials 30 stocks	Transportation 20 stocks	Utilities 15 stocks
2787.05	7932.76	2986.98	366.53
2762.98	7850.41	2957.28	365.37
	HOLIDAY		
2640.76	7552.60	2803.62	347.77
2621.72	7555.63	2765.88	342.20
-8.2%	-8.2%	-9.7%	-6.6%

**WEEKLY VALUE LINE GEOMETRIC AVERAGES (JANUARY 2, 2008 - FEBRUARY 18, 2009)**



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