FORTREND SECURITIES

Research Report

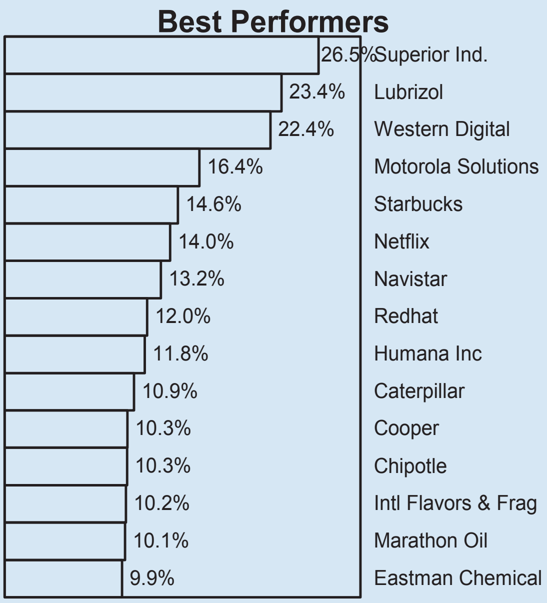
4 April 2011

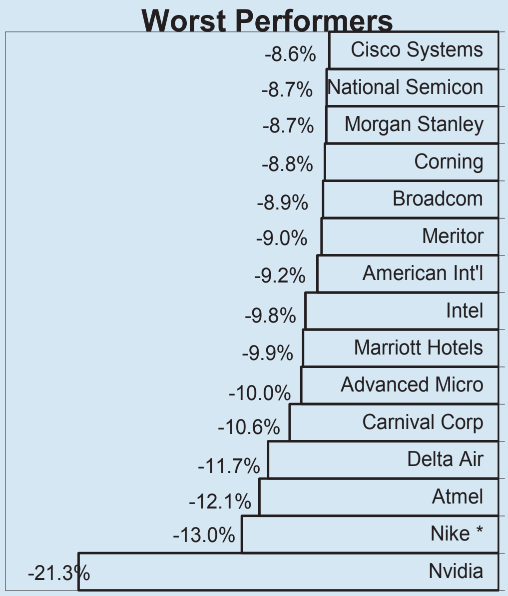
Joe Forster
Chief Executive Officer

Asymmetric risk adjusted returns

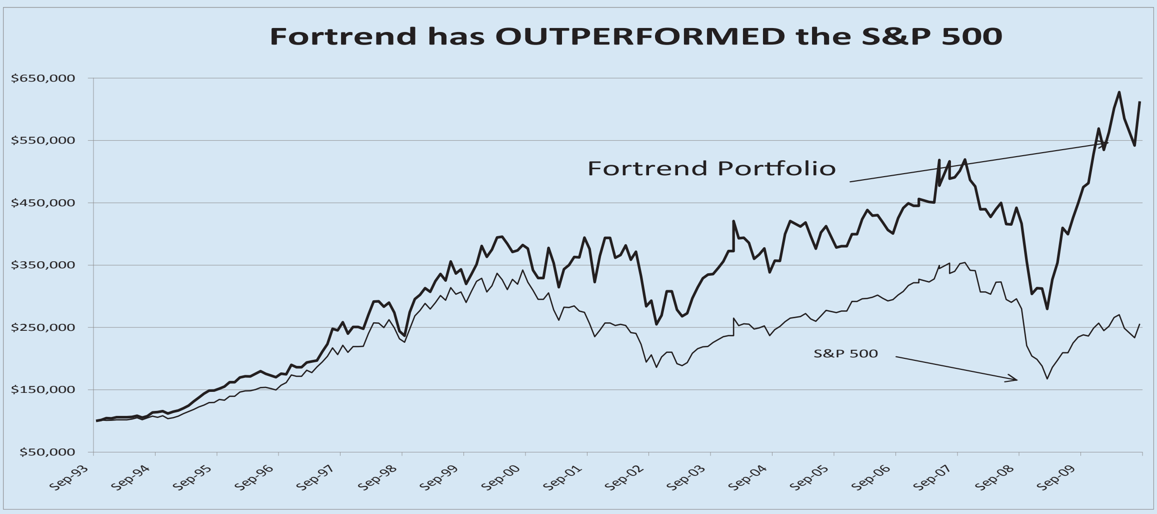
In March the S&P 500 rose 0.9%, and earnings estimates were increased by 1.0%. The forward P/E was unchanged at 12.1. The 10 year treasury yield rose to 3.45%

Today we recommend **buying Nike with the proceeds generated from the sale of the European ETF, which was sold on Jan 28th in anticipation of a deepening debt crisis.**





Auto stocks were the best performing sector this month, up 7.2%, and Chemical stocks were up 6.2%. Electrical Manufacturing rose 5.9%. The worst performing sector was Semiconductors, down 3.5%, while financial stocks fell 2.5% and software was off 1.1%.



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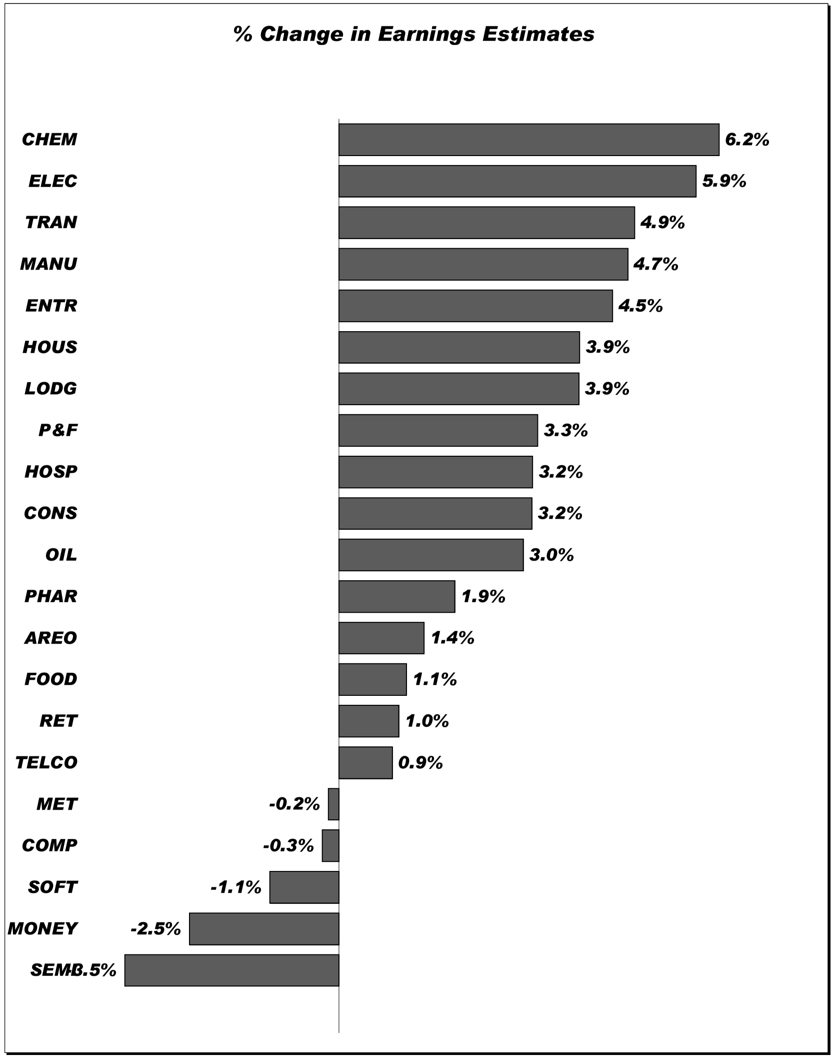
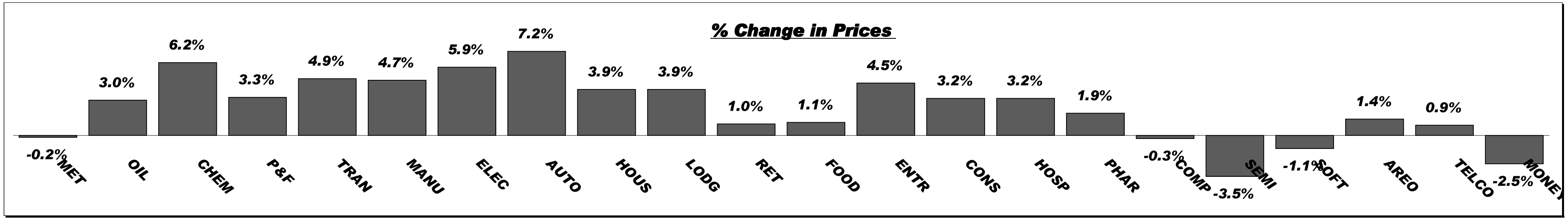
Relative Value Model

	April 2011
Plus Percentage Change in Price/Book	1.5%
Minus Percentage Change in ROE 2012..................	1.5%
Equals Percentage change in P/E 2012	-0.1%
Current P/E 2012	12.1
10 year Treasury Yield	3.5%
Equity Discount / Premium	-140%

	Nov 10	Dec 09	Dec 08	Dec 07	Dec 06	Dec 05
Forcasted P/E..	17.1	18.1	17.5	15.0	15.6	15.8
10 year Treasury Yield	4.1%	4.6%	4.2%	4.3%	4.4%	4.6%
Equity Discount / Premium	-43%	-20%	-36%	-54%	-45%	-38%

	Dec 04	Dec 03	Dec 02	Dec 01	Dec 00	Dec 99
Forcasted P/E..	17.1	18.1	17.5	22.4	20.8	25.9
10 year Treasury Yield	4.1%	4.6%	4.2%	4.4%	5.5%	6.2%
Equity Discount / Premium	-43%	-20%	-36%	-3%	13%	38%



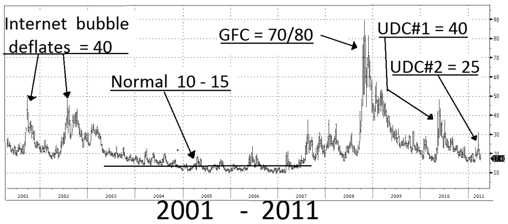


The VIX

The Chicago Board Options Exchange (CBOE) Volatility Index reflects a market estimate of future volatility, based on the weighted average of the implied volatilities for a wide range of strikes.

From the following graph, you can see that after the internet bubble, while markets tumbled 50% from highs, the VIX index jumped to 40 twice. Then, for four years, while markets consolidated, the VIX fell to more normalized levels of 10-15.

CBOE SPX VOLATILITY INDEX



2001 - 2011

In the year prior to the GFC you can see the VIX rising, and then bang, it soared to 70/80.

The shock of the GFC dissipated over a year, but in 2010 the European debt crisis emerged and again the VIX jumped, this time to 40, about the same volatility that we witnessed in the deflating of the dot.com bubble.

Last year Fortrend wrote that three things move markets: Earnings, Interest rates and Risk. We wrote about the risk curve, concluding the market was susceptible to spikes in risk.

We showed that earnings for U.S. companies had recovered to 90% of the long term average growth rate, and corporate debt (outside banking and REITs) was conservative. Regarding interest rates, we showed that rates were well below long term trends, and we concluded that there was 40% downside in markets when rates go back to levels that promote long term growth and price stability. However, we demonstrated that rates cannot go up until public (U.S. Government) and private (mortgage holders) have worked off more debt. In other words, increasing rates would apply too much pain to the U.S. government interest expense, and too much pain for consumers who still have marginal equity in their homes.

In conclusion, we said that the U.S. economic DCF analysis is over leveraged and sensitive to a rise in rates. The leverage increases risks that external shock events will drive the VIX up, and stock prices into gyrations, creating opportunities to sell options: either as a buy/write strategy to enhance yield, or a sell strategy to get set with quality stocks with lower entry costs.

U.S. DCF vs. 3 External Shock Events

QE2 is in full swing, and it appears to be having a continuing effect despite the run up on markets in anticipation of the bond purchases. The U.S. economy is flush with cash, but M2 has not exceeded inflationary growth rates. Higher oil and food prices are affecting the PPI, which was up almost 6% this month, but GDP, capacity utilization, and most importantly jobs and housings sales are showing slow but steady signs of improvement. This is giving markets confidence that private and public debt can be reduced over time, which is taking risk out of the market, and P/E’s are expanding.

Charles Evans, the president of the Federal Reserve Bank of Chicago said that recent reports showing sustainable economic expansion won’t alter the central banks plans to purchase $600 billion of treasuries through June.

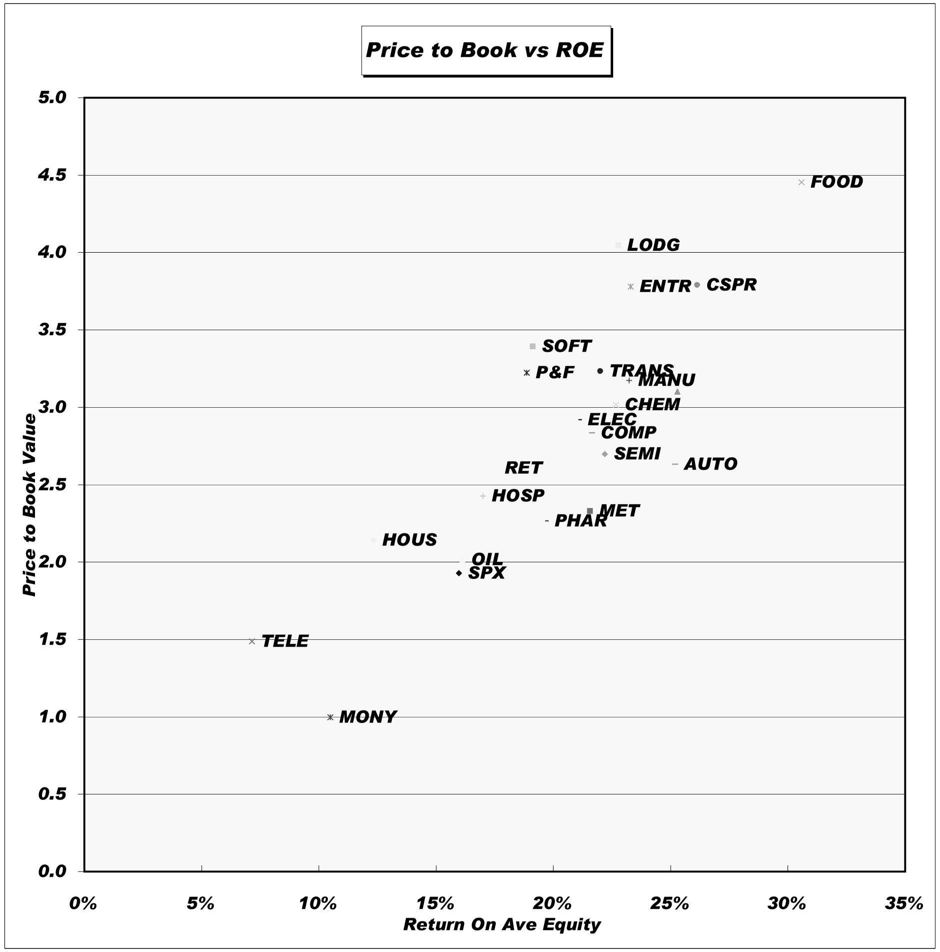
However, we at Fortrend remain very concerned about the trade balance, which remained stubbornly high at $45 billion this month. As China and OPEC countries accumulate US dollars, they invest back into U.S. dollar assets, such as bonds, stocks and real estate. The money is backed up, and looking aggressively to invest, creating a liquidity surplus.

Event 1: Political Unrest

The trade balance coupled with the Chinese currency policy has the net effect of exporting inflation from the U.S. to China in

THE RELATIVE VALUE MODEL

Company	Code	Price	X Shares Outstanding	=	Market Cap	Equity 10A	EPS 11E	Div 11E	=	Equity 11E	EPS 12E	Div 12E	=	Equity 12E	Price/ Book	ROE 12E	Projected Sales 12E	Price/ Sales	ROS 12E	P/E 12E	Yield
S&P 500	***SPX*** SPX Ir	1,332	1	=	1,332	578	96.97	25.29	=	650	110.43	28.22	=	732	**1.9**	**16.0%**	1,089	**1.2**	**10.1%**	12.1	2.1%
RAW MATERIALS																					
Metals	***MET***	49.08	472	=	20,794	8,242	4.05	0.72	=	9,632	4.81	0.81	=	11,192	**2.3**	**21.6%**	12,857	**2.1**	**18.3%**	11.5	1.8%
Oil	***OIL***	86.44	1,267	=	109,846	45,913	6.37	1.25	=	52,884	7.34	1.31	=	60,736	**2.0**	**16.1%**	111,728	**1.9**	**15.0%**	12.9	1.5%
INDUSTRIAL CYCLICAL																					
Chemicals	***CHEM***	74.31	287	=	16,375	4,789	5.34	1.09	=	5,572	5.72	1.16	=	6,496	**3.0**	**22.7%**	13,322	**1.5**	**11.2%**	13.5	1.7%
Paper, Forest Packagin	***P&F***	35.82	213	=	7,675	2,716	2.03	1.12	=	2,955	2.44	1.16	=	3,266	**3.2**	**18.9%**	7,432	**1.8**	**9.5%**	17.1	2.8%
Transportation	***TRANS***	53.04	391	=	18,980	5,295	3.07	0.76	=	6,195	3.83	0.81	=	7,365	**3.2**	**22.0%**	22,168	**1.1**	**7.6%**	14.3	1.2%
Manufacturing	***MANU***	55.92	237	=	14,857	4,003	3.53	1.05	=	4,647	4.02	1.11	=	5,404	**3.2**	**23.2%**	10,630	**1.3**	**9.0%**	13.9	1.7%
Electrical	***ELEC***	76.64	1,308	=	45,309	17,563	4.83	1.19	=	19,430	5.70	1.28	=	21,732	**2.9**	**21.1%**	33,692	**1.3**	**9.3%**	13.5	1.8%
CONSUMER CYCLICAL																					
Automobile	***AUTO***	45.53	503	=	12,370	1,695	3.07	0.36	=	2,729	4.02	0.38	=	3,931	**2.6**	**25.2%**	22,940	**0.8**	**6.5%**	10.9	0.7%
Housing	***HOUS***	101.55	166	=	4,403	2,116	4.80	0.61	=	2,204	6.66	0.63	=	2,380	**2.1**	**12.3%**	5,858	**1.0**	**4.3%**	61.7	1.6%
Lodging	***LODG***	57.46	396	=	17,629	4,689	2.46	0.72	=	5,284	2.91	0.81	=	5,968	**4.0**	**22.8%**	9,195	**1.8**	**10.3%**	18.2	2.1%
Retail	***RET***	67.92	670	=	35,349	11,585	4.04	0.58	=	13,342	4.58	0.62	=	15,338	**2.6**	**17.5%**	64,353	**0.9**	**6.3%**	14.5	1.5%
CONSUMER NON-CYCLICALS																					
Food	***FOOD***	44.04	745	=	36,178	9,075	2.74	1.30	=	10,260	2.99	1.40	=	11,583	**4.5**	**30.6%**	21,507	**1.6**	**10.8%**	14.8	3.3%
Entertainment	***ENTR***	51.99	823	=	27,184	11,908	2.84	0.46	=	13,321	3.38	0.45	=	15,033	**3.8**	**23.3%**	19,629	**1.4**	**10.7%**	13.9	1.1%
Consumer Prod.	***CSPR***	53.33	462	=	26,686	7,429	3.09	0.98	=	8,353	3.54	1.08	=	9,369	**3.8**	**26.1%**	14,848	**1.4**	**9.7%**	15.1	1.9%
Health Care	***HOSP***	73.96	517	=	20,577	8,352	4.22	0.52	=	9,574	4.72	0.56	=	10,937	**2.4**	**17.0%**	26,099	**2.1**	**13.6%**	14.5	1.0%
Pharmaceuticals	***PHAR***	44.56	1,740	=	60,782	25,228	3.64	0.91	=	28,817	3.84	0.95	=	32,508	**2.3**	**19.7%**	25,325	**2.5**	**21.9%**	11.7	2.5%
TECHNOLOGY																					
Computers	***COMP***	71.44	1,414	=	74,326	18,311	4.94	0.27	=	23,798	5.62	0.28	=	29,957	**2.8**	**21.7%**	45,350	**2.1**	**15.6%**	13.4	0.3%
Semiconductors	***SEMI***	22.37	1,073	=	22,073	8,671	1.58	0.23	=	10,101	1.76	0.23	=	11,719	**2.7**	**22.2%**	10,905	**2.1**	**16.9%**	12.3	1.0%
Software	***SOFT***	88.31	1,482	=	57,328	13,973	5.03	0.21	=	17,449	5.68	0.22	=	21,314	**3.4**	**19.1%**	16,458	**4.1**	**22.8%**	18.7	0.6%
Aerospace	***AERO***	70.88	329	=	23,784	7,227	5.76	1.36	=	8,404	6.40	1.46	=	9,816	**3.1**	**25.3%**	28,844	**0.9**	**7.4%**	11.8	2.0%
Telecom	***TELE***	29.43	2,292	=	61,350	36,412	1.66	1.08	=	37,593	1.83	1.10	=	39,203	**1.5**	**7.1%**	46,688	**1.6**	**9.9%**	15.5	3.4%
Financial Inst.	***MONY***	45.51	5,999	=	98,211	109,929	4.06	0.46	=	117,937	4.94	0.67	=	127,060	**1.0**	**10.5%**	63,906	**1.6**	**17.4%**	9.5	1.9%



Price to Book vs ROE
Price to Book Value
Return On Ave Equity
0.0
0.5
1.0
1.5
2.0
2.5
3.0
3.5
4.0
4.5
5.0
0%
5%
10%
15%
20%
25%
30%
35%
FOOD
LODG
ENTR
CSPR
SOFT
P&F
TRANS
MANU
CHEM
ELEC
COMP
SEMI
AUTO
RET
HOSP
MET
PHAR
HOUS
OIL
SPX
TELE
MONY

Price to Sales vs Return on Sales
Price to Sales
Return on Sales
0.0
0.5
1.0
1.5
2.0
2.5
3.0
3.5
4.0
4.5
0%
5%
10%
15%
20%
25%
SOFT
PHAR
COMP
SEMI
MET
HOSP
OIL
MONY
CHEM
SPX
TRANS
HOUS
RETAERO
AUTO

times like this where China is growing much faster. Because food is a much higher percentage of consumer expenditures, the price increases are creating lot of pain, and thus civil unrest and civil wars. This civil unrest in Egypt, Libya and Bahrain has driven the price of WTI May oil futures past $108 per barrel. Corn, Wheat, and Sugar prices have all nearly doubled. (All of these exposures can be traded via ETF's).

Civil unrest and surging oil prices are likely to have a larger negative impact on trading partners than on U.S. economic activity, and war in the middle east has had a minimal impact on the risk curve for U.S. stocks. However, if unrest continues, and oil goes to $150, the U.S. GDP will be cut by about 1%, reducing growth to 2% compared to 3.1% growth in 4Q10.

Event 2: Japan

The earthquake and nuclear disasters in Japan are estimated to cost 16-25 trillion yen, or US$200-$300 billion. Japan has a GDP of just under $5 trillion, so the cost to rebuild will equal 4-6% of GDP over three years. Japan's GDP is slightly more than 1/3 the size of the US. With already low interest rates, and high public debt levels, Japan "lost" the last decade, and is likely to lose the next decade because they don't seem to deal with dismantling inefficient sectors of the economy and rebuilding. (Fortrend has previously discussed the velocity of creative destruction concept).

The Nikkei 225 dropped 20%, and then recovered to end the month down about 8%. There is a pervasive view that rebuilding can be better for the economy than the negative effect of increasing public debt to cover the costs. We don't agree, and think the recovery in the Nikkei us unjustified. More bad news is likely to leak out over time, unlike public U.S. companies which tend to get all the bad news out early.

The U.S. markets fell 6% on three shock events, and recovered the whole amount by the end of the month. We had expected more weakness, but steady economic data countered the effect of the shock events.

Event 3: EDC

The European Debt Crisis is probably the most relevant to the U.S. risk curve (DCF of interest obligations for consumers and government).

Irish 10 year bonds have dropped and yield spreads jumped to about 10% over the benchmark German 'Bunds' which yield 3.37%. The government has instructed banks to raise €24 billion to improve debt coverage ratios, but has also told the ECB that they don't want to borrow money from them, and prefer to force investors to take a haircut. Ireland's position strikes fresh fear into broader European markets because European banks are the primary investors, and if they lose money on Irish debt, it will cause a negative feedback loop.

In Portugal, the budget deficit remains too high, at 8.6% of GDP, and their 10 year sovereign debt now yields 8.5%. Portuguese parliament rejected Prime Minister Jose Sacrates's deficit-cutting plan, and he was forced out of office last month.

The flexibility of the ECB is limited to targeting inflation for the zone, with no real influence on national fiscal policies, so effective solutions appear to be limited to ones that require longer term work outs. The velocity of creative destruction is much slower than the U.S.

The fresh European crisis contributed to the 6% drop in the S&P this month, but did not do further damage because the slow velocity is built into expectations.

Conclusion: The slow and steady improvement in U.S. economic data has countered the 3 shock events, and the 6% dip in markets was quickly recovered.

During the period we recommended selling the European ETF, and raising cash in anticipation of further fallout from the crisis. However, the market proved resilient, and we now feel it is the right time to deploy cash raised from selling the European ETF to buy Nike.

Nike	$ 77.41 NEW BUY
Market Capitalization	**$ 37.0 bil**
Sales ’12	**$ 22.5 bil**
Profit ’12	**$ 2.3 mil**
P/E ’12 (May)	**16.2**

NIKE, Inc. designs, develops, and markets athletic footwear, apparel, equipment, and accessory products for men, women, and children. The Company sells its products worldwide to retail stores, through its own stores, subsidiaries, and distributors.

Bad news for Nike creates an opportunity.

Nike is the world's #1 maker of athletic footwear and apparel, with two thirds of sales from outside the U.S. Nike distributes though some 690 Nike-owned retail stores worldwide and through about 23,000 retail accounts in the US and via independent distributors and licensees in other countries.

87% of sales are under the Nike brand, and 50% of sales are footwear. The other 13% is sold under brands Nike Golf, Cole Haan, Converse and Umbro.

Nike picked up Umbro in 2008 for $576 million, gaining a strong foothold in the soccer world. This represents significant expansion potential for the company.

In 2012 they will replace Reebok as the NFL branded apparel. Their stock price performed extremely well when they had this license previously.

The stock price fell 13% this month, and 10% on the day they announced earnings. It was the first miss in 19 quarters, and the market overreacted. Nike reported earnings of $1.08 vs estimates of $1.12, caused by increased prices for cotton, labor and transportation. Management say they will raise prices and cut marketing costs to get margins back up.

This miss does not deserve a 13% sell off, and this creates an opportunity. Speak to your advisor about selling puts to get set. Volatility had driven up premiums. Sell an April strike 80 put for $3.15.

Dr Pepper Snapple	$ 37.51 BUY
Market Capitalization	**$ 8.4 bil**
Sales ’12	**$ 6.1 bil**
Profit ’12	**$ 639 mil**
P/E ’11 (Nov)	**12.6**

Dr Pepper Snapple Group, Inc. is an integrated brand owner, bottler and distributor of non-alcoholic beverages in the United States, Canada and Mexico. The Company offers flavored carbonated and non-carbonated soft drinks, teas, juices, juice drinks and mixers.

Dr Pepper Snapple is the leading producer of flavored beverages in North America and the Caribbean. Success is fueled by more than 50 brands that are synonymous with refreshment, fun and flavor. They have 6 of the top 10 non-cola soft drinks, and 9 of our 12 leading brands are No. 1 in their flavor categories. In addition to Dr Pepper and Snapple brands, the portfolio includes Sunkist soda, 7UP, A&W, Canada Dry, Crush, Mott's, Squirt, Hawaiian Punch, Penafiel, Clamato, Schweppes, Venom Energy, Rose's and Mr & Mrs T mixers.

Fourth quarter sales rose 4% to $1,412 million on volume and price increases. Productivity gains were partially offset by higher ingredient, packaging and transportation costs. Profits before abnormal items were $112 million, or 67 cents per share vs. estimates of 64 cents. The company provided marginally higher guidance for sales and profits for next year. The stock price had a nice jump on the news, more than making up for weakness prior to the announcement.

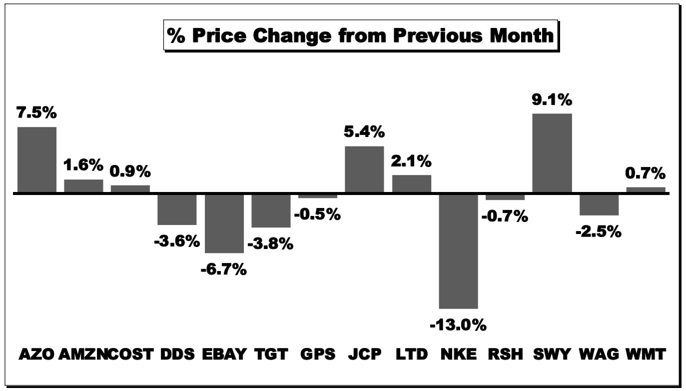
Our reason for buying the stock remains. Dr Pepper has profit margins at about half that of Coke and Pepsi soft drink operations. Management’s freedom from Cadbury and incentives to improve margins are the right ingredients for the stock price to double.

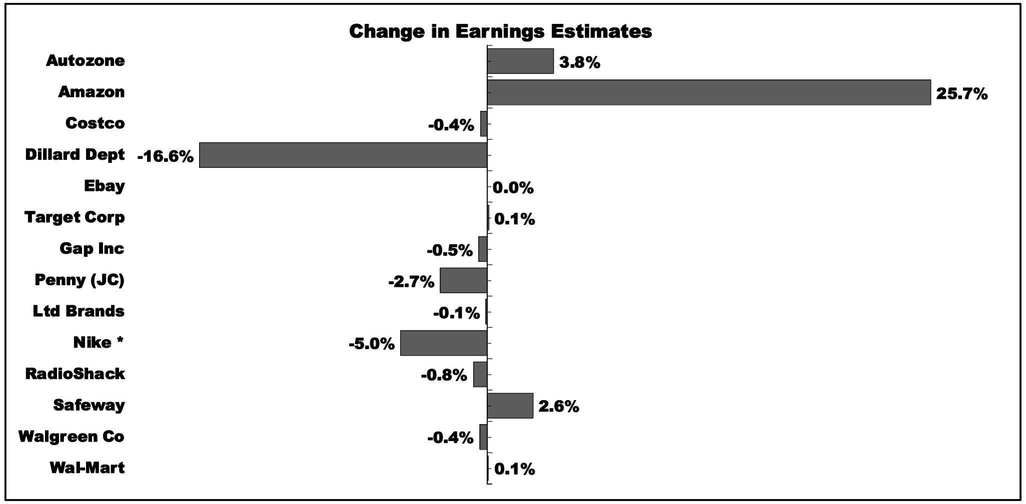
RETAIL

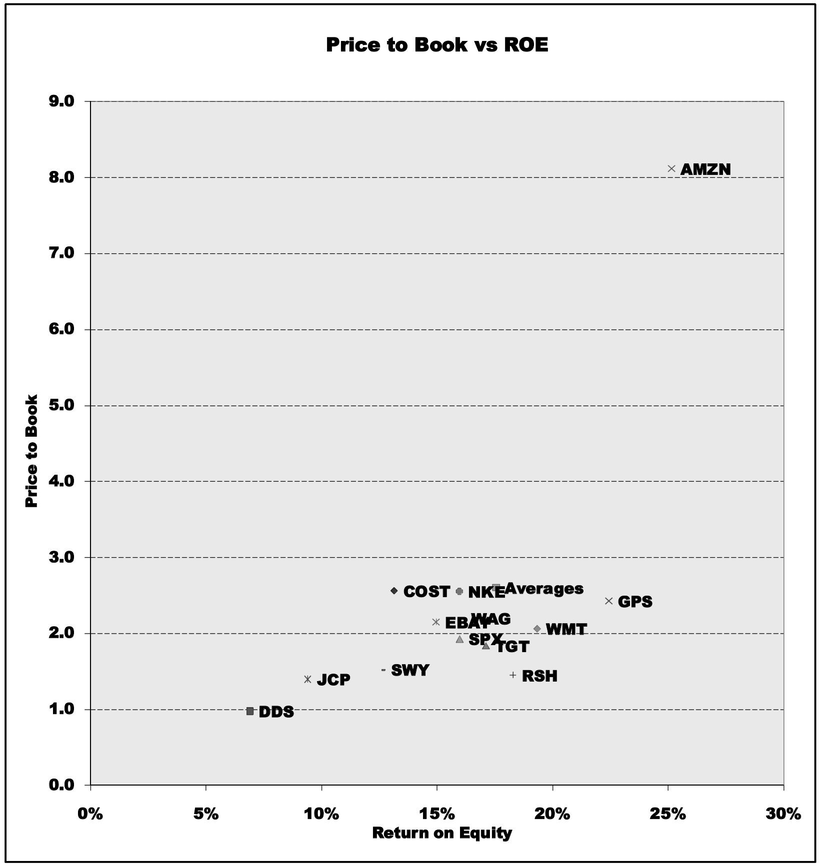
Company	Code	Price	X Shares Outstanding	=	Market Cap	Equity 10A	EPS 11E	Div 11E	=	Equity 11E	EPS 12E	Div 12E	=	Equity 12E	Price/ Book	ROE 12E	Projected Sales 12E	Price/ Sales	ROS 12E	P/E 12E	Yield	FYE
Autozone	***AZO***	274.67	42	=	11,594	(739)	18.82	-	=	55	21.42	-	=	959	NM	NM	8,329	1.4	10.9%	12.8	0.0%	Aug
Amazon	***AMZN***	180.13	451	=	81,239	6,864	4.18	-	=	8,750	5.58	-	=	11,266	8.1	25.1%	56,843	1.4	4.4%	32.3	0.0%	Jan
Costco	***COST***	74.25	437	=	32,437	10,930	3.34	0.85	=	12,016	3.81	0.89	=	13,293	2.6	13.1%	92,943	0.3	1.8%	19.5	1.2%	Jan
Dillard Dept	***DDS***	40.47	56	=	2,265	2,087	3.00	0.16	=	2,246	2.86	0.16	=	2,397	1.0	6.9%	6,537	0.3	2.4%	14.2	0.4%	Jan
Ebay	***EBAY***	31.36	1,298	=	40,692	15,302	1.94	0.16	=	17,607	2.18	0.16	=	20,228	2.2	15.0%	11,938	3.4	23.7%	14.4	0.5%	Jan
Target Corp	***TGT***	50.36	693	=	34,903	15,487	4.27	1.02	=	17,739	4.69	1.08	=	20,239	1.8	17.1%	73,642	0.5	4.4%	10.7	2.1%	Jan
Gap Inc	***GPS***	22.63	584	=	13,227	4,080	1.93	0.42	=	4,962	2.09	0.43	=	5,931	2.4	22.4%	15,465	0.9	7.9%	10.8	1.9%	Jan
Penny (JC)	***JCP***	36.00	230	=	8,275	5,460	2.05	0.83	=	5,739	2.42	0.88	=	6,093	1.4	9.4%	18,428	0.4	3.0%	14.9	2.4%	Jan
Ltd Brands	***LTD***	32.99	319	=	10,539	1,477	2.31	0.74	=	1,979	2.63	0.74	=	2,583	4.6	36.8%	10,588	1.0	7.9%	12.6	2.2%	Jan
Nike *	***NKE***	76.53	389	=	29,732	9,754	4.33	1.21	=	10,968	4.78	1.36	=	12,296	2.6	16.0%	22,467	1.3	8.3%	16.0	1.8%	May
RadioShack	***RSH***	14.88	106	=	1,574	843	1.72	0.25	=	999	1.88	0.25	=	1,171	1.5	18.3%	4,611	0.3	4.3%	7.9	1.7%	Dec
Safeway	***SWY***	23.49	368	=	8,649	4,998	1.65	0.50	=	5,420	1.94	0.54	=	5,938	1.5	12.6%	42,808	0.2	1.7%	12.1	2.3%	Dec
Walgreen Co	***WAG***	40.94	922	=	37,764	14,400	2.60	0.71	=	16,143	2.99	0.80	=	18,168	2.2	16.1%	75,601	0.5	3.7%	13.7	1.9%	Aug
Wal-Mart	***WMT***	52.13	3,491	=	181,996	71,247	4.45	1.32	=	82,157	4.88	1.44	=	94,174	2.1	19.3%	460,749	0.4	3.7%	10.7	2.8%	Jan
														Averages	2.6	17.5%		0.9	6.3%	14.5	1.5%	
S&P 500	***SPX***	1,332	1	=	1,332	578	96.97	25.29	=	650	110.43	28.22	=	732	**1.9**	**16.0%**	1,089	**1.2**	**10.1%**	12.1	2.1%	

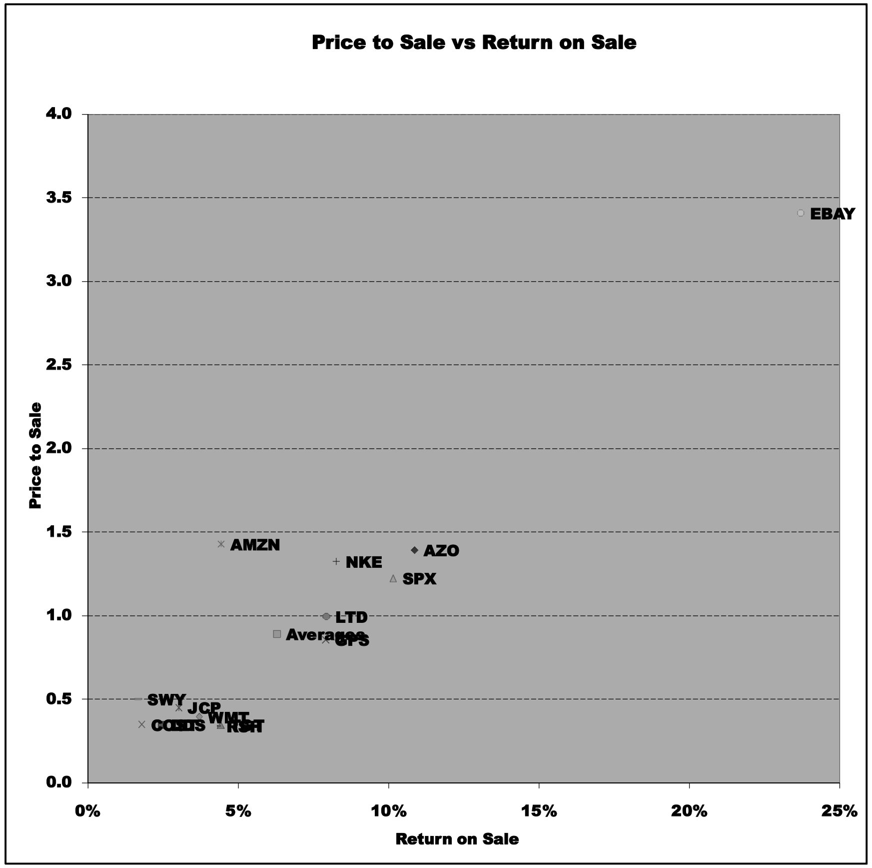
* Nike includes class A+B shares.

Plus Percentage Change in Price/Book	0.2%
Minus Percentage Change in ROE 2012................................	3.9%
Equals Percentage change in P/E 2012	-3.7%
P/E Last Month 2012..	14.9
Current P/E 2012	14.5






Price to Book vs ROE
Price to Book
Return on Equity
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
0%
5%
10%
15%
20%
25%
30%
AMZN
COST
NKE
Averages
GPS
WAG
EBAY
WMT
SPX
TGT
SWY
RSH
JCP
DDS


Price to Sale vs Return on Sale
Price to Sale
Return on Sale
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
0%
5%
10%
15%
20%
25%
EBAY
AMZN
AZO
NKE
SPX
LTD
Averages
GPS
SWY
JCP
WMT
RSH

iShares Financial Sector $ 59.61 BUY

iShares Dow Jones U.S. Financial Sector Index Fund is an exchange-traded fund incorporated in the USA. The Fund's objective seeks investment results that correspond to the performance of the Dow Jones U.S. Financial Sector Index. The Fund will concentrate its investments in the financial economic sector to approximately the same extent the Index is so concentrated.

The play here is quite simple. The US has the most flexible economic system in the world, and has the most stable and powerful political system. Over time the financial sector will recover to pre-GFC highs. This is a longer term investment. The sector in general is highly leveraged to U.S. economic activity and regulation, so expect some volatility. In times of strength, sell calls against your position to enhance yield.

IYF US $ 59.61

ISHARES DJ US FINANCIAL SECT

2006 - 2011

Top 10 Holdings	% Net
JPMorgan Chase & Co	7.7
Wells Fargo & Co	6.8
Bank of America Corp	5.8
Citigroup Inc	5.5
Berkshire Hathaway Inc	3.4
Goldman Sachs Group In	2.9
US Bancorp	2.2
American Express Co	2.1
Morgan Stanley	1.6
Bank of New York Mellon	1.6
Top 10 as % of total fund	39.5%

3M Co. $ 93.13 BUY

Market Capitalization	**$66.2 bil**
Sales ’12	**$31.5 bil**
Profit ’12	**$ 5.0 bil**
P/E ’12	**13.4**

3M conducts operations in electronics, telecommunications, industrial, consumer and office, health care, safety, and other markets. The Company's businesses share technologies, manufacturing operations, brands, marketing channels, and other resources. 3M serves customers in countries located around the world.

We love 3M. They are in the right markets, and right manufacturing locations and very low levels of debt. 3M, is a barometer of global economic activity, with 80,000 products from safety protection equipment to optical films for iPod touch screens and LCD TV’s.

3M has 78 manufacturing sites across 28 U.S. states, so the falling U.S. dollar and high unemployment rates in the U.S. makes them much more competitive, while 65% of sales come from overseas. Due to the value add in product lines, margins are good, and higher raw material prices can be passed easier than in other companies. There are 38 manufacturing facilities overseas, and the company plans to increase overseas manufacturing to move more production into the markets where they sell products.

For the fiscal year, sales rose 15% to 26.6 billion, and profit was up from $3.2 bil to $4.1 bil, a great result.

The company raised its forecast for 2012 to sales of $30.5 billion, and profit of $6.20 per share.

The primary risk in 3M is that Chairman/CEO George Buckley turns 65 this year, and we need to watch management transition issues closely. Management counts, as we proved with James McNerney several years ago.

Kraft	**$ 31.61 BUY**
Market Capitalization	**$ 55.3 bil**
Sales Est '12	**$ 54.5 bil**
Profit Est '12	**$ 4.4 bil**
P/E Est '12	**12.6**

Kraft Foods Inc. is a food and beverage company. The Company's products include Kraft, Nabisco, Oscar Mayer, Post, Maxwell House, Philadelphia, and Jacobs. Kraft sells its products throughout the world. 62% of sales come from North America, 23% from Europe & Africa and 15% from Latin America & Asia Pacific.

Kraft reported a 30% jump in sales in 4Q10 to $13.8 billion, reflecting the acquisition of Cadbury. Revenue excluding acquisitions was up 5.7%, with strength in North American sales (up 12.7%) of Maxwell House Coffee and Planters nuts. Sales in China soared 74% on the introduction of Oreo cookies.

CEO Irene Rosenfeld said that the integration of Cadbury is ahead of plan. Cadbury adds international confectionary, and associated distribution channels to the cheese, cookie and coffee company.

Profits came in line with adjusted expectations at 31 cents per share, or $540 million. The decay in profits was caused by weaker demand from unemployed Americans who migrated to cheaper home brand style products coupled with higher raw material prices for wheat, corn and sugar. Weaker demand, and higher costs puts Kraft between a "rock and a hard place" according to JP Morgan, who down graded the stock after the announcement.

Fortrend, as a longer term investor, are sticking with the margin expansion story. Since being spun off from Phillip Morris, Rosenfeld has made significant strides in changing the culture, adopting input from corporate raiders, and doing deals. Next year crop prices will fall, and employment will improve and Kraft will surge.

Pfizer	**$ 20.38 BUY**
Market Capitalization	**$ 163.0 bil**
Sales Est. '12	**$ 63.4 bil**
Profit Est. '12	**$ 17.6 bil**
P/E 2012	**8.9**

Pfizer is the world's largest pharmaceutical company. 100% of sales come from drugs since selling the consumer products business. 62% of sales come from the US, 6% from Japan and 32% from the rest of the world.

CEO Ian Read, who replaced Jeffrey Kindler in December, is counting on products from the $68 billion Wyeth acquisition in 2009 to help overcome sales lost to generic copies of Lipitor, the cholesterol pill, the best-selling drug in the world. Lipitor's patent ended in Canada and Spain and the medicine will lose protection in the U.S. in November.

4Q10 profit was $2.89 billion, or 47 cents a share, beating the 46-cent average estimate.

However, the news that drove the stock price higher was the announcement that they will slash R&D costs from around $9.5 billion to as low as $6.5 billion. This great news for investors is a signal to the world that drug companies need to be properly compensated for contributions they make to health.

Pfizer has 17 experimental drugs in the last of three phases of tests required to seek U.S. regulatory approval. The company is also seeking new uses for approved treatments that bring the number of final-stage tests to 25. Fifteen research programs were discontinued since the last update, on Sept. 27. Trails of Crizotinib, the lung cancer drug are most promising.

In contrast to this good news for cancer patients, the top story for Pfizer remains the loss of the Lipitor patents, and the fight between Mylan and Ranbaxy for rights to sell generic versions of the cholesterol drug. The stock market is rewarding Pfizer for cutting back on developing new cures for human ailments. The stock is moving, buy.

Microsoft	$ 25.48 BUY
Market Capitalization	$ 214 bil
Sales Est. 6/12	$ 74.2 bil
Profit Est '11	$ 23.1 bil
P/E 2012 (June)	9.2

Microsoft develops, manufactures, licenses, sells, and supports software products. The Company offers operating system software, server application software, business and consumer applications software and Internet and intranet software. Microsoft also develops the MSN network of Internet products and services.

Fortrend alumni Anthony Burton and Andrew Corcoran from GLG in London make the case that there is a tech super-cycle: 15 years ago IBM mainframes were replaced by Wintel/Dell based PCs. Now handheld devices such as Apple's iPad, powered by ARM Holdings PLC and Broadcom are revolutionizing the way we work and play. Morgan Stanley says Apple's stock price will be driven by China distribution, lower priced iPhones, an expanding tablet market, and new Smart TV products in 2012-13.

We agree with the cycle, but disagree with conclusions and values. Apple hardware is great, but it is not defensible. Phones and tablets from competitors are coming to market fast and aggressively. Software platforms are available from Google (Android) which took over Nokia's Symbian and others. Tablets and phones are not as dominant as Windows running on Intel. In fact, ARM's CEO recently said "Nokia's partnership with Microsoft will increase competition and boost the pervasiveness of smart phones." Microsoft is too powerful, competitive and undervalued to be ignored.

Microsoft reported 2Q10 (Dec) sales increased 4.9% to $20 billion, and profit of $6.6 billion, or 77 cents per share, beating estimates of 68 cents. While Apple is retail focused, Microsoft has shifted towards corporate customers. At 9.2 times June 2012 earnings, the stock is undervalued, and ignored by a raging interest in Apple. Microsoft will compete.

Oracle	$ 32.02 BUY
Market Capitalization	$ 172 bil
Sales '12 (May)	$ 39.0 bil
Profit '12 (May)	$ 12.3 bil
P/E '12 (May)	14.2

Oracle supplies software for enterprise information management. They offer databases and relational servers, application development and decision support tools, and enterprise business applications. Oracle's software runs on network computers, personal digital assistants, set-top devices, PCs, workstations, mainframes, and massively parallel computers.

Things are going great for Oracle. The recent earnings announcement shows that Ellison and crew are very capable of integrating Sun's hardware and chip business into the Oracle data base and applications business. Hewlett Packard and SAP are screaming. Larry Ellison calls HP's decision to fire Mark Hurd crazy.

Oracle reported sales increased 37% to $8.76 billion and net income rose to $2.12 billion, or 41 cents per share vs 23 cents a year earlier. Hardware sales have quadrupled to more than $1 billion, and HP called Oracle's announcement that they will drop support for Intel's Itanium chip a "shameless gambit". The war is emotional and HP is clearly losing.

The battle is over the data centers that power the cloud. The cloud is a concept who's time was forecasted 15 years ago by Oracle, Microsoft and others who argue that data centers should store servers, storage devices and software programs. Desktops should be access points only. It's time has come due to increases in bandwidth, and speed. Oracle is clearly poised to take market share from SAP and Hewlett Packard.

Oracle is on a roll, keep buying.

Cisco	**$ 17.04 BUY**
Market Capitalization	**$ 94.2 bil**
Sales Est ’12 (Jul)	**$ 48.5 bil**
Profit Est ’12 (Jul)	**$ 9.7 bil**
P/E Est ‘ 12(Jul)	**13.5**

Cisco supplies data networking products for the Internet. Cisco’s Internet Protocol-based networking solutions are installed at corporations, public institutions and telecommunication companies worldwide. Solutions transport data, voice, and video within buildings, across campuses, and around the world.

Cisco had its second bad quarter in a row, and the stock fell 10% on the announcement. The key indicator is that gross profit margins fell to 62.4%.

2Q11 (Dec) revenue was $10.4 billion, slightly ahead of expectations. Profit was 37 cents a share excluding extraordinary items compared with analysts’ average predictions of 35 cents in profit. Net income fell to $1.52 billion, or 27 cents a share, from $1.85 billion, including extra items. They have $40 billion in cash and issued their first dividend of 6 cents.

One core issue is the shift into retail products such as the set-top boxes business which started with the $7 billion acquisition of Scientific Atlanta, and seems to have resulted in the Flip Video, and more recently, video conferencing for consumers. This shift to consumer products seems to take away from the networking gear for telco’s and data centers.

Secondly, Cisco said they will enter the server market, competing with some of their biggest customers/resellers HP, Dell and IBM. Servers are a huge market that Cisco does not participate in, and may seem like a big opportunity, but Cisco’s business partners do not seem to like the move, and appear to be shifting to Cisco’s main competitor Juniper. We liked Cisco at 24, we love it at 17 and we are buying based on market share, and valuations.

SL Green	**$ 76.32 BUY**
Market Capitalization	**$ 6.1 bil**
Sales	**$ 928 mil**
FFO	**$ 358 mil**
P/FFO 2011	**17.0**

SL Green is a REIT, that acquires, owns, repositions and manages Manhattan office properties. The Company owns more than 30 New York City office properties totaling over 22 million square feet, making it New York's largest office landlord.

SL Green has interests in 30 New York office properties, totaling about 22 million square feet.

4Q10 revenue rose 10% to $267 million after acquiring 600 Lexington and 125 Park Ave and negotiating some new leases at higher rates. FFO for the quarter was $75 million, or 93 cents per share, up from $69 million last year.

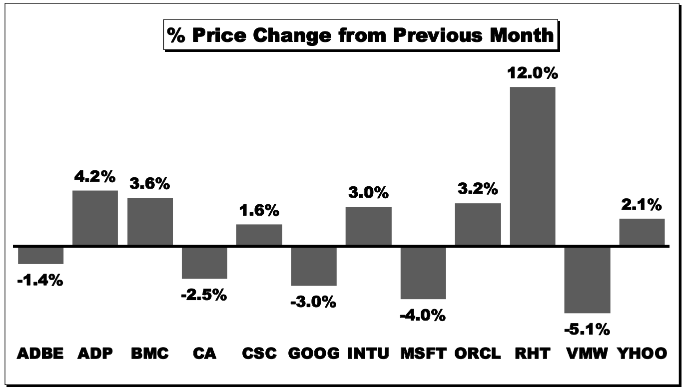
The stock price has risen to new highs since we started recommending it in the low fifties with a “price target of $100 in two years.”

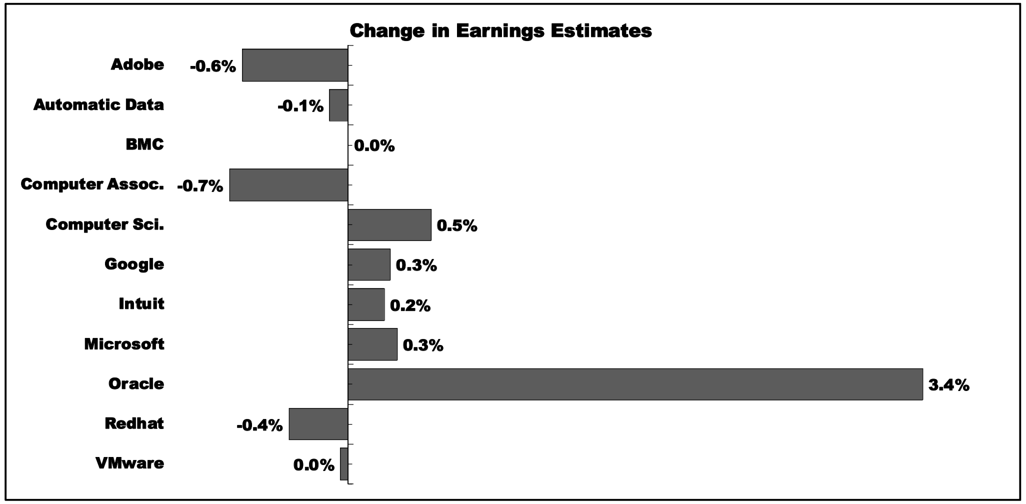
We remain comfortable with that target, and believe that easing of capital markets for real estate, the comeback of the CMBS market in particular, is reducing overhang. Currently the banks are withholding a lot of property from the market based on the implications to balance sheets of writing off bad loans. As this works off over time, fear will diminish, and SL Green’s stock price will continue to perform. They paid a dividend of 10 cents, (which is down from 78.75 cents pre-GFC), because the modus operandi for all REITS is to preserve cash, and tax laws requiring distribution of cash have been adjusted to accommodate the crisis. When the dividends return, the stock price will surge. Buy.

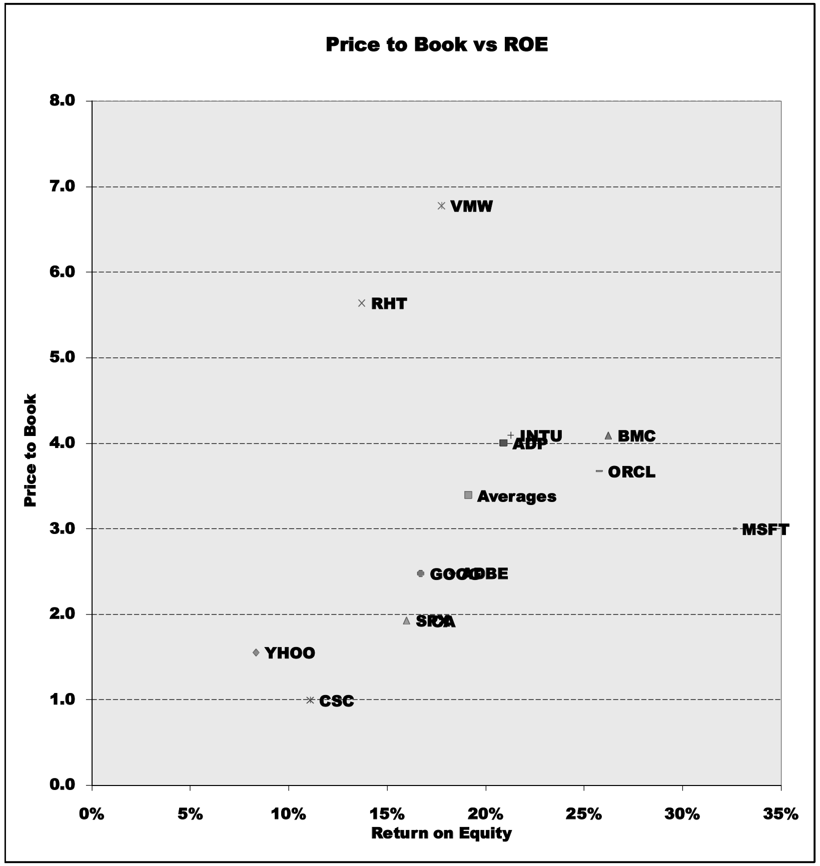
SOFTWARE

Company	Code	Price	X Shares Outstanding	Market Cap	Equity 10A	EPS 11E	Div 11E	Equity 11E	EPS 12E	Div 12E	Equity 12E	Price/ Book	ROE 12E	Projected Sales 12E	Price/ Sales	ROS 12E	P/E 12E	Yield	FYE
Adobe Systems	ADBE	34.16	505	17,242	5,192	2.21	-	6,308	2.52	-	7,579	2.5	18.3%	4,575	3.8	27.8%	13.6	0.0%	Nov
Automatic Data	ADP	51.68	496	25,655	5,479	2.50	1.29	6,076	2.70	1.35	6,744	4.0	20.9%	10,284	2.5	13.0%	19.1	2.6%	Jun
BMC software	BMC	50.71	179	9,058	1,388	3.00	-	1,924	3.25	-	2,505	4.1	26.2%	2,185	4.1	26.6%	15.6	0.0%	Mar
Computer Assoc.	CA	24.13	510	12,308	4,983	1.95	0.16	5,897	2.10	0.16	6,888	1.9	16.8%	4,763	2.6	22.5%	11.5	0.7%	Mar
Computer Science	CSC	49.38	155	7,658	6,508	5.19	0.23	7,277	5.49	0.28	8,086	1.0	11.1%	16,744	0.5	5.1%	9.0	0.6%	Mar
Google	GOOG	591.80	251	148,464	46,241	34.71	-	54,949	39.92	-	64,964	2.5	16.7%	31,401	4.7	31.9%	14.8	0.0%	Dec
Intuit	INTU	53.95	303	16,324	2,821	2.46	-	3,566	2.81	-	4,415	4.1	21.3%	4,185	3.9	20.3%	19.2	0.0%	Jul
Microsoft	MSFT	25.48	8,402	214,093	46,175	2.56	0.62	62,425	2.76	0.65	80,221	3.0	32.6%	74,164	2.9	31.3%	9.2	2.5%	Jun
Oracle	ORCL	34.02	5,061	172,159	31,199	2.18	0.18	41,320	2.39	0.19	52,423	3.7	25.8%	38,962	4.4	31.0%	14.3	0.6%	May
Redhat	RHT	46.31	193	8,936	1,291	0.96	-	1,476	1.13	-	1,693	5.6	13.7%	1,213	7.4	17.9%	41.1	0.0%	May
VMware	VMW	81.25	418	33,985	3,808	1.82	-	4,569	2.13	-	5,459	6.8	17.8%	4,122	8.2	21.6%	38.2	0.0%	May
Yahoo!	YHOO	16.84	1,309	22,050	12,596	0.77	-	13,605	0.90	-	14,788	1.6	8.3%	4,896	4.5	24.2%	18.6	0.0%	Dec
											Averages	3.4	19.1%		4.1	22.8%	18.7	0.6%	
S&P 500	*SPX*	1,332	1	1,332	578	96.97	25.29	650	110.43	28.22	732	**1.9**	**16.0%**	1,089	**1.2**	**10.1%**	12.1	2.1%	

Plus Percentage Change in Price/Book	1.0%
Minus Percentage Change in ROE 2012.................................	-0.2%
Equals Percentage change in P/E 2012	1.2%
P/E Last Month 2012...	18.3
Current P/E 2012	18.7






Price to Book vs ROE
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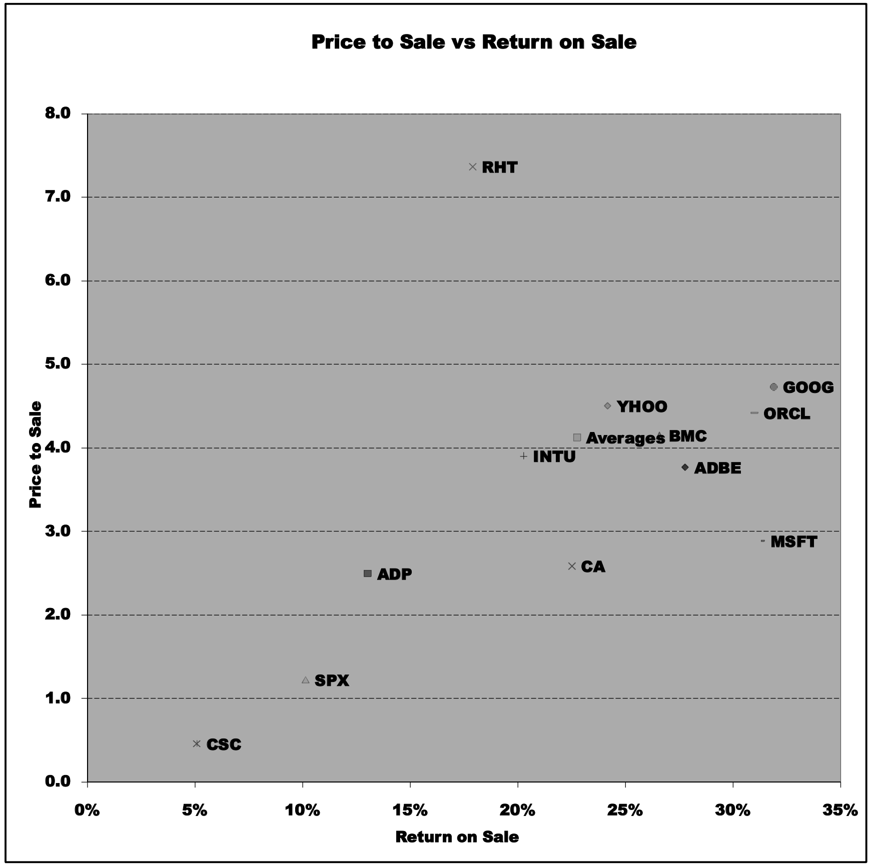
Price to Sale vs Return on Sale
Price to Sale
Return on Sale
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15%
20%
25%
30%
35%
RHT
GOOG
YHOO
ORCL
Averages
BMC
INTU
ADBE
MSFT
CA
ADP
SPX
CSC

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Relative Value Model

Sector	Company	Advice	Price	52 week Low/Hi	P/E 2012
Metals					
Oil					
Chemicals					
Paper & Forest Products					
Transportation					
Manufacturing	**3M**	**Buy**	**$ 93.64**	**68 / 95**	**13.4**
Elec. & Mfg Equipment					
Automobile					
Housing					
Lodging & Restaurants					
Retail	**Nike**	**Buy**	**$ 76.53**	**66 / 92**	**16.2**
Real Estate	**SL Green**	**Buy**	**$ 76.32**	**50 /77**	**17.0 FFO**
Food	**Kraft**	**Buy**	**$ 31.61**	**27 / 33**	**12.6**
	Dr Pepper Snapple	**Buy**	**$ 37.51**	**33 / 40**	**12.7**
Media / Entertainment					
Consumer Products					
Hospital					
Pharmaceutical	**Pfizer**	**Buy**	**$ 20.38**	**14 / 21**	**8.9**
Computers	**Cisco**	**Buy**	**$ 17.04**	**17 / 28**	**9.7**
Semiconductors					
Software	**Microsoft**	**Buy**	**$ 25.48**	**23 / 32**	**9.2**
	Oracle	**Buy**	**$ 34.02**	**21 / 34**	**14.3**
Aerospace					
Financial	**iShares Financial**	**Buy**	**$ 59.61**	**48 / 62**	**N/A**