



# FORTREND SECURITIES

## Research Report

5 September 2011

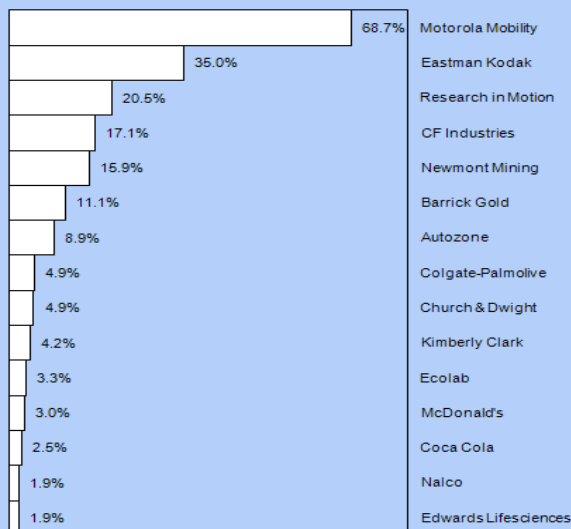
**Joe Forster**  
Chief Executive Officer

### Relative Value Model Bulls vs. Bears

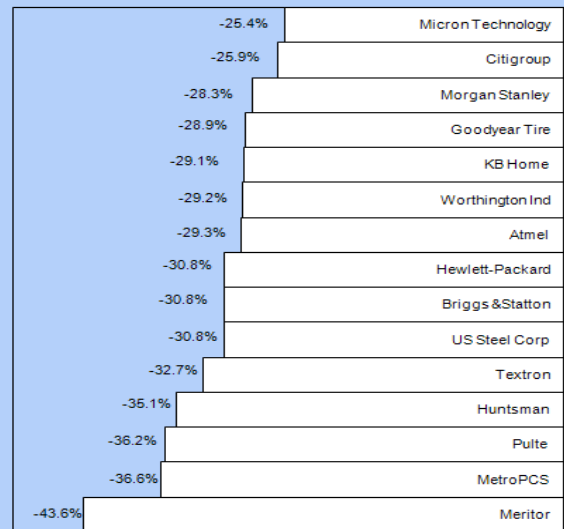
In August the S&P 500 fell 9.2%, and earnings estimates were cut by 1.0%. The forward P/E fell 8.2% to 10.5. The 10 year treasury yield fell below 2% to 1.99% during August, finishing the month below the estimated yield on the S&P 500!

**Sell IYF, Buy Morgan Stanley. Volatility creates an opportunity to exit the systemic financial exposure, and take specific exposure.**

#### Best Performers



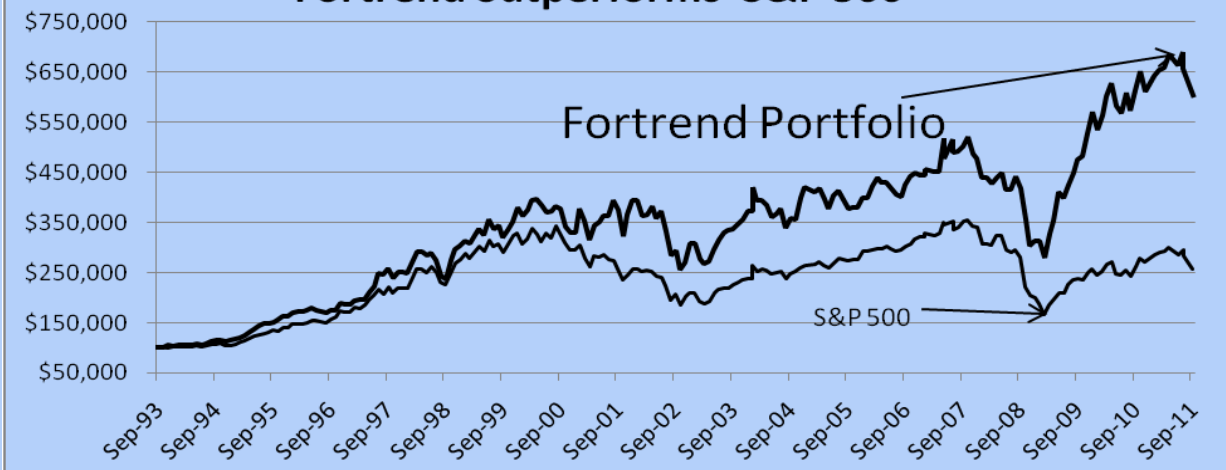
#### Worst Performers



Auto stocks fell 20%, Financials dropped 18% and Oil/Energy stocks were off 16%. Entertainment fell 14% (tempting), and Aerospace & Defense was off 13%.

Food stocks only fell 1.3%, helping Fortrend's portfolio beat the market by 120 bps this month.

#### Fortrend outperforms S&P 500



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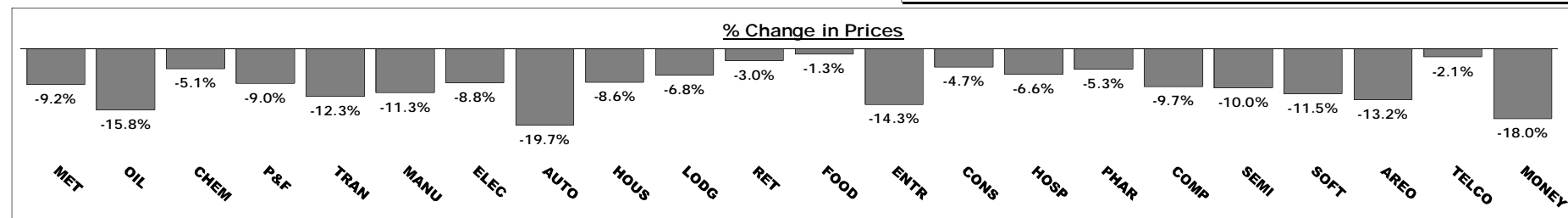
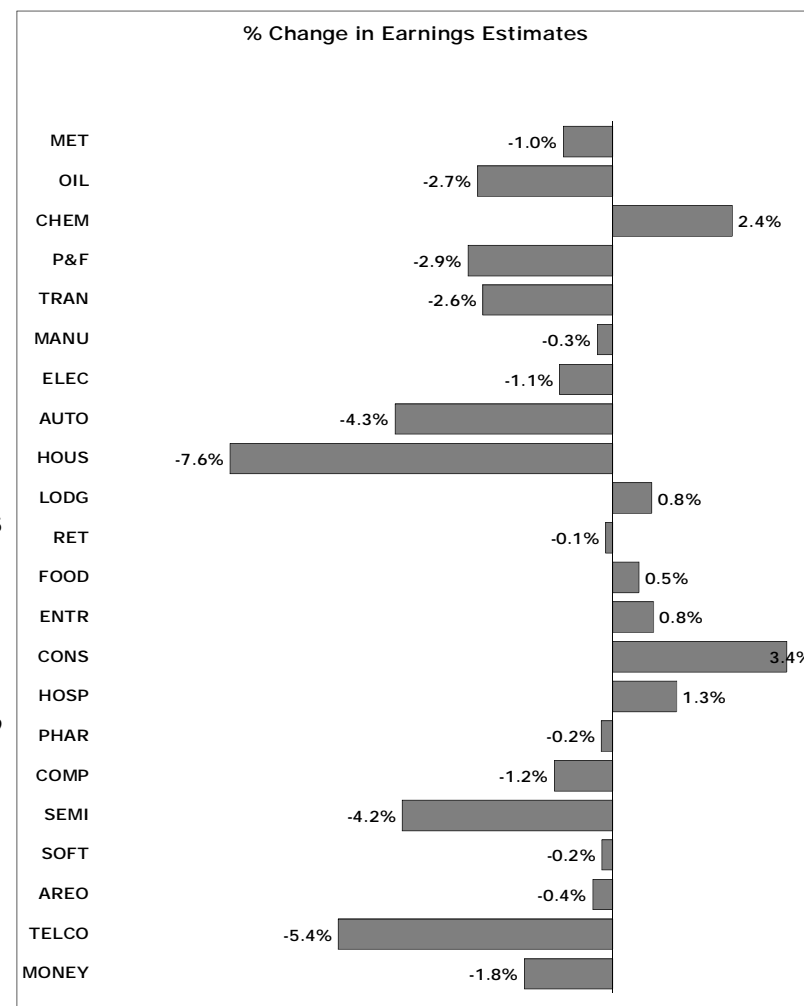
Aug 1st - Sep 2nd

## Relative Value Model

Plus Percentage Change in Price/Book ..	-9.8%
Minus Percentage Change in ROE 2012..	-1.7%
Equals Percentage change in P/E 2012 ..	-8.1%
Current P/E 2012 .....	10.5
10 year Treasury Yield .....	1.99%
Equity Discount / Premium .....	-381%

	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%





Firm	Strategist	Stocks	Bonds	Cash	Est. EPS 2011	Est. EPS 2012	S&P Target 2011
<b>Bulls</b>							
JP Morgan	Thomas Lee	60	25	15	97.00	105.00	1,475
Barclays	Barry Knapp	80	10	10	96.00	105.00	1,450
UBS -c	Jonathan Golub	45	40.5	2	96.00	108.00	1,425
Bank of America -a	David Bianco	52	34	4	97.00	104.00	1,400
<b>Bears</b>							
Morgan Stanley	Adam Parker	NA	NA	NA	96.20	103.20	1,238
Bank of Montreal -b	Ben Joyce	65	30	4	97.00	103.00	1,215
Credit Suisse	Doug Cliggott	NA	NA	NA	94.00	81.00	1,100
Average		60.3	29.9	5.5	96.38	102.90	1,359
Current S&P 500 Level							1,174
a) 10% Commodities, b) 3% Alternative, c) 2.5% volatility + 5% commodities + 5% real estate							16%

## Bulls

### **Tom Lee of JPMorgan, Sep 1<sup>st</sup>**

Lee sees a huge dislocation in the valuation of credit and debt markets (stocks vs. bonds). Stimulus from a year ago is gone, and he thinks we will get a better indication of potential further stimulus policies after next week's employment data.

The number of analysts in the "recession camp" is up, causing severe cuts in valuations. Lee had been predicting 5% GDP growth in 4Q, which he had to cut back. The reasons for reductions start with consumer credit, which did not expand as predicted, and that did not lead to improvement in housing. However, markets are now factoring in 2% growth which is too negative. People are drawing parallels to 2008, where Lehman, Bear and Merrill hit the wall, a situation which is not applicable now. The market is pricing in a recession, which he does not think will happen, but business confidence needs to rebound. Although there may be a value disparity, there needs to be a catalyst, which could come in the form of Fed action on Sept 21<sup>st</sup>, or better business or consumer sentiment. Washington has a lot of budget cuts that don't take place till after 2012, so President Obama could announce a jobs initiative next week. In the end, earnings are still good.

**Binky Chadha of Deutsche Bank** wrote "present valuation may be near the bottom of the '09 bear market" and sees the S&P 500 rising to 1,425 by year end.

**David Kostin of Goldman Sachs** sees the year end S&P 500 at 1,400, believing equities present value relative to bonds.

**David Bianco of Bank of America Merrill Lynch** said companies may be able to boost shareholder value by issuing long-term debt to increase dividends and buy back (cheap) shares. Bianco sees 2012 GDP growth at 2.3% and the S&P 500 at 1,400.

## Bears

### **Doug Cliggott of Credit Suisse, July 19<sup>th</sup>**

We believe a progressively slower pace of EPS growth and downward pressure on P/E multiples will be the two dominant macro features of 2H11.

Unit labor costs are now rising and revenue growth is moderating. Expect lower P/E multiples because they were artificially inflated by the Fed's asset purchases. Now the Fed is done, P/E's will decline.

Expect stable growth to outperform cyclical growth. Recommends overweight: health care, energy, consumer staples and telecom services. Recommends underweight: financials, consumer discretionary and basic materials.

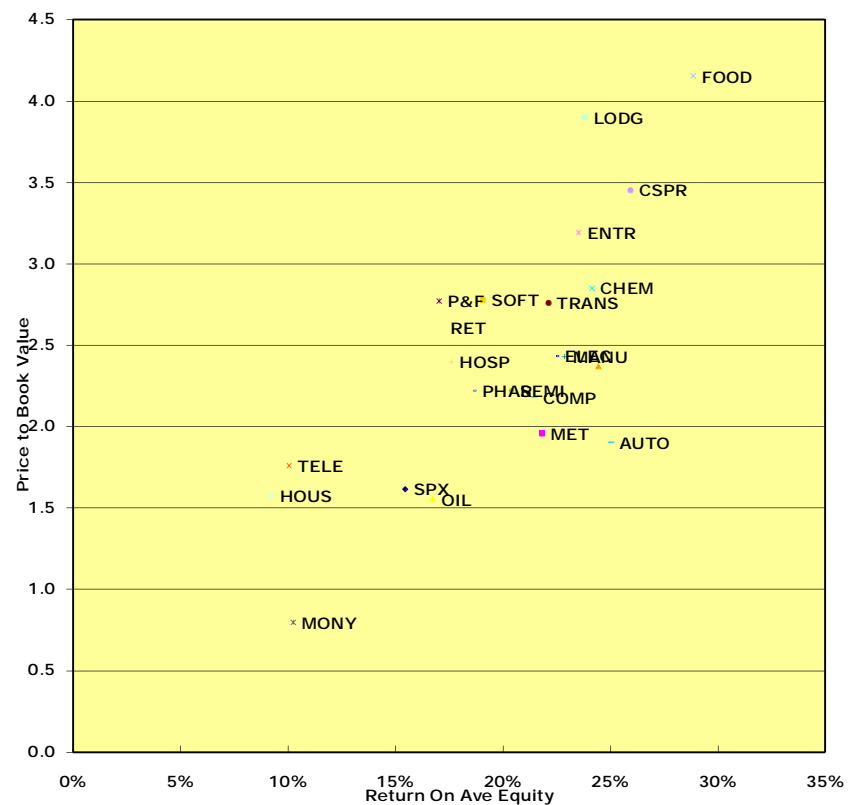
**Michael Ryan of UBS** sees the year end S&P 500 at 1,225 and likes consumer staples, technology, avoids consumer discretionary, telecom.

**Jason Trennert of Strategas Research** also sees a "difficult environment" for the economy, predicting the year end S&P 500 at 1,165, and 2012 GDP growth of 1.0%.

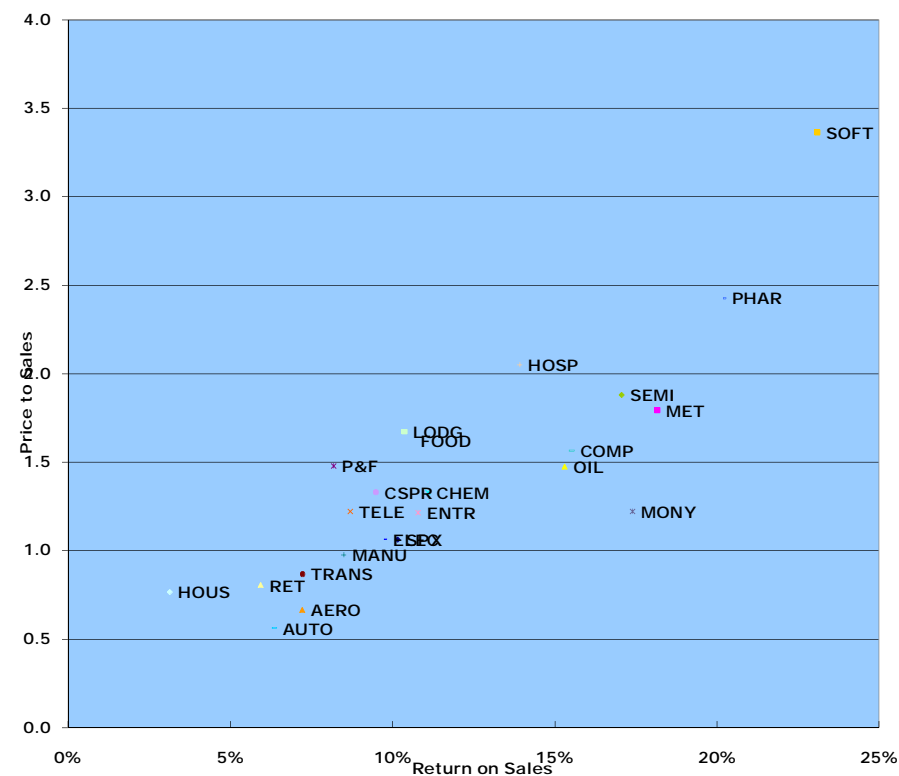
## THE RELATIVE VALUE MODEL

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	1,174	1	=	1,174	611	100.07	26.29	=	685	112.32	28.79	=	768	1.6	15.5%	1,105	1.1	10.2%	10.5	2.5%
<b>RAW MATERIALS</b>																					
Metals	MET	40.13	473	=	18,349	8,241	3.95	0.79	=	9,615	4.86	0.83	=	11,260	2.0	21.8%	13,295	1.8	18.2%	9.3	2.3%
Oil	OIL	68.31	1,252	=	89,528	45,913	6.88	1.24	=	53,706	7.64	1.29	=	62,081	1.6	16.7%	112,228	1.5	15.3%	9.5	1.9%
<b>INDUSTRIAL CYCLICAL</b>																					
Chemicals	CHEM	69.28	277	=	13,738	4,494	5.84	1.13	=	5,306	6.21	1.23	=	6,236	2.9	24.1%	13,680	1.3	11.1%	11.9	2.0%
Paper, Forest Packaging	P&F	28.82	215	=	6,575	2,716	1.71	1.08	=	2,903	2.11	1.12	=	3,160	2.8	17.0%	7,448	1.5	8.2%	11.2	3.3%
Transportation	TRAN	41.87	450	=	15,949	5,403	2.68	0.75	=	6,185	3.54	0.81	=	7,295	2.8	22.1%	22,794	0.9	7.2%	11.8	1.5%
Manufacturing	MANU	46.25	229	=	11,869	4,126	3.78	1.14	=	4,759	4.35	1.13	=	5,528	2.4	22.9%	11,154	1.0	8.5%	10.6	2.2%
Electrical	ELEC	62.51	1,431	=	38,335	18,887	4.81	1.17	=	21,010	5.65	1.27	=	23,566	2.4	22.5%	36,551	1.1	9.7%	10.8	2.2%
<b>CONSUMER CYCLICAL</b>																					
Automobile	AUTO	32.63	505	=	8,924	1,695	3.39	0.36	=	2,833	4.13	0.40	=	4,046	1.9	25.0%	24,100	0.6	6.4%	7.7	1.1%
Housing	HOUS	81.21	165	=	3,206	2,116	3.85	0.62	=	2,184	4.96	0.65	=	2,304	1.6	9.2%	5,682	0.8	3.1%	0.6	2.3%
Lodging	LODG	57.40	390	=	17,708	4,665	2.51	0.73	=	5,266	2.99	0.82	=	5,963	3.9	23.8%	9,284	1.7	10.4%	16.6	2.3%
Retail	RET	71.39	656	=	35,058	11,591	4.06	0.63	=	13,249	4.67	0.65	=	15,140	2.6	17.2%	65,781	0.8	5.9%	14.4	1.8%
<b>CONSUMER NON-CYCLICALS</b>																					
Food	FOOD	45.69	740	=	36,955	9,302	2.78	1.39	=	10,461	3.07	1.45	=	11,798	4.2	28.9%	22,134	1.6	10.6%	14.9	3.3%
Entertainment	ENTR	45.56	813	=	23,124	12,205	3.00	0.47	=	13,693	3.53	0.50	=	15,477	3.2	23.5%	19,990	1.2	10.8%	11.4	1.5%
Consumer Prod.	CSPR	52.69	459	=	26,462	8,191	3.21	1.05	=	9,143	3.68	1.15	=	10,191	3.5	25.9%	15,736	1.3	9.5%	15.8	2.2%
Health Care	HOSP	72.73	484	=	18,271	7,985	4.33	0.55	=	9,206	4.85	0.63	=	10,553	2.4	17.6%	24,889	2.1	13.9%	13.3	1.2%
Pharmaceuticals	PHAR	43.95	1,723	=	60,386	25,279	3.63	0.96	=	28,862	3.62	1.03	=	32,426	2.2	18.7%	25,819	2.4	20.2%	12.9	2.6%
<b>TECHNOLOGY</b>																					
Computers	COMP	65.96	1,396	=	68,779	18,734	5.43	0.29	=	24,469	6.14	0.31	=	30,850	2.2	21.5%	46,020	1.6	15.5%	10.0	0.5%
Semiconductors	SEMI	19.10	1,053	=	18,798	8,706	1.62	0.26	=	10,177	1.70	0.30	=	11,699	2.2	20.4%	10,830	1.9	17.1%	10.8	1.2%
Software	SOFT	76.96	1,475	=	51,529	15,827	5.20	0.29	=	19,614	5.99	0.30	=	23,887	2.8	19.1%	17,641	3.4	23.1%	14.9	0.9%
Aerospace	AERO	56.67	324	=	19,140	7,259	5.86	1.39	=	8,446	6.48	1.54	=	9,820	2.4	24.5%	28,870	0.7	7.2%	9.1	2.6%
Telecom	TELE	28.63	1,680	=	44,336	28,834	1.92	0.78	=	29,994	2.15	0.84	=	31,494	1.8	10.1%	39,110	1.2	8.7%	14.2	2.6%
Financial Inst.	MONY	35.89	3,140	=	69,297	109,929	4.06	0.50	=	117,592	5.14	0.68	=	126,607	0.8	10.3%	61,093	1.2	17.4%	7.0	2.0%

Price to Book vs ROE



Price to Sales vs Return on Sales





## Comments from the Fed

Current volatility is the direct result of budget negotiations, in which the Republican Tea Party had more success than expected. Republicans, of course, want the Government to spend less and cut taxes, which puts more money in private hands and (in theory) results in more efficient economic decisions. The Democrats want to tax more, and spend more to prop-up the economy. Because of the level of Government debt, the DCF is a tight balance, and the impacts of economic shock events are amplified. The Tea Party was more successful than anticipated in reducing Government support for potential longer term economic efficiency. This reduced support in the short term creates the risk of a recession, and (according to general public opinion) corporate America cannot be trusted.

The Fed has reacted to Washington with atypical anger. Federal Reserve Bank of Kansas City President Thomas Hoenig said there's a limit to how much more the central bank can help the U.S. economy and that the focus should now be on solving the country's fiscal problems. "We can't do it all," Hoenig, "We have a problem in this country with debt and if we don't turn to the long run, we will be dealing with overnight crises for as far as the eye can see."

In minutes from the last FOMC meeting, three Regional Bank Presidents dissented from the decision to announce that rates would stay near zero through mid 2013. Minutes show that several voting members said there should be specific targets for employment and inflation, rather than a general comment about interest rates.

On August 31<sup>st</sup>, Atlanta President Lockhart said the Fed should be ready to consider more monetary easing, even while it cannot be expected to eliminate some forces impeding economic activity, adding "monetary policy cannot be seen as a panacea."

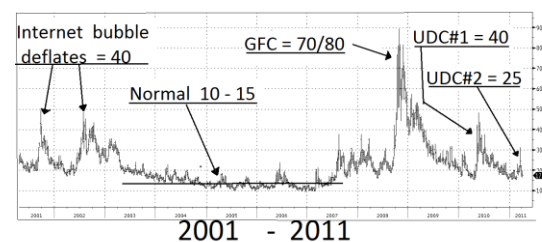
The Fed meets next on September 19<sup>th</sup> and 20<sup>th</sup>, having allotted an extra day to "more fully consider economic circumstances."

## Fortrend Strategy

Expect volatility. Leverage at the consumer and Government levels does not extend to the corporate level (ex- financials and REITs). S&P 500 companies earn half of their profit offshore, where emerging markets, and core European countries are doing very well. The US economic risk is built into US stock prices, but only half of the earnings come from the US.

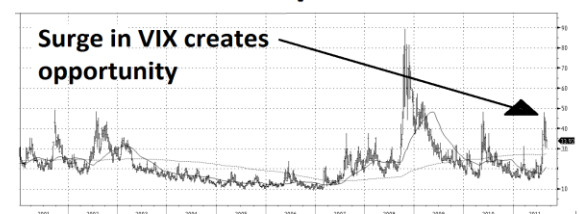
Following is a graph of volatility we published in April.

CBOE SPX VOLATILITY INDEX



We wrote "...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."

VIX 2001 - present



The opportunity we predicted has presented itself, and now is the time to sell puts with a view to entering the market.



**Honeywell Int'l Inc. \$ 45.45 BUY**

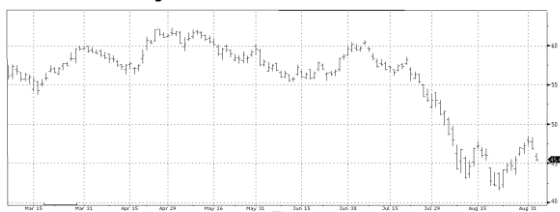
<b>Market Capitalization</b>	<b>\$ 35.5 bil</b>
<b>Sales Est '12</b>	<b>\$ 39.0 bil</b>
<b>Profit Est '12</b>	<b>\$ 3.5 bil</b>
<b>P/E Est '12</b>	<b>10.2</b>

**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.**

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 US, with exports primarily to Canada, Asia, and Latin America.

The company traded ex dividend of 33 cents this month, and was downgraded by Sanford Bernstein. Sales estimates, and profit estimates were downgraded slightly, and the stock price tumbled 14% in a turbulent market. The P/E '12 fell to 10.2.

**Honeywell - 6 months**



With a very strong balance sheet and exposure to growth regions, Honeywell presents an excellent opportunity to invest in a leading global technology inventor and manufacturer.

**3M \$ 79.35 BUY**

<b>Market Capitalization</b>	<b>\$ 56.3 bil</b>
<b>Sales '12</b>	<b>\$ 32.1 bil</b>
<b>Profit '12</b>	<b>\$ 4.7 bil</b>
<b>P/E '12</b>	<b>11.6</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.**

3M traded ex a 55 cent dividend this month.

On Aug. 25 President Barack Obama reaffirmed his pledge to double U.S. exports by 2015. However, markets are in doubt as slowing economic growth for the U.S.'s biggest trading partners is slowing demand, outweighing the benefits of a weaker dollar.

Sales of U.S. goods and services are imperiled by Europe's sovereign-debt crisis, which is stalling expansion in the region and threaten to curb economic activity in emerging markets. Jay Bryson, senior global economist at Wells Fargo commented: "If growth in the rest of the world collapses, I don't care how weak the dollar is, you're going to see exports go down."

The U.S. Trade-Weighted Major Currency Dollar Index, a measure of the dollar's performance against seven currencies, dropped 6.3% this year, making U.S. goods more attractive to overseas buyers.

Fortrend's investment theme has been that a strong global economy is driving sales while a weak U.S. economy is lowering costs. With 65% of manufacturing in the US, and 70% of sales overseas, 3M is a beneficiary in our theme. Lower labor and real estate costs, and higher foreign currency revenue is driving margins higher.

We remain committed to the investment theme, keep buying 3M.





**SL Green \$ 70.49 BUY**

**Market Capitalization \$ 6,101 mil**

**Sales \$ 1,145 mil**

**FFO \$ 358 mil**

**P/FFO 2012 15.9**

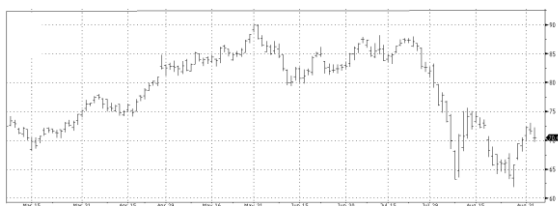
**SL Green is a REIT, that acquires, owns, repositions and manages Manhattan office properties. The Company owns more than 30 New York City office properties totaling over 22 million square feet, making it New York's largest office landlord.**

It was a bad month for SL Green, which fell 14%. To recap some fundamentals: First quarter earnings reflected a dramatic improvement, and evidence that SL Green had maintained a strong leadership role in Manhattan Office space. 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.

The fall in the stock price this month was driven by systemic macro risks, not specific issues. Specifically, weakness in the financial sector lead to concern about future lease negotiations. Also, slow growth means low inflation which implies real borrowing costs should remain unchanged. This would be a positive for SL Green, which is more leveraged than its peers.

This month the stock was raised to "outperform" at Keefe Bruyette. There was also the relatively minor news that they secured a stake in 180 Maiden Lane.

**SL Green - 6 months**



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

**Dr Pepper Snapple \$ 37.73 BUY**

**Market Capitalization \$ 8.2 bil**

**Sales '12 \$ 6.1 bil**

**Profit '12 \$ 636 mil**

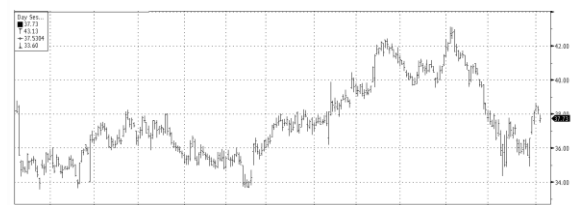
**P/E '12 12.7**

**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.**

There was no news from Dr Pepper Snapple this month, except for a \$2 million investment in Hydrive, an energy drink company that is releasing a new decaf version (I don't get that, but the public buys it).

The stock price was unchanged in a weak market.

**Dr Pepper Snapple - 12 months**



Keep buying. 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 1/2 the margins that Coke earns.) The company was 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%.





**Kraft** **\$ 34.27 BUY**

**Market Capitalization** **\$ 60.5 bil**

**Sales Est '12** **\$ 56.5 bil**

**Profit Est '12** **\$ 4.5 bil**

**P/E Est '12** **13.5**

**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.**

Despite finishing the month unchanged, August was a big month for Kraft. On Aug 4<sup>th</sup> they announced earnings, which were eclipsed by the news that CEO Irene Rosenfeld intends to split the company in two.

The Domestic Grocery business will be spun off from the global snack food business. Global snacks are faster growing, and require more capital investments than domestic grocery, which is a higher yielding part of Kraft.

The larger snack-foods business requires flexibility to acquire or divest brands and expand in emerging markets. The two businesses have evidently been fighting for access to capital that is being generated by domestic grocery.

Irene is certainly willing to do big deals, and this is evidence that she is changing the culture: one way or another. The days of tobacco are long gone, but the entrepreneurial spirit of the company is still evolving. There is room to improve margins, and still significant upside in the stock.

Buy Kraft.

**Pfizer** **\$ 18.46 BUY**

**Market Capitalization** **\$ 144.0 bil**

**Sales Est. '12** **\$ 63.3 bil**

**Profit Est. '12** **\$ 17.7 bil**

**P/E 2012** **8.0**

**Pfizer is the world's largest pharmaceutical company. 100% of sales come from drugs since selling the consumer products business.**

Pfizer reported that sales fell 0.9% to \$16.98 billion, matching estimates. Sales of the Lyrica pain pill and Enbrel arthritis medicine topped analyst predictions. This offset declines in sales from expired patents. The slide in the dollar increased sales by 4%, while the company earned 57% of its revenue offshore.

Net income rose 5.2% to \$2.61 billion, or 33 cents a share, from \$2.48 billion, or 31 cents last year. Pfizer reiterated its 2011 profit forecast range of \$2.16 to \$2.26 a share. It also maintained its guidance for 2012, the first full year of generic competition to Lipitor.

Pfizer is selling its animal health and infant formula units and trimming its workforce to prepare for the loss in November of exclusive rights to Lipitor, which had \$10.7 billion in sales last year.

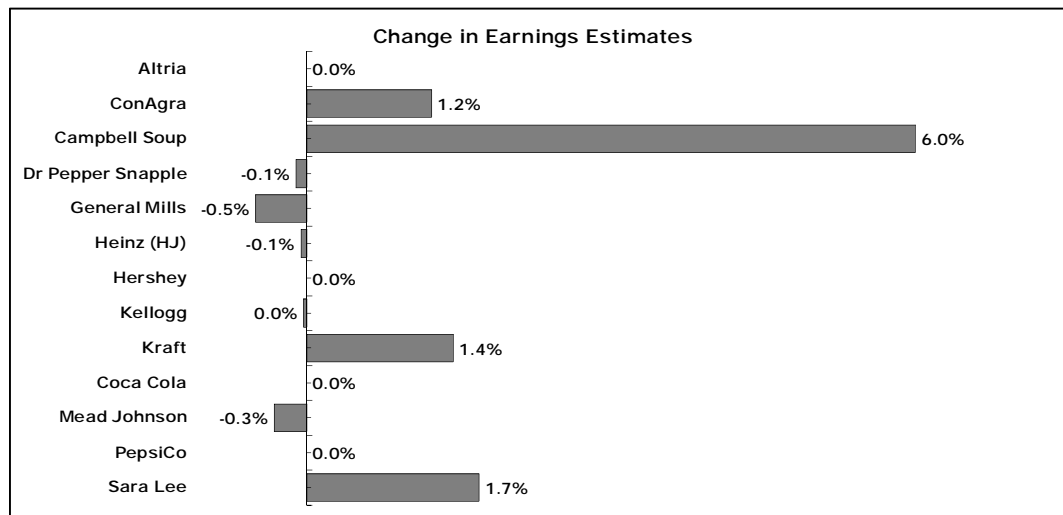
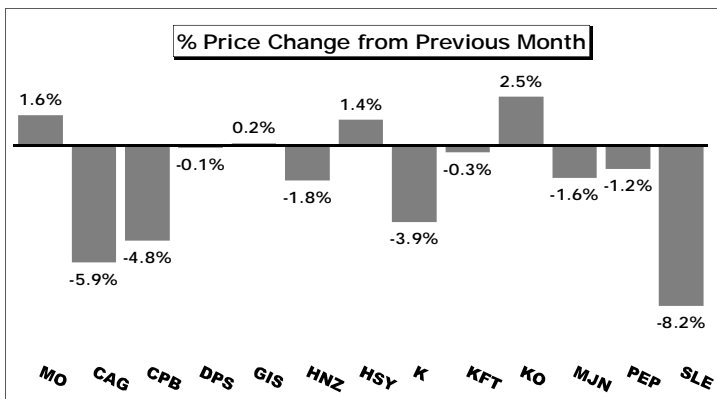
Pfizer has three late-stage experimental medicines that analysts estimate may bring in more than \$3.5 billion annually by 2015. Investors are shifting their focus back to the product pipeline, shifting back to the cost cutting and share repurchases.

After announcing earnings a number of Wall Street analysts recommended buying Pfizer. Goldman, Merrill and JPMorgan added the stock to their top picks. The stock is coming back in favor. After Lipitor goes, the stock price will probably start moving up.

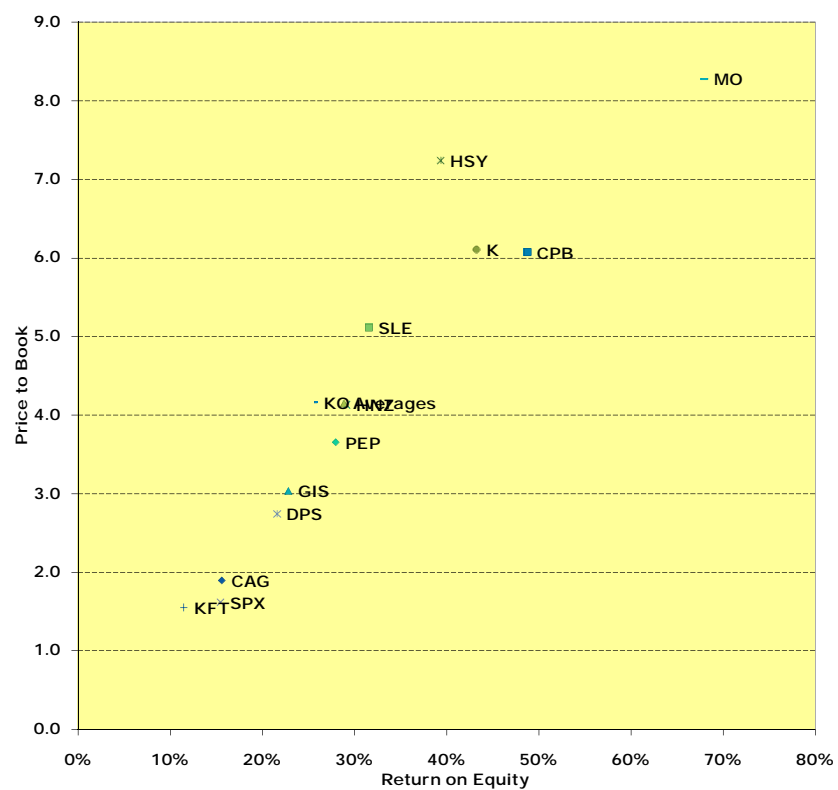
**FOOD**

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
Altria	MO	26.72	2,071	=	55,343	5,227	2.04	1.58	=	6,182	2.20	1.71	=	7,193	8.3	68.0%	17,495	3.2	26.0%	12.2	6.4%	Dec
ConAgra	CAG	24.09	415	=	9,988	4,709	1.81	0.94	=	5,068	1.99	1.00	=	5,476	1.9	15.6%	13,200	0.8	6.2%	12.1	4.2%	May
Campbell Soup	CPB	31.46	321	=	10,099	1,096	2.38	1.21	=	1,472	2.53	1.34	=	1,853	6.1	48.8%	8,072	1.3	10.0%	12.5	4.3%	Jul
Dr Pepper Snapple	DPS	37.73	217	=	8,186	2,459	2.74	1.16	=	2,802	2.97	1.31	=	3,162	2.7	21.6%	6,112	1.3	10.6%	12.7	3.5%	Dec
General Mills	GIS	37.41	646	=	24,152	6,612	2.51	1.20	=	7,461	2.81	1.30	=	8,441	3.0	22.8%	17,156	1.4	10.6%	13.3	3.5%	May
Heinz (HJ)	HNZ	51.71	321	=	16,601	3,307	3.34	1.92	=	3,764	3.65	2.06	=	4,274	4.1	29.2%	12,408	1.3	9.4%	14.2	4.0%	Apr
Hershey	HSY	57.21	167	=	9,543	938	2.83	1.37	=	1,182	3.11	1.48	=	1,455	7.2	39.4%	6,364	1.5	8.2%	18.4	2.6%	Dec
Kellogg	K	53.61	362	=	19,407	2,154	3.49	1.67	=	2,811	3.80	1.77	=	3,546	6.1	43.3%	13,904	1.4	9.9%	14.1	3.3%	Dec
Kraft	KFT	34.27	1,766	=	60,524	35,942	2.28	1.18	=	37,883	2.54	1.20	=	40,257	1.5	11.5%	56,537	1.1	7.9%	13.5	3.5%	Dec
Coca Cola	KO	69.74	2,296	=	160,130	31,317	3.87	1.87	=	35,916	4.30	2.06	=	41,046	4.2	25.6%	48,969	3.3	20.1%	16.2	3.0%	Dec
Mead Johnson	MJN	70.21	204	=	14,319	(358)	2.76	1.04	=	(6)	3.18	1.15	=	407	NM	NM	4,060	3.5	15.9%	22.1	1.6%	Dec
PepsiCo	PEP	63.30	1,583	=	100,179	21,476	4.45	2.03	=	25,306	4.85	2.20	=	29,487	3.7	28.0%	69,977	1.4	11.0%	13.1	3.5%	Dec
Sara Lee	SLE	17.55	589	=	10,334	1,974	0.93	1.10	=	1,873	1.08	0.58	=	2,172	5.1	31.6%	8,852	1.2	7.2%	16.2	3.3%	Jun
Averages															4.2	28.9%		1.6	10.6%	14.9	3.3%	
S&P 500	SPX	1,174	1	=	1,174	611	100.07	26.29	=	685	112.32	28.79	=	768	1.6	15.5%	1,105	1.1	10.2%	10.5	2.5%	

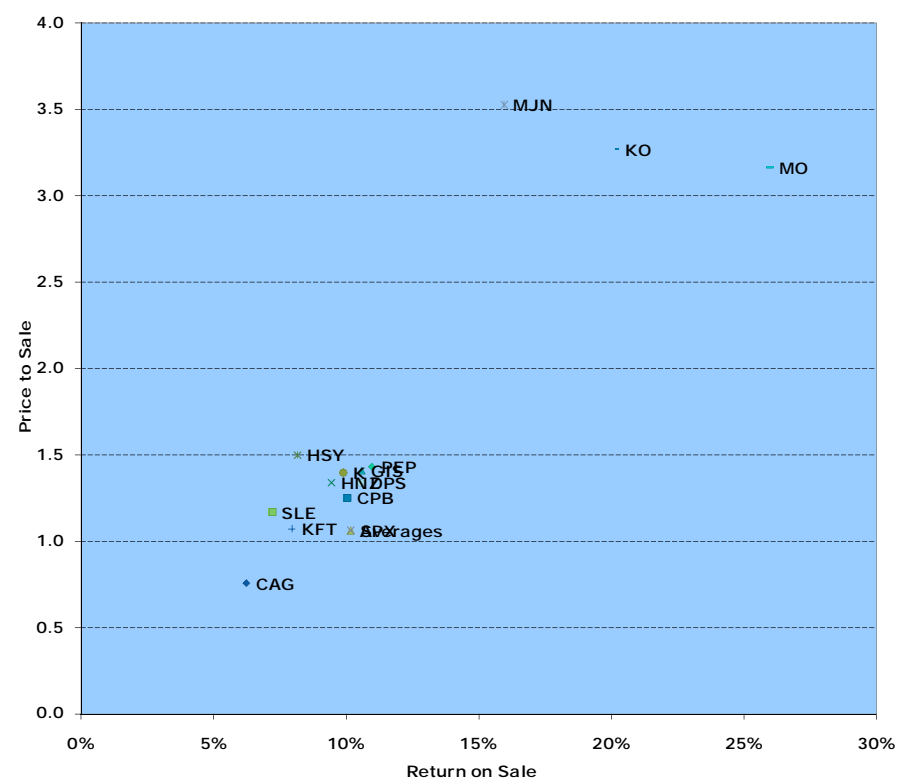
Plus Percentage Change in Price/Book ..... -3.7%  
 Minus Percentage Change in ROE 2012..... -0.4%  
 Equals Percentage change in P/E 2012 ..... -3.3%  
 P/E Last Month 2012..... 15.3  
 Current P/E 2012 ..... 14.9



Price to Book vs ROE



Price to Sale vs Return on Sale





**nVIDIA \$ 12.92 Buy**

<b>Market Capitalization</b>	<b>\$ 7,800 mil</b>
<b>Sales '13</b>	<b>\$ 4,470 mil</b>
<b>Profit '13</b>	<b>\$ 784 mil</b>
<b>P/E '13 (Jan)</b>	<b>9.8</b>

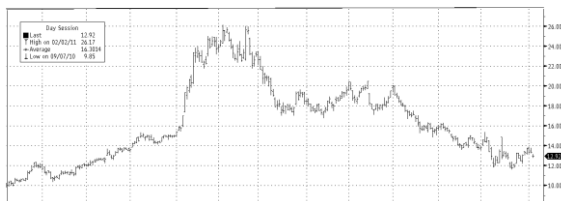
**nVIDIA Corporation designs, develops, and markets three dimensional (3D) graphics processors and related software. The Company's products provide interactive 3D graphics to the mainstream personal computer market.**

nVIDIA reported 2Q11 sales rose 25% to \$1.02 billion (analysts predicted \$1.00 billion). nVIDIA CEO Jen-Hsun Huang is aiming to lessen dependence on chips used in PCs with a push into processors for mobile phones and tablet computers. That business, based on the Tegra chip, has also won orders from LG Electronics and Motorola Mobility. Earnings were \$151.6 million, or 25 cents, meeting estimates.

The stock rose 14% on higher guidance. nVIDIA said that Samsung will use the Tegra 2 processor in its new Galaxy R Smartphone. That's the first time Samsung will sell a phone sporting an nVIDIA chip.

Kaufman Brothers put out a buy recommendation on nVIDIA last week and Wells Fargo raised it to outperform. However, there are still a number of analysts who could change their opinion since the stock hit a low of 12, down from 26 in Feb this year.

**nVIDIA - 12 months**



nVIDIA is scheduled to speak at the Citi Group Technology conference in NY on September 8<sup>th</sup>, and Kaufman Bros conference on the 14<sup>th</sup>. This is a great buying opportunity.

**Microsoft \$ 27.40 BUY**

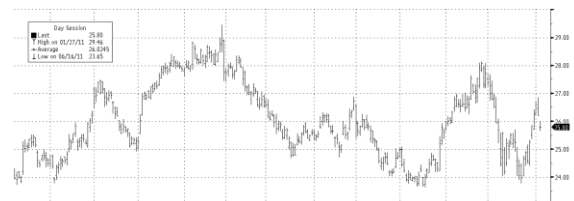
<b>Market Capitalization</b>	<b>\$ 229 bil</b>
<b>Sales Est. 2013</b>	<b>\$ 80 bil</b>
<b>Profit Est. 2013</b>	<b>\$ 26 bil</b>
<b>P/E Est. 2013 June</b>	<b>8.6</b>

**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.**

Talk this month was focused on smartphones, and the software that runs them. Google accused Microsoft and Oracle of waging a "hostile, organized campaign" against its Android mobile software, a sign of escalating tension in the technology industry's patent war. Google's rivals are joining forces to purchase patents to keep them out of Google's hands and taking other steps to make it more expensive for handset makers to use Android.

Microsoft is confronting the biggest challenge to its Windows franchise so far: a world where mobile phones and tablets are handling more of the computing chores once only done on personal computers. Windows generated \$19 billion in revenue last fiscal year. But Windows revenue has declined in each of the past two quarters.

**Microsoft - 12 months**



Meanwhile, sales of Smartphones running Google Inc.'s Android software and Apple Inc.'s iPhone have surged this year.



<b>Oracle</b>	<b>\$ 26.97 BUY</b>
<b>Market Capitalization</b>	<b>\$ 136.6 bil</b>
<b>Sales '13 (May)</b>	<b>\$ 42.0 bil</b>
<b>Profit '13 (May)</b>	<b>\$ 13.7 bil</b>
<b>P/E '13 (May)</b>	<b>10.2</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>	

Oracle fell 12% this month while estimates for sales fell 0.7% and estimates for earning were cut by 1.3%. The P/E for May 2013 fell to 10.2. Chatter this month was mostly legal mudslinging.

Google lost a bid to seal papers in a patent-infringement lawsuit filed last year by Oracle.

Oracle has asked a California court to let it conduct a probe of Google's business model, in hopes of proving that Google's Android mobile software is a considerable source of revenue.

Oracle accused Hewlett-Packard of fraud and libel, saying a settlement between the two companies over Oracle's hiring of former HP chief Mark Hurd was unfair and that HP defamed Oracle with allegations that the company bullies its customers.

Oracle's \$1.3 billion copyright-infringement verdict against SAP, the largest maker of business-management software, was overturned by a federal judge who called the award "grossly excessive".

The theme here is that these companies are making a lot of money, can afford very expensive lawyers, are intensely competitive and personal, and have a lot at stake. Market share is everything when your software becomes a default standard, and you earn the money required to develop. The conclusion is: Stick with leaders like Oracle!

<b>Morgan Stanley</b>	<b>\$ 15.97 BUY</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>Morgan Stanley, a bank holding company, provides diversified financial services on a worldwide basis. The Company operates a global securities business which serves individual and institutional investors and investment banking clients. Morgan Stanley also operates a global asset management business.</b>	

We are bringing Morgan Stanley back to the buy list.

In August we witnessed yet another spike in volatility, with the financial (and industrial manufacturing) sectors bearing the brunt of a broad market selloff. In late July and through August fears of a 'double-dip' recession returned on the publication of weaker than expected GDP, PMI and consumer sentiment data.

We continue to believe we are in a low growth, high volatility investment environment, driven by emotion, rather than significant fundamental changes. We said during the GFC and European Debt Crises, 'A crisis is a terrible thing to waste'. Morgan Stanley dropping 28% in August is a brilliant buying opportunity.

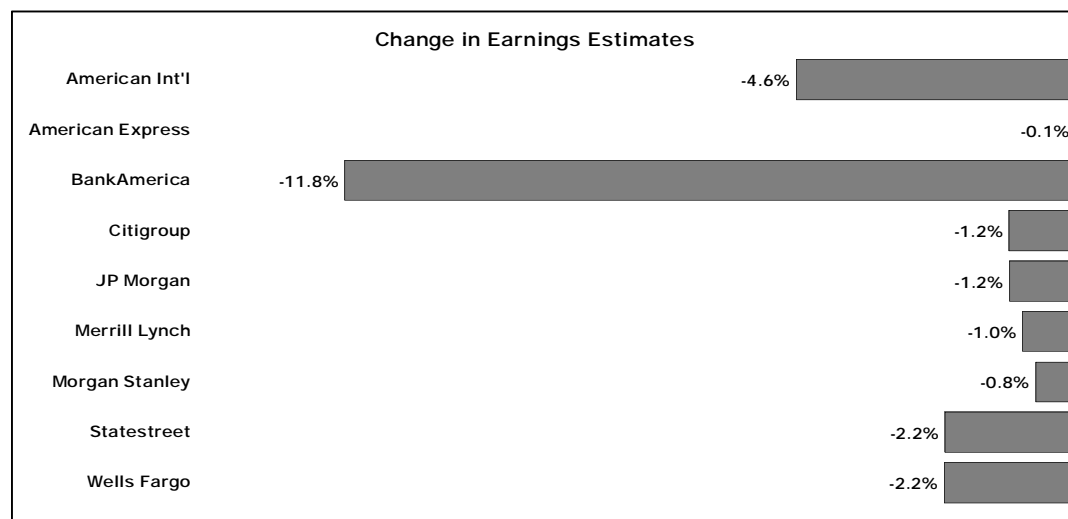
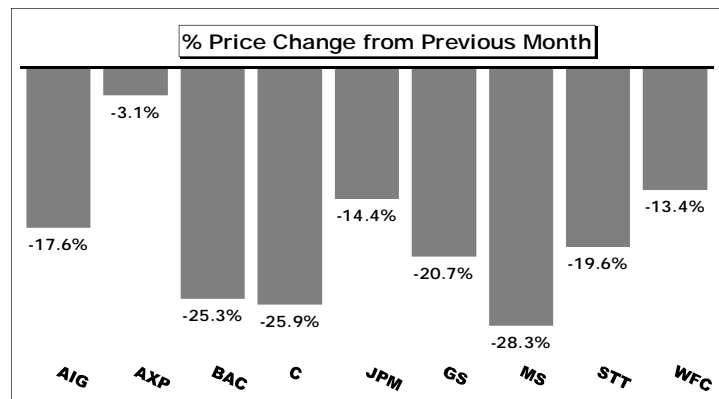
We maintain our investment thesis that US Financial services will recover over the longer term. We gained conservative indexed exposure to the sector through the iShares Financial ETF (IYF), and believe now is the time to take advantage of the volatility and take a focused approach. We have previously bought Morgan Stanley at discounted levels and are excited about the opportunity to buy them again.

The stock price is spring loaded, and has the potential to double in the next two years.

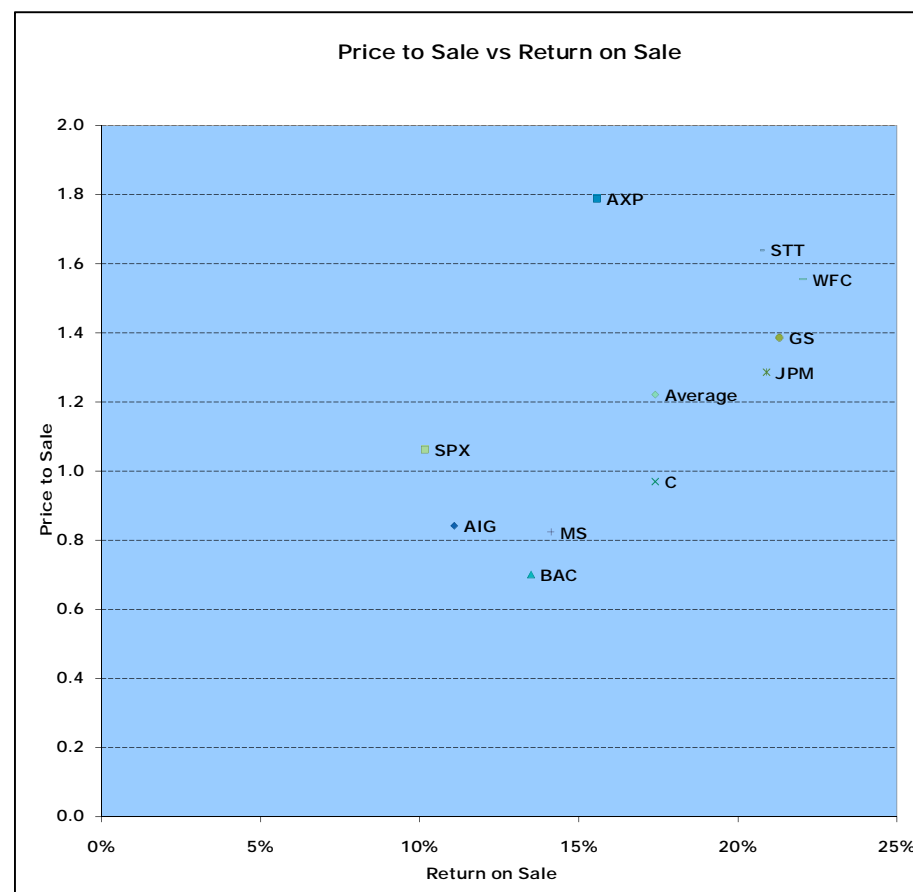
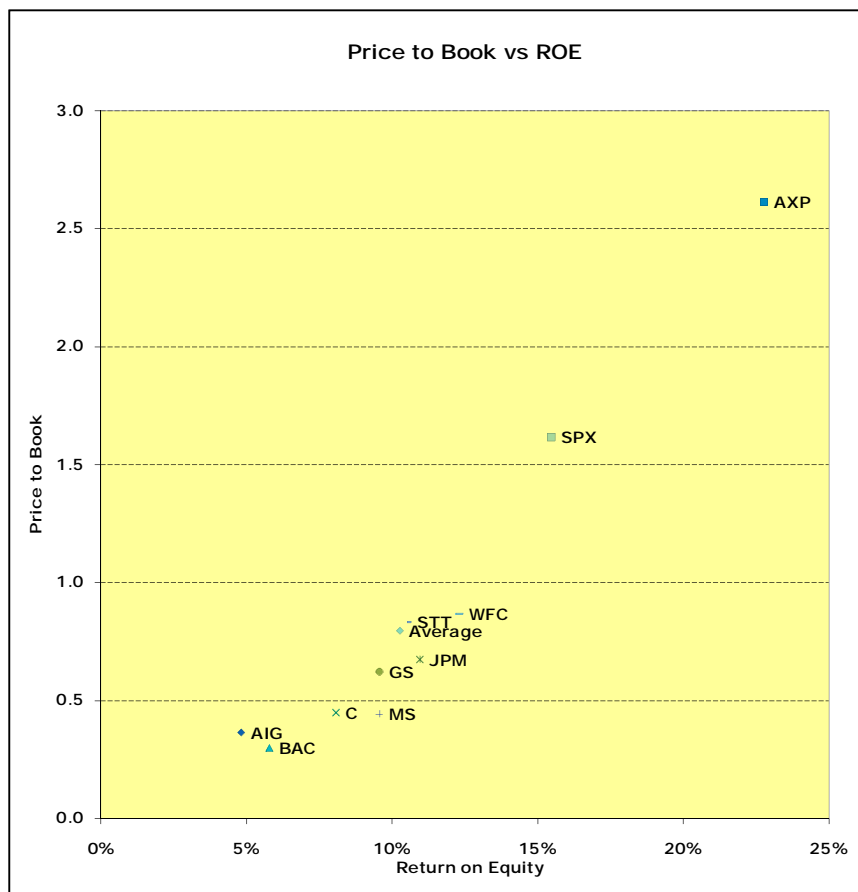
**FINANCIAL INSTITUTIONS**

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
American Int'l	AIG	23.66	1,898	=	44,906	113,673	3.38	-	=	120,092	3.12	-	=	126,010	0.4	4.8%	53,365	0.8	11.1%	7.6	0.00%	Dec
American Express	AXP	48.51	1,194	=	57,909	16,230	3.98	0.74	=	20,101	4.23	0.80	=	24,196	2.6	22.8%	32,380	1.8	15.6%	11.5	1.64%	Dec
Bank of America	BAC	7.25	10,134	=	73,474	228,248	1.06	0.04	=	238,595	1.40	0.13	=	251,466	0.3	5.8%	104,857	0.7	13.5%	5.2	1.74%	Dec
Citigroup	C	28.40	2,918	=	82,870	165,789	4.06	0.03	=	177,540	5.09	0.42	=	191,184	0.4	8.1%	85,434	1.0	17.4%	5.6	1.47%	Dec
JP Morgan Chase	JPM	34.63	3,899	=	135,024	176,106	5.05	0.97	=	192,010	5.62	1.39	=	208,530	0.7	10.9%	104,946	1.3	20.9%	6.2	4.00%	Dec
Goldman Sachs	GS	107.06	506	=	54,150	78,228	11.35	1.40	=	83,262	16.46	1.46	=	90,849	0.6	9.6%	39,074	1.4	21.3%	6.5	1.37%	Dec
Morgan Stanley	MS	15.96	1,928	=	30,770	65,407	1.18	0.21	=	67,281	2.74	0.34	=	71,914	0.4	7.6%	37,384	0.8	14.1%	5.8	2.11%	Nov
State Street	STT	33.33	504	=	16,799	17,787	3.70	0.66	=	19,321	4.21	0.83	=	21,024	0.8	10.5%	10,244	1.6	20.7%	7.9	2.49%	Dec
Wells Fargo	WFC	24.20	5,280	=	127,772	127,889	2.81	0.49	=	140,128	3.43	0.75	=	154,293	0.9	12.3%	82,151	1.6	22.1%	7.1	3.09%	Dec
Average															0.8	10.3%		1.2	17.4%	7.0	1.99%	
S&P 500	SPX	1,174	1	=	1,174	611	100.07	26.29	=	685	112.32	28.79	=	768	1.6	15.5%	1,105	1.1	10.2%	10.5	2.5%	

Plus Percentage Change in Price/Book ..... -14.8%  
 Minus Percentage Change in ROE 2012 ..... -2.5%  
 Equals Percentage change in P/E 2012 ..... -12.3%  
 P/E Last Month 2012 ..... 8.3  
 Current P/E 2012 ..... 7.0







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**Relative Value Model**

<b>Sector</b>	<b>Company</b>	<b>Advice</b>	<b>Price</b>	<b>52 week Low/Hi</b>	<b>P/E 2012</b>
Metals					
Oil					
Chemicals					
Paper & Forest Products					
Transportation					
Manufacturing	<b>Honeywell</b>	<b>Buy</b>	<b>\$ 45.45</b>	<b>42 / 62</b>	<b>10.5</b>
Elec. & Mfg Equipment	<b>3M</b>	<b>Buy</b>	<b>\$ 79.35</b>	<b>76 / 98</b>	<b>11.6</b>
Automobile					
Housing					
Lodging & Restaurants					
Retail					
Real Estate	<b>SL Green</b>	<b>Buy</b>	<b>\$ 70.49</b>	<b>60 / 90</b>	<b>15.9 FFO</b>
Food	<b>Kraft</b>	<b>Buy</b>	<b>\$ 34.27</b>	<b>30 / 36</b>	<b>13.5</b>
	<b>Dr Pepper Snapple</b>	<b>Buy</b>	<b>\$ 37.73</b>	<b>33 / 43</b>	<b>12.7</b>
Media / Entertainment					
Consumer Products					
Hospital					
Pharmaceutical	<b>Pfizer</b>	<b>Buy</b>	<b>\$ 18.46</b>	<b>16 / 21</b>	<b>8.0</b>
Computers	<b>Cisco</b>				
Semiconductors	<b>nVIDIA</b>	<b>Buy</b>	<b>\$ 12.92</b>	<b>9 / 26</b>	<b>9.8</b>
Software	<b>Microsoft</b>	<b>Buy</b>	<b>\$ 25.80</b>	<b>24 / 29</b>	<b>8.1</b>
	<b>Oracle</b>	<b>Buy</b>	<b>\$ 26.97</b>	<b>24 / 37</b>	<b>10.2</b>
Aerospace					
Financial	<b>iShares Financial</b>	<b>SELL</b>	<b>\$ 49.94</b>	<b>44 / 62</b>	<b>N/A</b>
	<b>Morgan Stanley</b>	<b>BUY</b>	<b>\$ 15.96</b>	<b>15 / 31</b>	<b>5.8</b>

This advice has been prepared without taking into account your objectives, financial situation and needs. You should consider the appropriateness of the advice by taking into consideration your objectives, financial situations and needs before acting on the advice.

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