



August 2011

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Chief Executive Officer

### Relative Value Model

### Second Quarter Earnings Review

In July the S&P 500 fell 3.5% and earnings estimates were increased by 0.6%. The forward P/E fell 4.1% resulting in a fall in the P/E '12 to 11.4. The 10 year treasury yield rose to 2.80%.

**Sell Cisco, buy Honeywell.**

#### Best Performers

23.5%	Nalco
19.4%	Liz Claiborne
15.9%	Google
13.8%	Apple
11.3%	CF Industries
8.5%	Energizer
7.7%	Broadcom
7.4%	Target Corp
6.7%	Halliburton
6.2%	Barrick Gold
6.2%	Amazon
6.1%	Baker Hughes
6.0%	Anadarko Petrol
5.8%	Intuitive Surgical
5.5%	Gap Inc

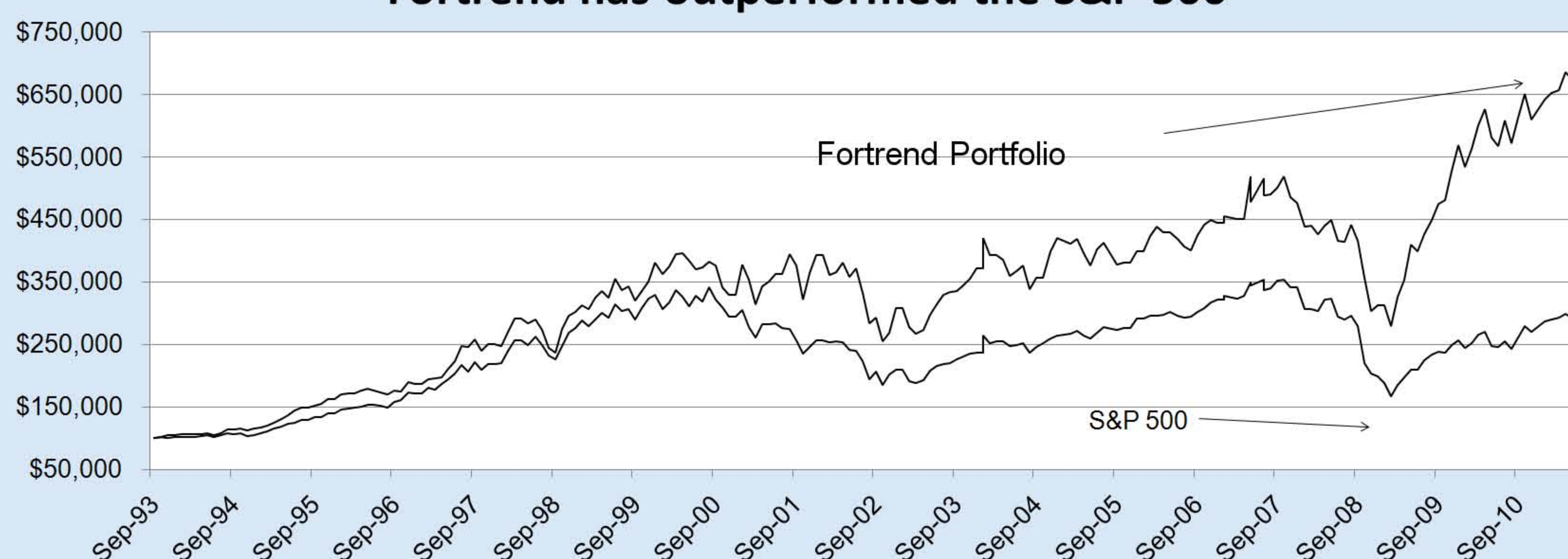
#### Worst Performers

-15.2%	Yahoo!
-15.3%	Lennox Intl
-15.3%	Masco
-15.5%	Atmel
-16.4%	Whirlpool
-16.5%	KB Home
-16.7%	Meritor
-19.4%	Rockwell Automation
-21.2%	Hill-Ross
-21.3%	United Airlines
-21.8%	Eastman Kodak
-22.1%	Sprint Nextel
-22.5%	BMC
-23.2%	AMR Corp
-26.8%	Juniper

Software stocks rose 6.0% and Computer stocks increased 3.7%. Oil was the only other sector to advance, up 1.1%.

Manufacturing stocks dropped 11.6%, housing collapsed 10.0%, while Aerospace & Defense tanked 9.5% and Electrical Equipment fell 8.5%.

#### Fortrend has outperformed the S&P 500





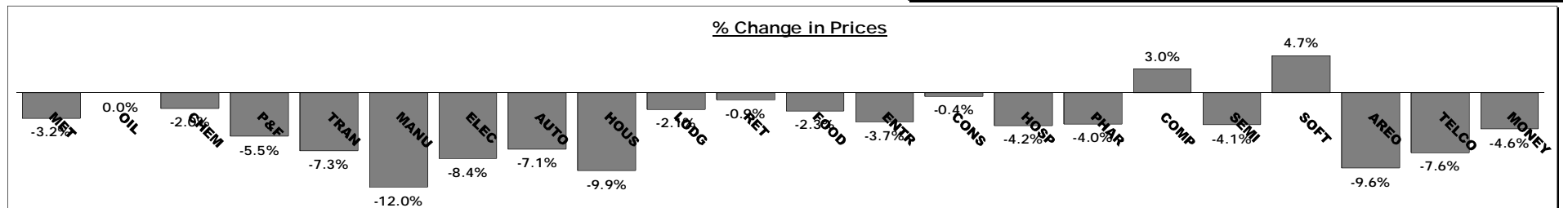
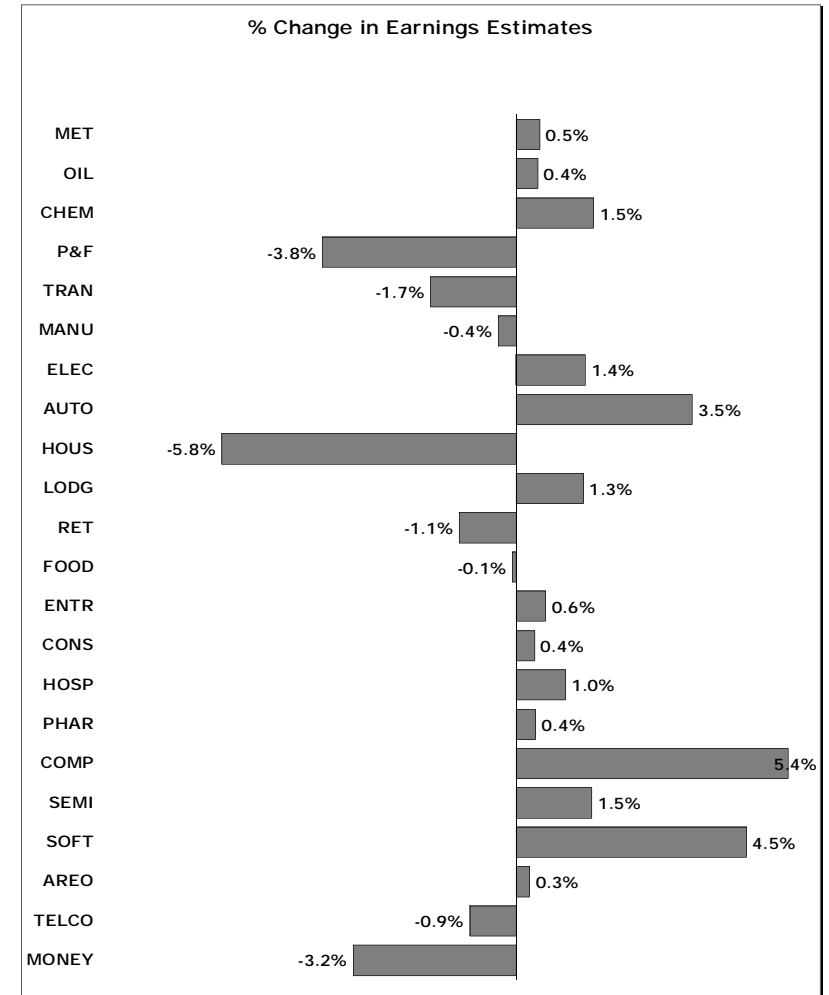
July 1st - Aug 1st

## Relative Value Model

	August 2011
Plus Percentage Change in Price/Book .....	-4.8%
Minus Percentage Change in ROE 2012.....	-0.9%
Equals Percentage change in P/E 2012 .....	-3.9%
Current P/E 2012 .....	11.4
10 year Treasury Yield .....	2.80%
Equity Discount / Premium .....	-213%

	Nov 10	Dec 09	Dec 08	Dec 07	Dec 06	Dec 05
Forecasted 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
Forecasted 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%



## 2Q11 Earnings Results

Despite the general perception, earnings from the S&P 500 are very good. The overleveraged U.S. consumer and Government is not a reflection of the leverage in the S&P 500, and the economic status in the U.S. only affects half of the earnings from the S&P 500. In fact many companies are taking advantage of the cheap U.S. dollar to increase domestic manufacturing and exports.

### Composite earnings for the S&P 500 were 24.87, up 15.5% from the prior year.

This reflects a number of trends, including a continued recovery from weak earnings in the aftermath of the GFC, strong foreign currency translations, and excellent growth from U.S. software companies that appear to be borderless.

Interestingly, the largest companies have the strongest results: Oil companies such as **Exxon** and **Chevron** enjoyed average oil prices for the quarter of \$102/barrel, up 31% from a year earlier. **Dow**, a big consumer of oil, (counter intuitively for U.S. domiciled people) was able to push price increases straight through to Chinese and European customers. Likewise, **Barrick Gold**, **Cliffs Resources** (the fourth largest iron ore producer in Australia), **Baker Hughes** and other raw material and primary industry producers had record earnings.

Industrial Cyclical stocks did not all fair well. Paper & Forest product companies such as **International Paper** and **Kimberly Clark** suffered from higher pulp and energy costs and weak domestic demand, particularly from the construction and transportation sectors. Home builders and supplying companies such as **Masco** and **Whirlpool** are finding business hard due to continued weakness in house prices, high unemployment, and low consumer confidence. Air and Trucking companies such as **UPS** and **Ryder** are losing business to Railroads, which are doing well. **Union Pacific** volume rose 3% despite weather problems. Increased volumes drove average revenue per car up 13%.

As we move down the economic food chain to Manufacturing and Electrical Manufacturing things get interesting. Earnings were up, but stock prices fell about 10%. For example:

- **PPG** estimates increased by 4.5%, but the shares fell 8%, bringing the P/E to 11.5.
- **Dover** estimates increased 3.5%, but the stock fell 12.5%, taking the P/E to 11.5.
- **Danaher** estimates increased 5.9%, but the stock fell 10%, taking the P/E to 14.5.
- **Illinois Tool** estimates fell 2.6% and the stock fell 13.6%, taking the P/E to 11.1.
- **Emerson** estimates fell 0.8% and the stock fell 14%, taking the P/E to 12.7.
- **Honeywell** estimates fell 0.4% and the stock fell 11.8%, taking the P/E to 11.6.
- **MMM** estimates fell 0.8% and the stock fell 10%, taking the P/E to 12.4.

The same pattern of higher or moderately lower earnings estimates and significant drops in stock prices continues into the Lodging sector, with **Carnival** down 14%, and **Marriot** down 12%. Likewise in Toys, **Hasbro** was down 13% and **Mattel** was down 5%, while estimates for Mattel were up 3.5%.

In the Food sector stock prices were relatively stable while earnings were solid, and guidance was slightly to the upside. We are overweight food, with investments in **Kraft** and **Dr Pepper** as defensive industries during economic uncertainty in the U.S., with the added liability/benefit of high, but now falling raw material prices.

Consumer Product company results were similar to the Food sector, with very stable earnings, but stock prices generally falling 4-6%, with the exception of **Liz Claiborne** which surged 19%. Liz is a company on the edge of disaster; if Alvarez & Marshall can turn the company around, the owner of Juicy Couture could be a home run. It is probably worth a small punt.

In the Pharmaceutical and Medical Devices sectors there are also some extraordinary

moves. **Forest Labs** (a generic drug maker) estimates were up 10% but the stock fell 8%. **Edwards Lifesciences** missed estimates and guided lower due to foreign exchange conversions (not product or market issues) and the stock price fell 19%!

In the tech sector, **Apple**, **Google** and **Microsoft** all had great results, estimates were increased and stock prices rose, at the expense of Yahoo, Juniper and Texas Instruments.

In Aerospace and Defense was probably the most pronounced divergence between estimates and prices. Estimates were up 1% on average while stock prices fell 10%, mostly caused by budget discussions in Washington.

Financial stocks were very mixed, with some big winners, and big losers, which is why we are sticking with the Financial ETF.

### **Spinning the European Debt**

While I was in Germany in June one of the largest property fund managers on the continent said in a panel “we have offered Greece the money, all they need to do is take it”.

The Greek population is protesting against their government who are under pressure from the ECB to extend and pretend. The ECB makes the argument that if Greece defaults, it will impact the balance sheets of investors, (including German Banks) putting pressure on capital ratios, causing a contagion or domino effect across the PIGS. Germany and the ECB are much better at spin than the Greek public.

The Greek public can do the math; their Government is bust and cannot pay back the debt. Riots in the street are an uncivil way of saying they want to replace the Government before the next election, and put an end to the charade. The fact is that Greece cannot pay off the debt, and will default, and probably pay investors 50-75 cents on the dollar. But first the Government needs to be replaced.

But wheels turn more slowly in the EU because the ECB has no real control over

fiscal policy, so this will drag on for years. The good news is that the cost of restructuring can be done on the back of an envelope, and a Greek default is already priced into markets. The contagion is also priced in and the situation is not as dire as the Germans would have you believe.

Summary: PIGS debt and default issues are priced into markets and the ECB/Germany have the marketing skills to scare the world into expecting Greece to take more pain. But wheels turn slower in the EU political system, so this will take years to resolve.

### **U.S. Debt Ceiling**

Democrats control the executive office (President) and the Senate (two representatives per state). Republicans gained a majority in the House of Representatives (based on population of each state, so CA and NY have the most votes) with the Tea Party initiative. The Tea Party ran on promises they would try to get the budget under control. These ‘freshman’ legislators are sticking to their campaign promises, and ushering in new demands. The Senate and Executive office want to maintain Government spending to keep the economy moving, and the Republicans want to cut spending, and give economic influence back to the private sector.

If the Democrats win, the odds are there will be a slow but less volatile recovery. If the Republicans exercise more influence, and expenses are cut, then short term pain is a real probability, but tax relief will eventually result in more efficient allocation of economic resources.

Either way, the Republicans’ new mandate has put the writing on the wall: Obama is expected to lose in November 2012.

In the short term, this issue will be crunched out, and markets will have a relief rally. In the longer term, (12-36 months) expect policies to result in more economic volatility, interest rates to stay low, and the U.S. dollar to remain weak vs. a basket of trading partners, of which the AUD only makes up 1.4% (the U.S. is Australia’s 3<sup>rd</sup> largest trading partner after China and

Japan, but Australia is insignificant to U.S. data)

In short, this is a storm in a tea cup, and there will be a relief rally next week when a compromise will be reached.

### Asia, China

China's trade balance was US\$22 bil for June, and their foreign currency reserves are \$3.2 trillion. M2 was up 15.9%.

GDP grew 9.6%, while the PPI grew 7.1% and the CPI grew 6.4%.

China is attempting to slow down lending, and slow down the economy to get inflation under control.

<b>Honeywell Int'l Inc.</b>	<b>\$ 53.10 BUY</b>
<b>Market Capitalization</b>	<b>\$ 41.5 bil</b>
<b>Sales Est. '12</b>	<b>\$ 39.2 bil</b>
<b>Profit Est. '12</b>	<b>\$ 3.6 bil</b>
<b>P/E Est. '12</b>	<b>11.6</b>
<b>Honeywell is a worldwide diversified technology and manufacturing company providing aerospace products and services, control, sensing and security technologies, turbochargers, automotive products, specialty chemicals, electronic and advanced materials, process technology for refining and petrochemicals, and energy efficient products and solutions.</b>	

HON is a Fortune 100 company that invents and manufactures technologies to address challenges linked to global macro trends such as safety, security, and energy. Approximately 40% of sales are derived outside the U.S., with exports primarily to Canada, Asia, and Latin America.

HON recently reported second quarter sales of \$9.32 bil (up 14%) and income of \$810 mil (up 43%), or \$1 per share, which topped estimates by two cents.

Division sales in Aerospace (up 6.1% to \$2.81 bil) and specialty-materials (up 12% to \$1.41 bil) fell short of some analyst estimates – the result of several one-off

items. Despite HON also raising its full-year 2011 profit forecast, the stock has been sold down.

Aerospace contributes ~30% to revenue, and an increase in global commercial air traffic has boosted the need for parts and services, more than offsetting a modest single-digit decline in defense that HON expects. (The U.S. government account for ~15% of revenues, primarily in Aerospace.)

With a very strong balance sheet, (debt/assets <20%) exposure to growth regions and trading at a ~10% discount to peers, HON presents an excellent opportunity to invest in a leading global technology inventor and manufacturer.

<b>3M</b>	<b>\$ 87.14 BUY</b>
<b>Market Capitalization</b>	<b>\$ 61.9 bil</b>
<b>Sales '12</b>	<b>\$ 32.7 bil</b>
<b>Profit '12</b>	<b>\$ 5.1 bil</b>
<b>P/E '12</b>	<b>12.4</b>
<b>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.</b>	

1Q11 sales rose 14% to \$7.68 bil. Acquisitions added 4%, foreign exchange 6% and 4% organic growth. The earthquake in Japan reduced sales by 2.4%, and hurt profit by 7 cents.

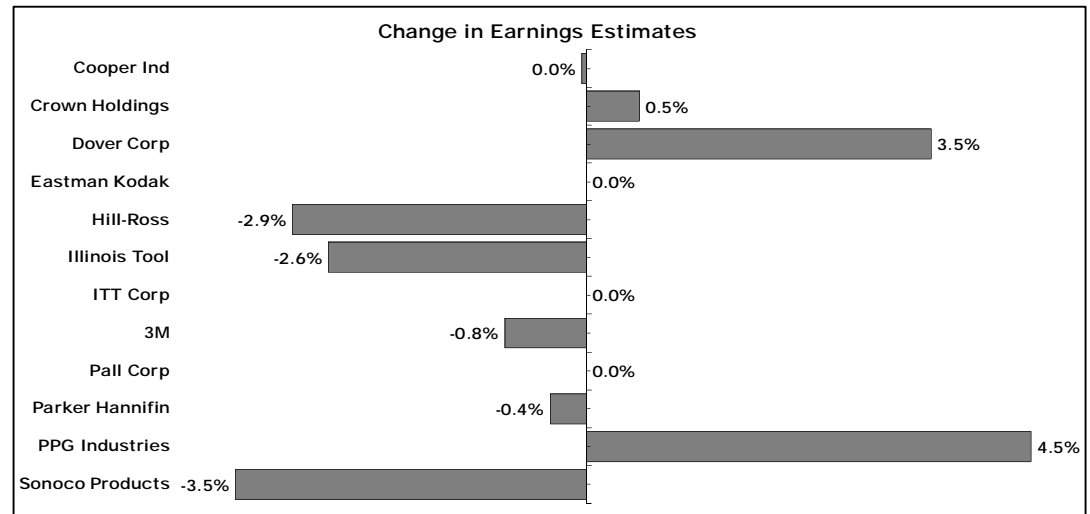
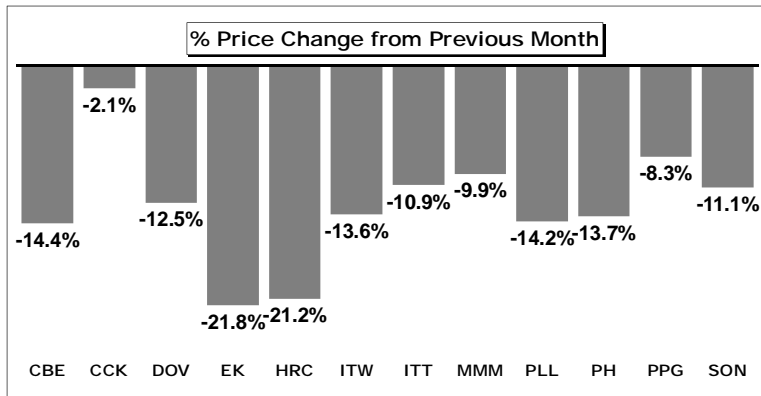
Sales fell 7% in the display and graphics division, which makes products used in LCDs for phones and pads, as well as TV screens.

CEO Roger Buckley said raw material prices increased by 4%, which represents 25% of 'cost of sales'. This hurt profit margins, which fell from 22.1% to 21.6%, causing a wave of downgrades by analysts, and a 5% drop in the stock price. Buckley said they will have to increase prices, which rose only 0.8% in the quarter.

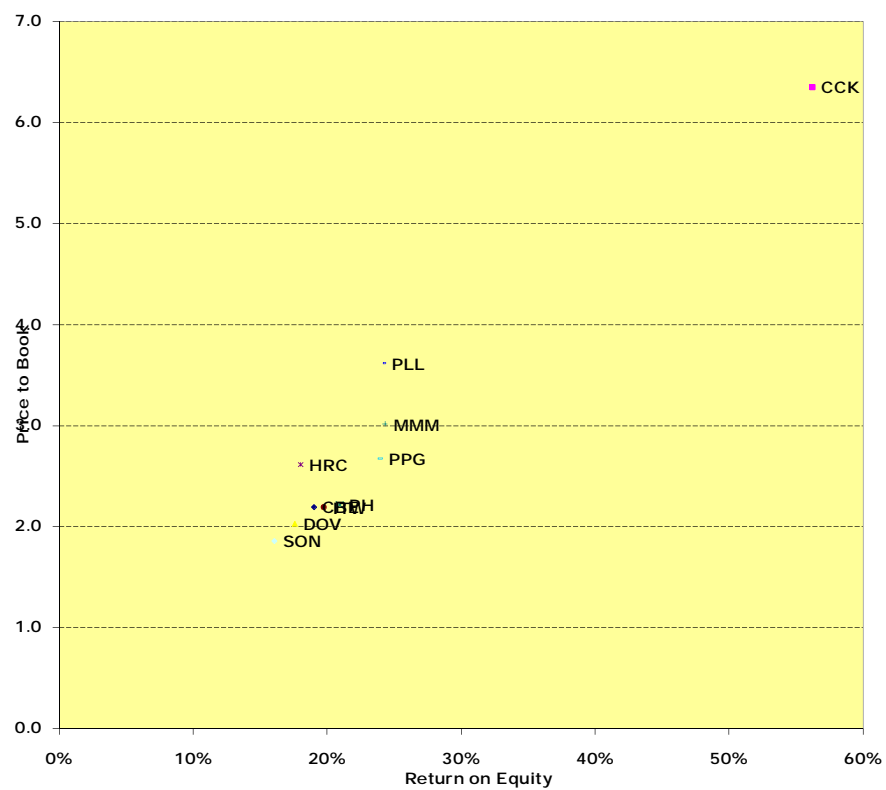
**MANUFACTURING**

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	
Cooper Ind	CBE	CBE U	52.31	165	=	8,632	3,206	3.93	1.16	=	3,663	4.53	1.23	=	4,209	2.2	19.0%	5,870	1.5	12.7%	11.5	2.3%	Dec
Crown Holdings	CCK	CCK U	38.41	156	=	5,990	229	2.88	-	=	678	3.40	-	=	1,208	6.4	56.3%	9,311	0.6	5.7%	11.3	0.0%	Dec
Dover Corp	DOV	DOV U	60.47	186	=	11,249	4,527	4.55	1.12	=	5,166	5.24	1.18	=	5,921	2.0	17.6%	9,383	1.2	10.4%	11.5	2.0%	Dec
Eastman Kodak	EK	EK US	2.40	269	=	646	(1,075)	(2.34)	-	=	(1,706)	(1.15)	-	=	(2,014)	NM	NM	5,855	0.1	-5.3%	NM	0.0%	Dec
Hill-Rom	HRC	HRC U	37.29	63	=	2,355	716	2.28	0.43	=	833	2.57	0.43	=	969	2.6	18.0%	1,672	1.4	9.7%	14.5	1.1%	Sep
Illinois Tool	ITW	ITW U	49.80	500	=	24,902	9,381	3.86	1.38	=	10,621	4.49	1.52	=	12,106	2.2	19.7%	19,924	1.2	11.3%	11.1	3.0%	Dec
ITT Corp	ITT	ITT US	53.34	184	=	9,820	4,505	4.76	1.10	=	5,179	5.16	1.18	=	5,912	1.8	17.1%	11,945	0.8	8.0%	10.3	2.2%	Dec
3M	MMM	MMM	87.14	711	=	61,920	16,017	6.24	2.22	=	18,874	7.03	2.35	=	22,199	3.0	24.3%	32,706	1.9	15.3%	12.4	2.7%	Dec
Pall Corp	PLL	PLL U	49.58	116	=	5,767	1,182	2.89	0.66	=	1,442	3.32	0.69	=	1,747	3.6	24.2%	2,929	2.0	13.2%	15.0	1.4%	Jul
Parker Hannifin	PH	PH US	79.02	162	=	12,815	4,459	6.38	1.21	=	5,298	7.47	1.44	=	6,276	2.2	20.9%	13,611	0.9	8.9%	10.6	1.8%	Jul
PPG Industries	PPG	PPG U	84.20	158	=	13,316	3,833	6.88	2.26	=	4,564	7.55	2.31	=	5,393	2.7	24.0%	15,937	0.8	7.5%	11.2	2.7%	Dec
Sonoco Products	SON	SON U	32.05	100	=	3,195	1,508	2.47	1.15	=	1,639	2.77	1.17	=	1,799	1.9	16.1%	4,727	0.7	5.8%	11.6	3.7%	Dec
Averages															2.8	23.4%		1.1	8.6%	11.9	1.9%		
S&P 500	SPX	SPX I	1,292	1	=	1,292	605	99.93	26.15	=	679	113.43	28.60	=	764	1.8	15.7%	1,111	1.2	10.2%	11.4	2.2%	

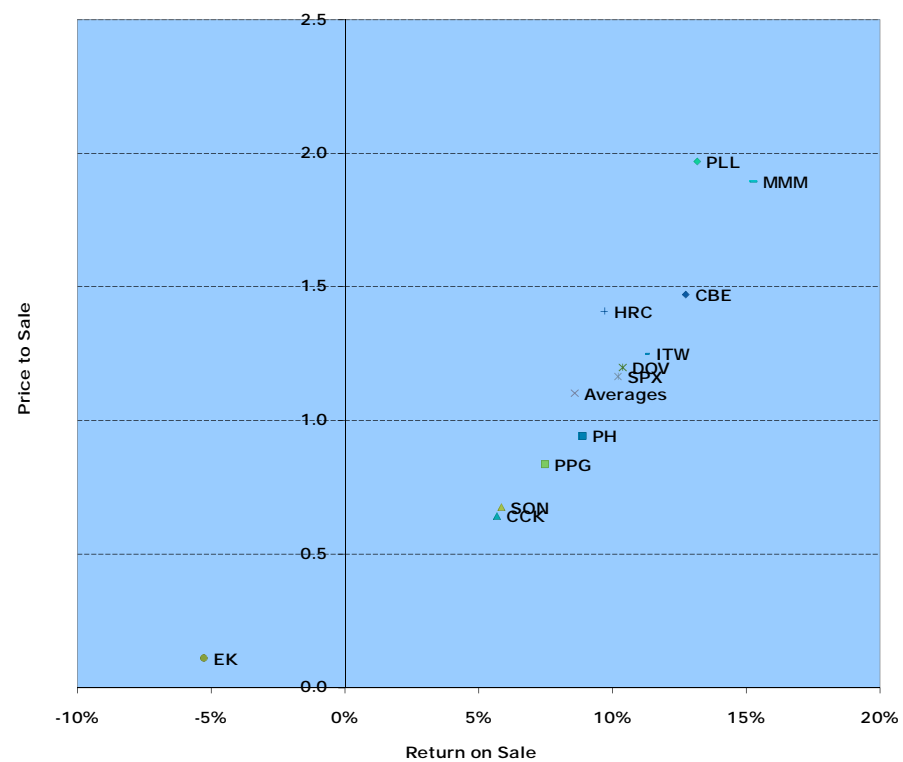
Plus Percentage Change in Price/Book ..... -11.2%  
 Minus Percentage Change in ROE 2012 ..... -0.2%  
 Equals Percentage change in P/E 2012 ..... -11.0%  
 P/E Last Month 2012 ..... 13.6  
 Current P/E 2012 ..... 11.9



Price to Book vs ROE



Price to Sale vs Return on Sale



Our investment theme has been that a very strong global economy is driving sales while a weak U.S. economy is lowering their costs. Currently 70% of sales are from outside the U.S. while 65% of manufacturing is domestic. Lower labor and real estate costs, and higher foreign currency revenue is driving margins higher. However, U.S. tax rules on repatriation of foreign earnings make it sensible to reinvest those earnings overseas.

We remain committed to the investment theme, despite a bad quarter which was mostly driven by an external shock event.

Keep buying 3M.

<b>SL Green</b>	<b>\$ 82.02 BUY</b>
<b>Market Capitalization</b>	<b>\$ 6,901 mil</b>
<b>Sales '12</b>	<b>\$ 1,129 mil</b>
<b>FFO '12</b>	<b>\$ 358 mil</b>
<b>P/FFO '12</b>	<b>18.9</b>
<b>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.</b>	

While First quarter earnings reflected a dramatic improvement, and evidence that SL Green had established a strong leadership role in Manhattan Office space, the second quarter provided evidence that its position solidified. The first quarter showed jumps in all measures, while the second quarter shows its position is defensible.

SL Green Realty Corp., New York City's biggest office landlord, said second-quarter funds from operations rose 14% as rental revenue increased. FFO, which gauges a property company's ability to generate cash, was \$92.9 mil, or \$1.08 a share, compared with \$81.5 mil, or \$1.02, a year earlier. Analysts expected FFO of \$1.03 a share

SL Green has benefited from gains in leasing and property values in Manhattan.

NYC vacancy rate fell to 9.4% at the end of the second quarter from 10.8% as the slow recovery in the finance industry continues.

As foreign investors accumulate U.S. dollars from the sale of oil and Chinese goods, money is desperately searching for opportunities, and New York office prices climbed 27% for the period, while the number of transactions surged. Markets for trophy properties are looking good. And so is SL Green.

We maintain our price target of \$100 per share by year end.

<b>Dr Pepper Snapple</b>	<b>\$ 37.76 BUY</b>
<b>Market Capitalization</b>	<b>\$ 8.2 bil</b>
<b>Sales '12</b>	<b>\$ 6.1 bil</b>
<b>Profit '12</b>	<b>\$ 636 mil</b>
<b>P/E '12</b>	<b>12.7</b>
<b>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.</b>	

Dr Pepper Snapple reported sales increased 4% to \$1.58 bil due to currency translations, while volumes and prices remained flat. This result is consistent with Coke and Pepsi, who have bigger international exposures. Volumes for 7-Up, Dr Pepper, Sunkist and A&W were down slightly while Snapple volume was up 8%. Pricing was up 2%, in line with expectations.

Profits were \$172 mil, down from \$184 mil last year, but up in cents per share to 77 (beating estimates of 76) from 74 cents last year because there were fewer shares outstanding. Marketing expenses were down from \$30 mil to \$20 mil, as they pushed costs out to the 3<sup>rd</sup> quarter when they plan to release 'Dr Pepper Ten'.

Dr Pepper Ten, with 10 calories per serving – a tenth of regular Dr Pepper – will launch nationwide Oct. 10. The company hopes the drink will attract males between the ages of



25 to 34 who have cut back on full-calorie sodas and don't like the taste of diet sodas.

Although Dr Pepper underperformed Coke and Pepsi this month, our investment theme is intact. Similar to Energizer, Bausch & Lomb, Kraft and others: Dr Pepper has the lowest margins in its industry (in this case ½ the margins that Coke earns. The company was recently spun off from a larger organization, (Cadbury) and management now has the opportunity and incentive to get margins up. If they can increase margins from 10% to 15% (well below Coke at 20%) the stock price will increase 75%.

<b>Kraft</b>	<b>\$ 34.38 BUY</b>
<b>Market Capitalization</b>	<b>\$ 60.4 bil</b>
<b>Sales Est. '12</b>	<b>\$ 55.4 bil</b>
<b>Profit Est. '12</b>	<b>\$ 4.4 bil</b>
<b>P/E Est. '12</b>	<b>13.7</b>
<b>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 &amp; Africa and 15% from Latin America &amp; Asia Pacific.</b>	

Kraft is expected to report earnings on August 4<sup>th</sup>. They are expected to earn 57.6 cents per share, up from 51.9 a year earlier.

Quarterly sales estimates are \$13,152 mil, down \$10 mil in last four weeks, and profit \$1,019 mil, down \$3 mil in last four weeks.

On July 22<sup>nd</sup> four firms reiterated buy recommendations on the stock, including Jefferies, Sanford Bernstein, Stifel Nicolaus, and Wells Fargo with price targets as high as high as \$43.

Look for further comments regarding synergies from the merger with Cadbury, and increased distribution of Cheese products in China. Foreign currency will work in Kraft's favor, so comments about degree will be important. There should also be comments on the success (or lack

thereof) of replacing the distribution of Starbucks Coffee with Gevalia brand

Most importantly look for comments about costs, and cost control for commodities such as Cocoa, coffee, sugar, flour, wheat and soy.

Buy Kraft in anticipation of continued improvement in operating margins as management uses its size and purchasing power to improve margins to industry averages, which will drive the stock price higher.

<b>Pfizer</b>	<b>\$ 19.25 BUY</b>
<b>Market Capitalization</b>	<b>\$ 152.1 bil</b>
<b>Sales Est. '12</b>	<b>\$ 63.3 bil</b>
<b>Profit Est. '12</b>	<b>\$ 17.7 bil</b>
<b>P/E '12</b>	<b>8.3</b>
<b>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.</b>	

Pfizer is expected to report sales of \$16.98 bil on August 2<sup>nd</sup>, and profit of \$4.70 bil. That is 58.8 cents per share, up from 52.2 last year.

For the year ending Dec. 2011 Pfizer is expected to earn \$2.25, and for 2012 consensus estimates are \$3.30. The loss of Lipitor is fully priced, and there is some upside in estimates if the brand name can avoid completely being eclipsed by generics.

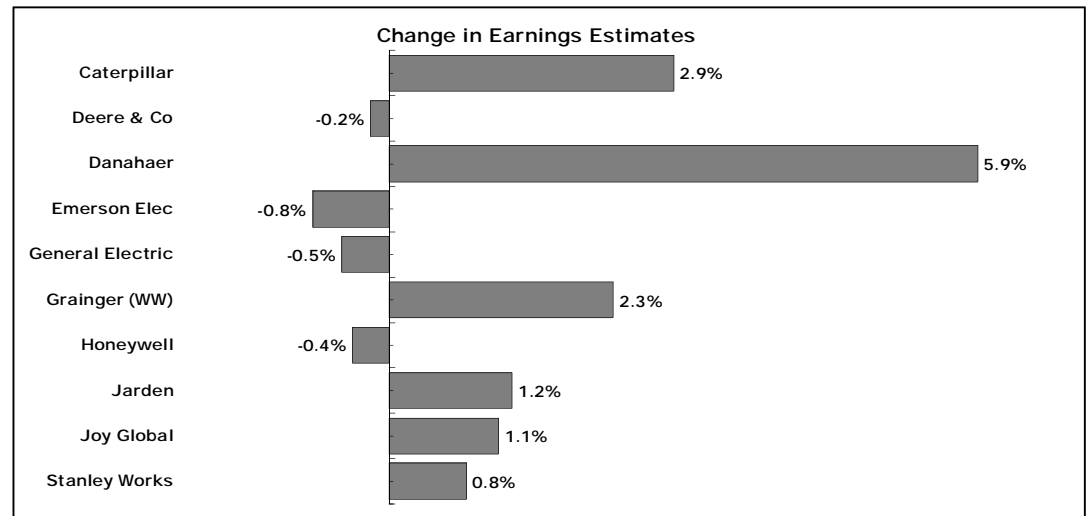
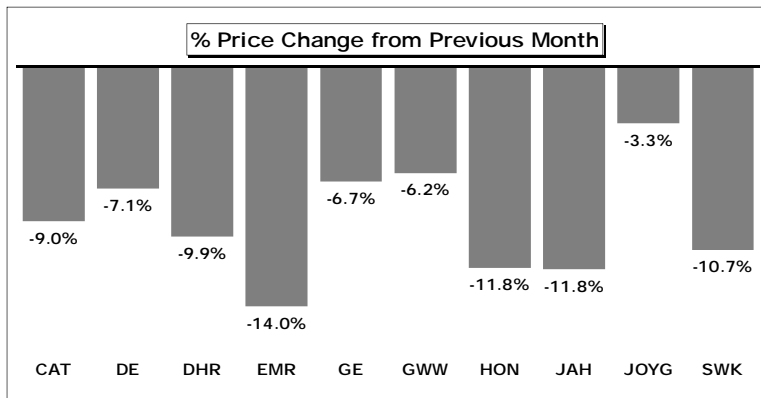
Recall that last quarter Pfizer agreed to sell its Capsugel manufacturing unit for \$2.4b. Cash will be used to expand the \$5b share repurchase. This could be the first of several divestitures/spin-offs, so look for clues to corporate strategy in the earnings announcement.

Also recall that they cut R&D expenses in the prior quarter, so we are likely to get questions during the call about how they

**ELECTRICAL AND MANUFACTURING EQUIPMENT**

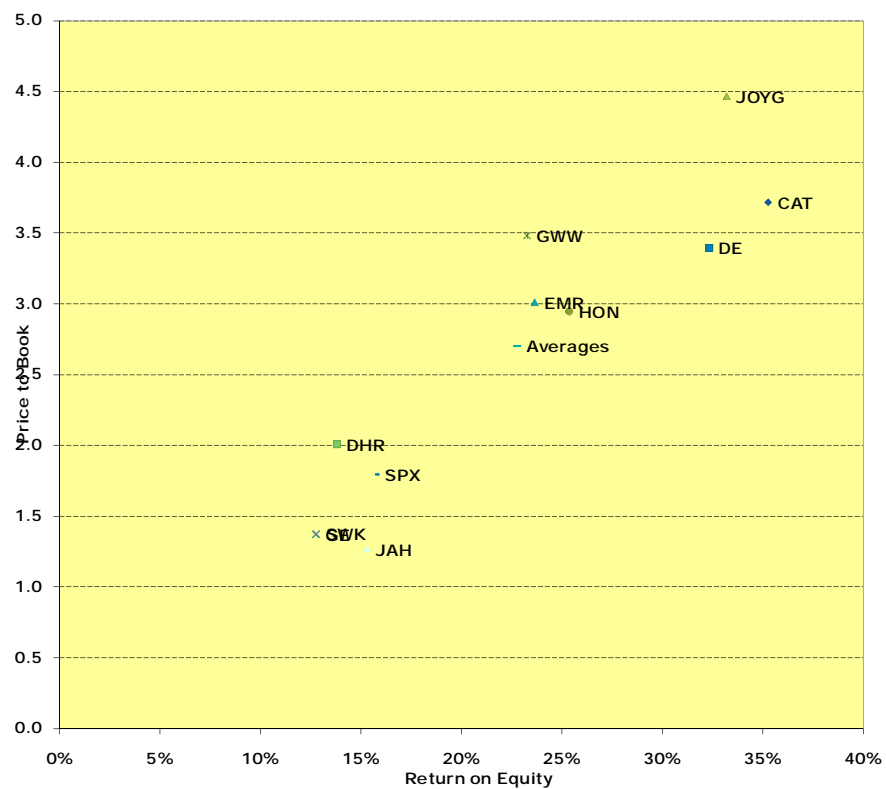
Company	Code	Price	X Shares Outstanding	=	Market Cap	Equity 10A	EPS 11E	Div 11E	=	Equity 11E	EPS 12E	Div 12E	=	Equity 12E	Price/ Book	ROE 12E	Projected Sales 12E	Price/ Sales	ROS 12E	P/E 12E	Yield	FYE	
Caterpillar	CAT	CAT U	98.79	645	=	63,689	11,325	7.03	1.79	=	14,708	9.37	1.84	=	19,566	3.7	35.3%	67,084	0.9	9.0%	10.5	1.9%	Dec
Deere & Co	DE	DE US	78.51	420	=	32,951	6,303	6.40	1.33	=	8,430	7.47	1.40	=	10,979	3.4	32.3%	32,360	1.0	9.7%	10.5	1.8%	Oct
Danahae	DHR	DHR U	49.11	686	=	33,668	13,773	2.83	0.09	=	15,651	3.38	0.11	=	17,887	2.0	13.8%	19,335	1.7	12.0%	14.5	0.2%	Oct
Emerson Elec	EMR	EMR U	49.09	752	=	36,900	9,952	3.28	1.39	=	11,373	3.86	1.50	=	13,141	3.0	23.6%	26,829	1.4	10.8%	12.7	3.1%	Sep
General Electric	GE	GE US	17.91	10,600	=	189,852	124,198	1.40	0.56	=	133,070	1.66	0.66	=	143,724	1.4	12.7%	150,597	1.3	11.7%	10.8	3.7%	Dec
Grainger (WW)	GWV	GWV U	148.37	70	=	10,328	2,288	8.78	2.53	=	2,723	9.92	2.88	=	3,213	3.5	23.3%	8,539	1.2	8.1%	15.0	1.9%	Dec
Honeywell	HON	HON U	53.10	782	=	41,547	10,787	3.95	1.30	=	12,860	4.57	1.39	=	15,349	2.9	25.4%	39,165	1.1	9.1%	11.6	2.6%	Dec
Jarden	JAH	JAH U	30.99	92	=	2,843	1,821	3.39	0.34	=	2,101	3.77	0.36	=	2,414	1.3	15.3%	6,907	0.4	5.0%	8.2	1.1%	Dec
Joy Global	JOYG	JOYG U	93.92	105	=	9,865	1,355	5.71	0.71	=	1,881	6.98	0.74	=	2,537	4.5	33.2%	5,354	1.8	13.7%	13.5	0.8%	Dec
Stanley Works	SWK	SWK U	65.77	168	=	11,073	7,070	5.23	1.64	=	7,674	6.10	1.70	=	8,416	1.4	12.8%	10,806	1.0	9.5%	10.8	2.6%	Dec
Averages															2.7	22.8%		1.2	9.9%	11.8	2.0%		
S&P 500	SPX	SPX I	1,292	1	=	1,292	605	99.93	26.15	=	679	113.43	28.60	=	764	1.8	15.7%	1,111	1.2	10.2%	11.4	2.2%	

Plus Percentage Change in Price/Book ..... -8.8%  
 Minus Percentage Change in ROE 2012 ..... 0.9%  
 Equals Percentage change in P/E 2012 ..... -9.7%  
 P/E Last Month 2012 ..... 13.2  
 Current P/E 2012 ..... 11.8

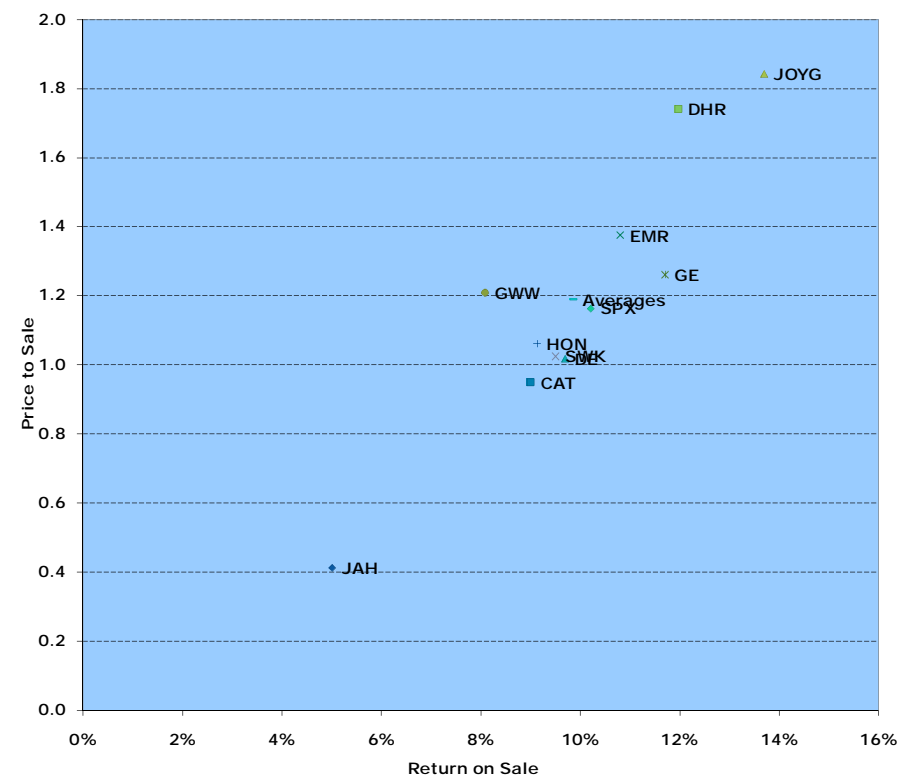




Price to Book vs ROE



Price to Sale vs Return on Sale



will manage their cash.

<b>nVIDIA</b>	<b>\$ 13.83 BUY</b>
<b>Market Capitalization</b>	<b>\$ 8.3 bil</b>
<b>Sales '13</b>	<b>\$ 4,444 mil</b>
<b>Profit '13</b>	<b>\$ 853 mil</b>
<b>P/E '13 (Jan)</b>	<b>10.7</b>
<b>nVIDIA Corporation designs, develops, and markets three dimensional (3D) graphics processors and related software. The Company's products provide interactive 3D graphics to the mainstream personal computer market.</b>	

We recommended buying nVIDIA, the graphics chip king, last month after the stock experienced excessive selling pressure.

nVIDIA designs high-def 2D and 3D graphics processors for gaming and industrial design applications. Their graphics chips are used by leading PC makers Apple, Dell and Hewlett-Packard as well as add-in boards and motherboards produced by ASUSTek, PNY Tech and others. In addition they provide complimentary driver software & chipsets.

nVIDIA designs chips, but does not own a fabrication plant. They outsource production to companies like Taiwan Semiconductor Manufacturing Company.

Approximately 75% of sales come from the biggest growth region, Asia, and more specifically China and Taiwan.

nVIDIA is pushing into the Tablet market and shipped their 10-millionth Tegra Chip in June, 50% of the Tegra chips go into Tablets & Smartphones. With no exposure to RIM (Blackberry) they are well positioned in the smartphone/tablet arena, this enables them to diversify their business and reduce the dependence on chips used in PCs. GPU products stand to benefit from back-to-school and share gains.

nVIDIA recently acquired the tightly held Icera Inc. for \$367 mil, adding radio processors needed in phones and tablets.

Management's recent 2Q12 guidance does not include 2 months of Icera's operating results. Having the ability to offer Tegra and a radio chip will double nVIDIA's opportunity for revenue from each device.

Their major competitors are AMD, which acquired ATI technologies, but not so much with Intel, to whom they license technology

nVIDIA is expected to report earnings on August 11<sup>th</sup>, and we expect the stock to recover to \$20 per share in the short term. Jump on it.

<b>Microsoft</b>	<b>\$ 27.40 BUY</b>
<b>Market Capitalization</b>	<b>\$ 229 bil</b>
<b>Sales Est. '13</b>	<b>\$ 80 bil</b>
<b>Profit Est. '13</b>	<b>\$ 26 bil</b>
<b>P/E '13 (June)</b>	<b>8.6</b>
<b>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.</b>	

4Q11 Microsoft sales rose to \$17.4 bil, compared with the \$17.2 bil average estimate. Corporations upgraded aging computers that were not replaced during the GFC, with demand concentrated in Microsoft's Office business-productivity programs and in the Windows operating system. That made up for weaker demand from consumers, who favored smartphones and tablets sporting Apple and Google software. Earnings from foreign countries with lower tax rates also helped the mix.

Net income in the fiscal period that ended in June rose 30 percent to \$5.87 bil, or 69 cents a share, from \$4.52 bil, or 51 cents, a year earlier.

This is a rapidly shifting landscape, where RIM lost its dominant position to Apple, and Google is taking up the operating system slack. Microsoft is on the back foot,



(like it was with the Internet) but they are fiercely competitive, and will carve out profitable space in consumer products as well as enterprise products.

Summary: Improvements in corporate demand outstrip weakness in consumer segments, and the stock price advanced strongly this month.

<b>Oracle</b>	<b>\$ 30.58 BUY</b>
<b>Market Capitalization</b>	<b>\$ 154.9 bil</b>
<b>Sales '13 (May)</b>	<b>\$ 42.3 bil</b>
<b>Profit '13 (May)</b>	<b>\$ 13.8 bil</b>
<b>P/E '13 (May)</b>	<b>11.5</b>
<b>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.</b>	

In the last three months Oracle's estimates have gone up and the stock price has come down, bring the P/E to 11.5, almost equal to the S&P 500, making it dirt cheap.

SAP, Oracle's main competitor, seems to be recovering from a string of bad PR issues, such as losing a law suit to Oracle over stealing software, and HR defections.

SAP's licensing revenues increases 26%, outstripping Oracle's 19% growth, in a drive for 'mobility' solutions and their 'HANA' solution. Hana is 'High Performance Analytic Applications' derived partially from the Sybase acquisition, which runs 'in-memory', speeding up access to data. The application is sold on servers made by Hewlett-Packard, IBM, Dell and Cisco.

SAP's 'Mobility Solution' allows executives to access data from Tablets, and other hand held devices.

As reported last month, Oracle software licenses rose 19% in the quarter, but a fall in demand for Sun hardware hurt the stock price. Analysts are watching closely to see if Oracle can pull off the big gamble they took in buying Sun. The argument is that Sun servers and chips can be designed to run Oracle applications better if the hardware is in house. But Sun had been struggling to keep up with IBM, HP and Dell market share.

<b>Cisco</b>	<b>\$ 15.97 SELL</b>
<b>Market Capitalization</b>	<b>\$ 87.8 bil</b>
<b>Sales Est. '12 (Jul)</b>	<b>\$ 45.5 bil</b>
<b>Profit Est '12 (Jul)</b>	<b>\$ 9.4 bil</b>
<b>P/E Est '12 (Jul)</b>	<b>9.4</b>
<b>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.</b>	

We got this wrong, and Juniper had a scary result this quarter. We are taking our losses, and calling it a bad idea.

<b>iShares Financial Sector</b>	<b>\$ 54.52 BUY</b>
<b>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.</b>	

The play here is quite simple. The U.S. 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.



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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	<b>Honeywell</b>	<b>Buy</b>	<b>\$ 53.10</b>	<b>38 / 62</b>	<b>11.6</b>
Elec. & Mfg Equipment	<b>3M</b>	<b>Buy</b>	<b>\$ 87.14</b>	<b>78 / 98</b>	<b>12.4</b>
Automobile					
Housing					
Lodging & Restaurants					
Retail					
Real Estate	<b>SL Green</b>	<b>Buy</b>	<b>\$ 82.02</b>	<b>56 / 90</b>	<b>18 FFO</b>
Food	<b>Kraft</b>	<b>Buy</b>	<b>\$ 34.38</b>	<b>29 / 36</b>	<b>13.7</b>
	<b>Dr Pepper Snapple</b>	<b>Buy</b>	<b>\$ 37.76</b>	<b>33 / 43</b>	<b>12.7</b>
Media / Entertainment					
Consumer Products					
Hospital					
Pharmaceutical	<b>Pfizer</b>	<b>Buy</b>	<b>\$ 19.25</b>	<b>15 / 21</b>	<b>8.4</b>
Computers	<b>Cisco</b>	<b>Sell</b>	<b>\$ 15.97</b>	<b>15 / 25</b>	<b>9.4</b>
Semiconductors	<b>nVIDIA</b>	<b>Buy</b>	<b>\$ 13.83</b>	<b>9 / 26</b>	<b>10.7</b>
Software	<b>Microsoft</b>	<b>Buy</b>	<b>\$ 27.40</b>	<b>23 / 29</b>	<b>8.6</b>
	<b>Oracle</b>	<b>Buy</b>	<b>\$ 34.09</b>	<b>22 / 37</b>	<b>12.4</b>
Aerospace					
Financial	<b>iShares Financial</b>	<b>Buy</b>	<b>\$ 57.67</b>	<b>48 / 62</b>	<b>N/A</b>

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