



# FORTREND SECURITIES

## Research Report

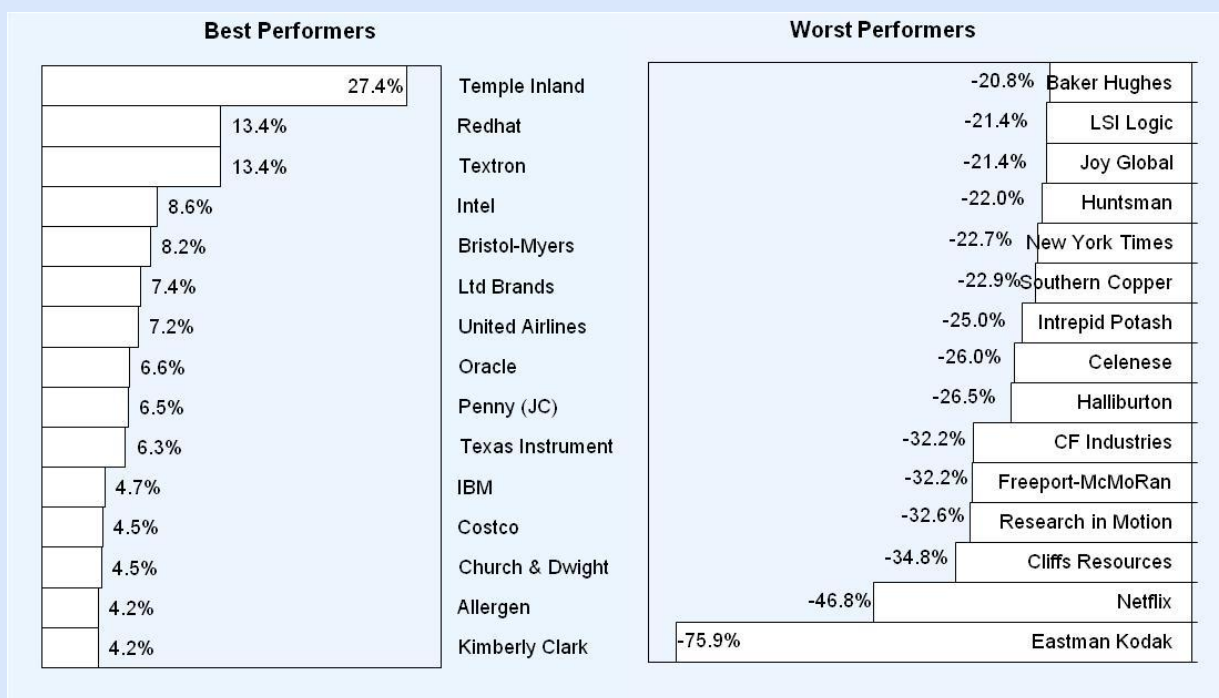
3 October 2011

**Joe Forster**  
Chief Executive Officer

### Relative Value Model Earnings Preview

In September the S&P 500 fell 3.6%, and earnings estimates were cut by 1.3%. The forward P/E fell 2.3% to 10.2. The 10 year treasury yield fell further to 1.92%.

#### Volatility creates an opportunity to sell options



The best performing sectors were Retail, which rose 2%, and Computers which advanced 1%. Semiconductors and Food were pretty flat.

Metals & Mining collapsed 19.5%, while stocks fell across the board. Entertainment collapsed 18% with a large impact from Netflix. Oil stocks were down 13% and Chemicals down 11%.



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Sep 2nd - Oct 2nd



# FORTREND SECURITIES

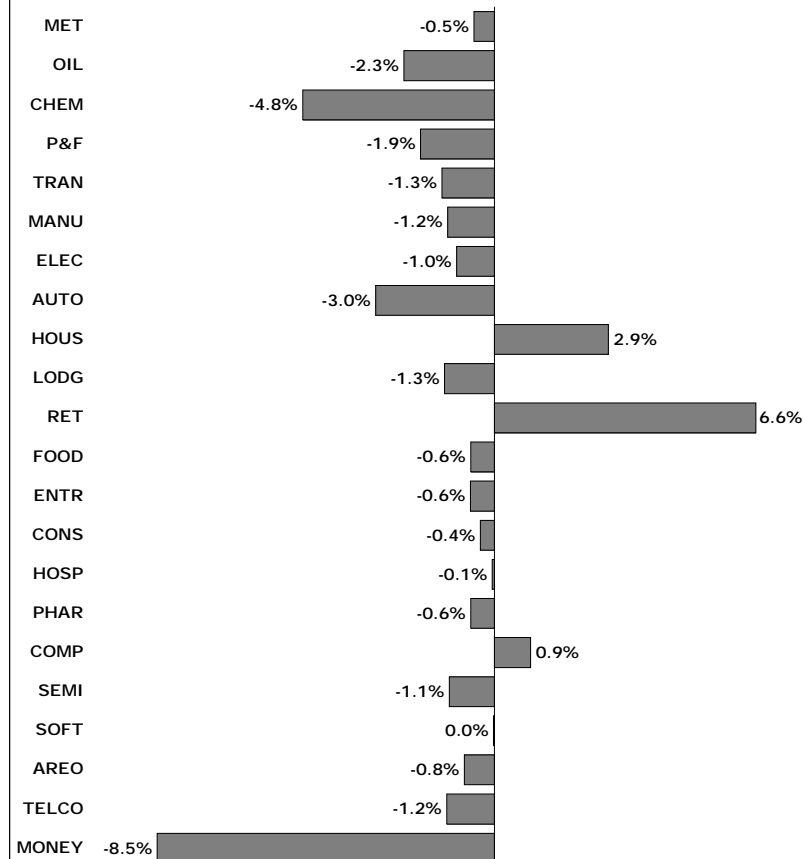
## Relative Value Model

|  |       |
|--|-------|
| Plus Percentage Change in Price/Book ... | -4.3% |
| Minus Percentage Change in ROE 2012...   | -0.6% |
| Equals Percentage change in P/E 2012 ... | -3.7% |
| Current P/E 2012 .....                   | 10.1  |
| 10 year Treasury Yield .....             | 1.92% |
| Equity Discount / Premium .....          | -418% |

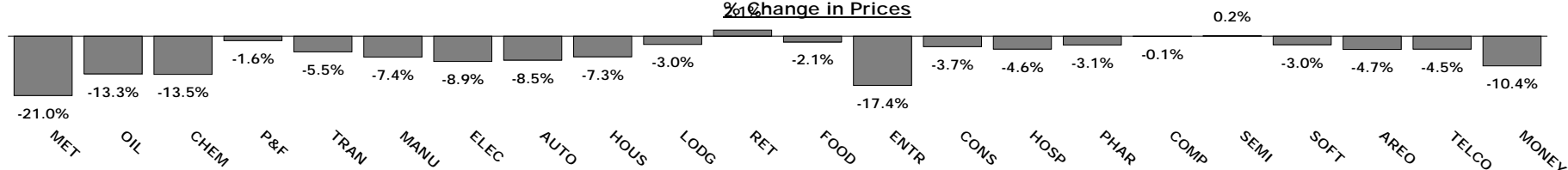
|                                 | Nov 10 | Dec 09 | Dec 08 | Dec 07 | Dec 06 | Dec 05 |
|---------------------------------|--------|--------|--------|--------|--------|--------|
| Forcasted P/E.....              | 17.1   | 18.1   | 17.5   | 15.0   | 15.6   | 15.8   |
| 10 year Treasury Yield .....    | 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%    |

% Change in Earnings Estimates



% Change in Prices



## **Earnings Preview**

S&P 500 estimates were reduced by 1.4%.

### **Reduced Estimates**

|                    |        |                        |
|--------------------|--------|------------------------|
| Masco              | -6.4%  | Weak Housing mkt       |
| Hospira            | -6.7%  | FDA looking at factory |
| Navistar           | -7.2%  | Product mix: fleets    |
| Dow                | -7.6%  | Global Econ slowdown   |
| Corning            | -7.6%  | LCD supply chain       |
| Texas Instrument   | -7.7%  | Slow demand analog     |
| US Steel Corp      | -8.0%  | Costs up, sales down   |
| Research in Motion | -9.1%  | Loosing m Tech         |
| New York Times     | -9.2%  | Falling ad sales       |
| ALCOA              | -9.6%  | Global Econ slowdown   |
| BankAmerica        | -9.8%  | Credit decay           |
| Tenet Healthcare   | -10.2% | Medicade Volumes       |
| Goldman Sachs      | -11.8% | Credit decay           |
| Morgan Stanley     | -11.9% | Credit decay           |
| Micron Technology  | -12.0% | Weak PC demand         |
| Advanced Micro     | -24.3% | Production Glitches    |

Downward revisions and warnings were highly concentrated in the Financial and Technology sectors (more leap frogging – RIMM vs AAPL for example) AMD blamed “manufacturing glitches”

There was also a concentration of downgrades in Housing, which is going from horrible to more horrible with no hope.

### **Increased Estimates**

|                  |       |                        |
|------------------|-------|------------------------|
| Liz Clairborne   | 17.6% | Sell assets, less debt |
| Telephone & Data | 13.5% | Corporate restructure  |
| ASML Holdings NV | 12.2% | Tech leap frog         |
| Delta Air        | 11.8% | Lower fuel price       |
| Barrick Gold     | 8.1%  | Higher gold price      |
| Newmont Mining   | 8.0%  | Higher gold price      |
| United Airlines  | 6.6%  | Lower Fuel price       |
| Textron          | 6.3%  | 2011 EPS push to 2012  |
| CF Industries    | 5.4%  | Demand from Agri       |
| Boston Sci       | 4.9%  | New CEO from J&J       |
| Southwest Air    | 3.4%  | Lower Fuel price       |

Airline stocks enjoyed strong upgrades in earnings this month on stronger revenues and lower jet fuel prices.

There was a concentration of upward revisions in Metals, which is a volatile case of estimates trailing stock prices.

There was also a spattering of increases in Technology, which is symptomatic of the leap frog nature (velocity of change) of many tech segments.

## **Asymmetric Risk Adjusted Returns**

Estimates are flat and wide with a strong undertow pulling earnings to the left. The high standard deviation has cut P/E's to extreme lows, and pushed the VIX past 40.

The VIX reached 40 twice as the dot com bubble was deflating and once during the European debt crisis. During the GFC it reached 80. See previous RV's for details.

This creates an unique opportunity to sell puts. When the market recovers 10 % we are likely to recommend selling calls. Stay tuned in during volatile times.

### **Sell SPX Nov 19<sup>th</sup> strike 1135 Puts @ \$64.60**

|                   |         |
|-------------------|---------|
| Price             | 1131.40 |
| Strike price      | 1135.00 |
| Premium           | 64.60   |
| In the Money      | 3.60    |
| Break Even        | 1070.40 |
| Return: 7 weeks   | 5.7%    |
| Annualized Return | 42.3%   |

### **Sell SPX Oct 7<sup>th</sup> strike 1135 Puts @ \$29.4**

|                   |         |
|-------------------|---------|
| Price             | 1131.40 |
| Strike price      | 1135.00 |
| Premium           | 29.40   |
| In the Money      | 3.60    |
| Break Even        | 1105.60 |
| Return: 7 weeks   | 2.6%    |
| Annualized Return | 134.7%  |

Selling Nov 19<sup>th</sup> options, giving you 7 weeks is a safer play in that you will have more opportunities to cover your position as markets gyrate.

Instead of selling index options, we recommend selling options on individual companies as part of a longer term strategy to make investments in these stocks.



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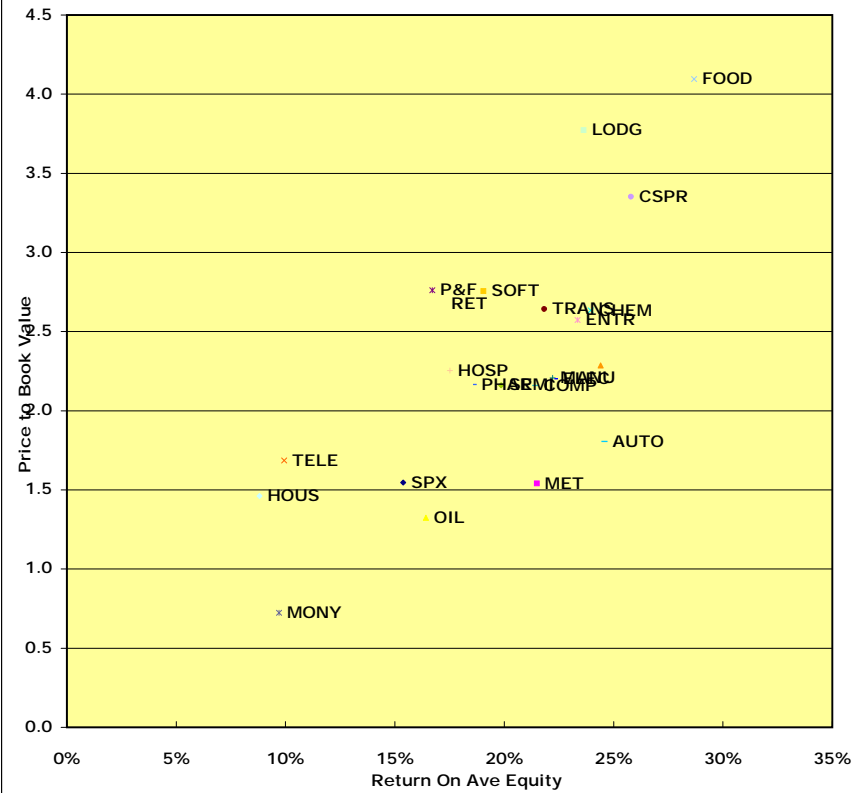
## THE RELATIVE VALUE MODEL

| Company                       | Code | Price | X Shares<br>Outstanding | = | Market<br>Cap | Equity<br>10A | EPS<br>11E | Div<br>11E | = | Equity<br>11E | EPS<br>12E | Div<br>12E | = | Equity<br>12E | Price/<br>Book | ROE<br>12E | Projected<br>Sales 12E | Price/<br>Sales | ROS<br>12E | P/E<br>12E | Yield |
|-------------------------------|------|-------|-------------------------|---|---------------|---------------|------------|------------|---|---------------|------------|------------|---|---------------|----------------|------------|------------------------|-----------------|------------|------------|-------|
| S&P 500                       | SPX  | 1,124 | 1                       | = | 1,124         | 612           | 100.02     | 26.36      | = | 685           | 111.73     | 28.83      | = | 768           | 1.5            | 15.4%      | 1,102                  | 1.0             | 10.1%      | 10.1       | 2.6%  |
| <b>RAW MATERIALS</b>          |      |       |                         |   |               |               |            |            |   |               |            |            |   |               |                |            |                        |                 |            |            |       |
| Metals                        | MET  | 31.72 | 473                     | = | 14,740        | 8,241         | 3.84       | 0.82       | = | 9,558         | 4.81       | 0.85       | = | 11,186        | 1.5            | 21.5%      | 13,323                 | 1.4             | 18.0%      | 7.6        | 2.8%  |
| Oil                           | OIL  | 59.25 | 1,252                   | = | 82,639        | 45,913        | 6.82       | 1.24       | = | 53,624        | 7.47       | 1.29       | = | 61,759        | 1.3            | 16.4%      | 103,576                | 1.4             | 16.7%      | 8.4        | 2.1%  |
| <b>INDUSTRIAL CYCLICAL</b>    |      |       |                         |   |               |               |            |            |   |               |            |            |   |               |                |            |                        |                 |            |            |       |
| Chemicals                     | CHEM | 59.92 | 282                     | = | 12,339        | 4,494         | 5.54       | 1.05       | = | 5,303         | 5.91       | 1.15       | = | 6,203         | 2.6            | 24.0%      | 13,651                 | 1.2             | 11.0%      | 11.1       | 2.3%  |
| Paper, Forest Packagin        | P&F  | 28.37 | 215                     | = | 6,434         | 2,716         | 1.70       | 1.08       | = | 2,902         | 2.08       | 1.13       | = | 3,152         | 2.8            | 16.7%      | 7,415                  | 1.4             | 8.1%       | 12.3       | 3.4%  |
| Transportation                | TRAN | 39.56 | 450                     | = | 15,157        | 5,403         | 2.71       | 0.75       | = | 6,198         | 3.49       | 0.81       | = | 7,298         | 2.6            | 21.8%      | 22,676                 | 0.8             | 7.2%       | 11.3       | 1.5%  |
| Manufacturing                 | MANU | 42.85 | 229                     | = | 10,924        | 4,152         | 3.76       | 1.14       | = | 4,778         | 4.30       | 1.13       | = | 5,534         | 2.2            | 22.2%      | 11,063                 | 0.9             | 8.5%       | 10.0       | 2.3%  |
| Electrical                    | ELEC | 56.95 | 1,431                   | = | 35,272        | 18,887        | 4.79       | 1.18       | = | 20,986        | 5.59       | 1.26       | = | 23,487        | 2.2            | 22.3%      | 36,477                 | 1.0             | 9.7%       | 10.0       | 2.4%  |
| <b>CONSUMER CYCLICAL</b>      |      |       |                         |   |               |               |            |            |   |               |            |            |   |               |                |            |                        |                 |            |            |       |
| Automobile                    | AUTO | 29.86 | 505                     | = | 8,416         | 1,695         | 3.34       | 0.36       | = | 2,812         | 4.00       | 0.40       | = | 3,970         | 1.8            | 24.6%      | 23,691                 | 0.5             | 6.3%       | 7.3        | 1.1%  |
| Housing                       | HOUS | 75.26 | 165                     | = | 2,954         | 2,116         | 3.98       | 0.61       | = | 2,182         | 5.11       | 0.64       | = | 2,297         | 1.5            | 8.8%       | 5,631                  | 0.7             | 3.0%       | 7.0        | 2.5%  |
| Lodging                       | LODG | 55.70 | 389                     | = | 17,146        | 4,665         | 2.50       | 0.73       | = | 5,257         | 2.95       | 0.82       | = | 5,936         | 3.8            | 23.6%      | 9,260                  | 1.6             | 10.2%      | 16.1       | 2.4%  |
| Retail                        | RET  | 72.90 | 653                     | = | 35,441        | 11,586        | 4.32       | 0.66       | = | 13,258        | 4.98       | 0.67       | = | 15,156        | 2.7            | 17.2%      | 65,996                 | 0.8             | 6.0%       | 14.5       | 1.8%  |
| <b>CONSUMER NON-CYCLICALS</b> |      |       |                         |   |               |               |            |            |   |               |            |            |   |               |                |            |                        |                 |            |            |       |
| Food                          | FOOD | 44.73 | 740                     | = | 35,426        | 9,302         | 2.78       | 1.38       | = | 10,469        | 3.05       | 1.44       | = | 11,795        | 4.1            | 28.7%      | 22,028                 | 1.6             | 10.5%      | 14.6       | 3.4%  |
| Entertainment                 | ENTR | 37.64 | 813                     | = | 21,775        | 12,205        | 2.99       | 0.47       | = | 13,690        | 3.51       | 0.50       | = | 15,469        | 2.6            | 23.4%      | 19,997                 | 1.1             | 10.8%      | 10.1       | 1.5%  |
| Consumer Prod.                | CSPR | 50.73 | 459                     | = | 26,365        | 8,191         | 3.21       | 1.05       | = | 9,137         | 3.67       | 1.15       | = | 10,176        | 3.4            | 25.8%      | 15,618                 | 1.3             | 9.5%       | 14.4       | 2.4%  |
| Health Care                   | HOSP | 69.38 | 483                     | = | 17,196        | 7,985         | 4.32       | 0.55       | = | 9,205         | 4.85       | 0.63       | = | 10,550        | 2.3            | 17.5%      | 24,945                 | 1.9             | 13.9%      | 12.5       | 1.3%  |
| Pharmaceuticals               | PHAR | 42.58 | 1,723                   | = | 59,159        | 25,279        | 3.63       | 0.96       | = | 28,862        | 3.60       | 1.03       | = | 32,422        | 2.2            | 18.6%      | 25,829                 | 2.4             | 20.1%      | 12.5       | 2.6%  |
| <b>TECHNOLOGY</b>             |      |       |                         |   |               |               |            |            |   |               |            |            |   |               |                |            |                        |                 |            |            |       |
| Computers                     | COMP | 65.88 | 1,379                   | = | 68,498        | 18,734        | 5.45       | 0.29       | = | 24,417        | 6.19       | 0.31       | = | 30,782        | 2.2            | 21.4%      | 46,156                 | 1.5             | 15.3%      | 9.8        | 0.6%  |
| Semiconductors                | SEMI | 19.13 | 1,053                   | = | 19,410        | 8,706         | 1.60       | 0.26       | = | 10,149        | 1.68       | 0.31       | = | 11,639        | 2.2            | 19.9%      | 10,792                 | 1.9             | 16.8%      | 10.8       | 1.2%  |
| Software                      | SOFT | 74.64 | 1,473                   | = | 51,260        | 15,827        | 5.19       | 0.29       | = | 19,572        | 5.99       | 0.31       | = | 23,787        | 2.8            | 19.0%      | 17,628                 | 3.3             | 23.0%      | 14.9       | 0.9%  |
| Aerospace                     | AERO | 54.04 | 324                     | = | 18,522        | 7,259         | 5.85       | 1.40       | = | 8,443         | 6.43       | 1.56       | = | 9,790         | 2.3            | 24.4%      | 28,957                 | 0.6             | 7.2%       | 8.8        | 2.7%  |
| Telecom                       | TELE | 27.33 | 1,680                   | = | 43,947        | 28,834        | 1.88       | 0.78       | = | 29,963        | 2.13       | 0.84       | = | 31,436        | 1.7            | 9.9%       | 39,105                 | 1.2             | 8.6%       | 13.5       | 2.6%  |
| Financial Inst.               | MONY | 32.14 | 3,140                   | = | 61,912        | 109,929       | 3.58       | 0.50       | = | 117,012       | 4.71       | 0.66       | = | 125,301       | 0.7            | 9.7%       | 59,299                 | 1.1             | 16.6%      | 6.7        | 2.1%  |

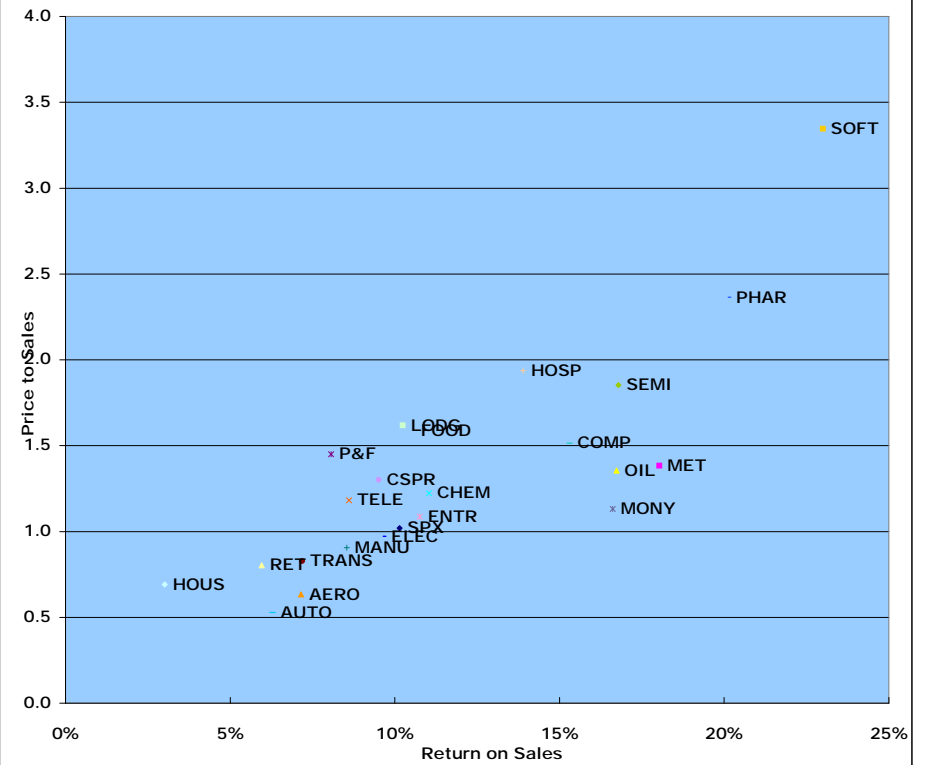


# FORTREND SECURITIES

Price to Book vs ROE



Price to Sales vs Return on Sales





**HONEYWELL INTERNATIONAL/ \$ 43.91 BUY**

|            |         |               |
|------------|---------|---------------|
| Market Cap |         | \$ 34,356 Mil |
| Sales      | Est '12 | \$ 38,878 Mil |
| Profit     | Est '12 | \$ 3,512 Mil  |
| P/E        | Est '12 | 9.9           |

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.

Asymmetric Risk Adjusted Return: Steep right hander with good potential for white cap and smooth tube ride.

On Sept. 22 Honeywell said they see 3Q EPS at high end of prior forecast for 96c-\$1.01 (prior forecast on July 22). This excludes a \$165 mil gain from sale of Consumer Products.

3Q11 sales are expected to be in the range of \$9.1-9.4 billion, up 12-15%, with healthy organic growth anticipated at 7 to 9%. 3Q11 earnings are expected to come in near the high end of the range \$0.96-1.01.

Honeywell forecast 2011 sales of \$36.1-36.7 billion, up 12-14% over 2010. 2011 earnings should be \$3.85-4.00, up 28-33% over 2010. They are also maintaining 2011 free cash flow guidance of \$3.5-3.7 billion.

The guidance range is only 5%, with weight on the right, giving HON a high and narrow bell curve, with a positive asymmetric risk curve.

**Sell HON Nov 19<sup>th</sup> strike 44 Puts @ \$3.30**

|                   |       |
|-------------------|-------|
| Price             | 43.91 |
| Strike price      | 44.00 |
| Premium           | 3.30  |
| In the Money      | 0.09  |
| Break Even        | 40.70 |
| Return: 7 weeks   | 7.3%  |
| Annualized Return | 54.3% |

**3M CO \$ 71.79 BUY**

|            |         |               |
|------------|---------|---------------|
| Market Cap |         | \$ 50,938 Mil |
| Sales      | Est '12 | \$ 31,994 Mil |
| Profit     | Est '12 | \$ 4,860 Mil  |
| P/E        | Est '12 | 10.6          |

3M operations in electronics, telecom, industrial, consumer and office, health care, safety, and other markets. 3M's businesses share technologies, manufacturing operations, brands, marketing channels, and other resources. 65% of sales come from outside the U.S.

Asymmetric Risk Adjusted Return: Abnormally wide with slow current to left.

3M estimates for 2012 were cut by 7.1c to 6.771, a 1% cut this month. Estimates now range from JP Morgan's low of \$5.85 to William Blair's high of \$7.65, a 26% range. Markets have priced in the risk, and taken the stock down to 10.6 times earnings. It has performed badly since the tsunami.

JP Morgan cut estimates for 2012 by 10c to \$5.85, the lowest on the street, and 91c below the mean. Cuts were based on the slow recovery of the Optical Division which makes films for LCD screens used in TV's and computers. JP Morgan also thinks 3M will need to mark some pension fund assets to market, accounting for half the reduction.

We recognize that 3M earnings are sensitive to global economic trends, which are worsening, but exposure to LCD markets is primarily a Japanese earthquake issue. The tsunami caused production problems, which reduced demand, but we view that as a push into 2012. When economies stabilize and people replace TV's the range in estimates will narrow and the stock price will increase.

**Sell MMM Nov 19<sup>th</sup> strike 72.5 Puts @ \$5.15**

|                   |       |
|-------------------|-------|
| Price             | 71.79 |
| Strike price      | 72.50 |
| Premium           | 5.15  |
| In the Money      | 0.71  |
| Break Even        | 67.35 |
| Return: 7 weeks   | 6.2%  |
| Annualized Return | 45.9% |





|   |                |                     |            |
|---|----------------|---------------------|------------|
| <b>SL GREEN REALTY CORP</b>   |                | <b>\$ 58.15</b>     | <b>BUY</b> |
| <b>Market Cap</b>   |                | <b>\$ 5,242 Mil</b> |            |
| <b>Sales</b>  | <b>Est '12</b> | <b>\$ 1,148 Mil</b> |            |
| <b>Profit</b>   | <b>Est '12</b> | <b>\$ 75 Mil</b>    |            |
| <b>P/CF</b>   | <b>Est '12</b> | <b>13.7</b>         |            |
| <p><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></p> |                |                     |            |

Our original price target was a double "100 in two years". The stock hit 90 in May, and came tumbling back to 58. It is similar to the action in Morgan Stanley, except that stock doubled, and came all the way back to GFC levels. SL Green is sensitive to rent rolls from NYC Banking, but does not deserve this hit. The beta should be much lower because funding is now available for REITS.

There was very little news on SL Green this month, and very little guidance from other office REITS.

Estimates for SLG, Vornado and Boston Properties were all unchanged this month, and there were no analyst downgrades. But all the stock prices tumbled. Although analysts have not made adjustments, investors are concerned about the credit quality of banks, and the potential for increased value of rents when the role.

**Sell SLG Nov 19<sup>th</sup> strike 60 Puts @ \$5.80**

|                   |       |
|-------------------|-------|
| Price             | 58.15 |
| Strike price      | 60.00 |
| Premium           | 5.80  |
| In the Money      | 1.85  |
| Break Even        | 54.20 |
| Return: 7 weeks   | 6.8%  |
| Annualized Return | 50.5% |

|   |                |                     |            |
|---|----------------|---------------------|------------|
| <b>DR PEPPER SNAPPLE GROUP</b>  |                | <b>\$ 38.78</b>     | <b>BUY</b> |
| <b>Market Cap</b>   |                | <b>\$ 8,414 Mil</b> |            |
| <b>Sales</b>  | <b>Est '12</b> | <b>\$ 6,121 Mil</b> |            |
| <b>Profit</b>   | <b>Est '12</b> | <b>\$ 636 Mil</b>   |            |
| <b>P/E</b>  | <b>Est '12</b> | <b>13.1</b>         |            |
| <p><b>Dr Pepper 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></p> |                |                     |            |

Asymmetric Risk Curve: High, narrow and symmetrical.

Analysts expect Dr Pepper to earn between \$2.86 and \$3.07, which is a narrow range of only 7%, implying that analysts are confident in their ability to predict cash flows. Raw material prices (sugar and labor) are subdued and Dr Pepper has less exposure to FX markets.

There were mild reductions in estimates for ConAgra and Sara Lee, so the sector should turn in a solid earning season.

The high narrow bell curve collates with a relatively high P/E of 13.1, and lower premiums in the options market.

At the money options only provide a 21% annualized return, so we recommend buying the stock, instead of selling puts so that you can participate in the upside in the stock price.

**Sell DPS Nov 19<sup>th</sup> strike 40 Puts @ \$3.50**

|                   |       |
|-------------------|-------|
| Price             | 38.78 |
| Strike price      | 40.00 |
| Premium           | 2.30  |
| In the Money      | 1.22  |
| Break Even        | 37.70 |
| Return: 7 weeks   | 2.8%  |
| Annualized Return | 20.7% |



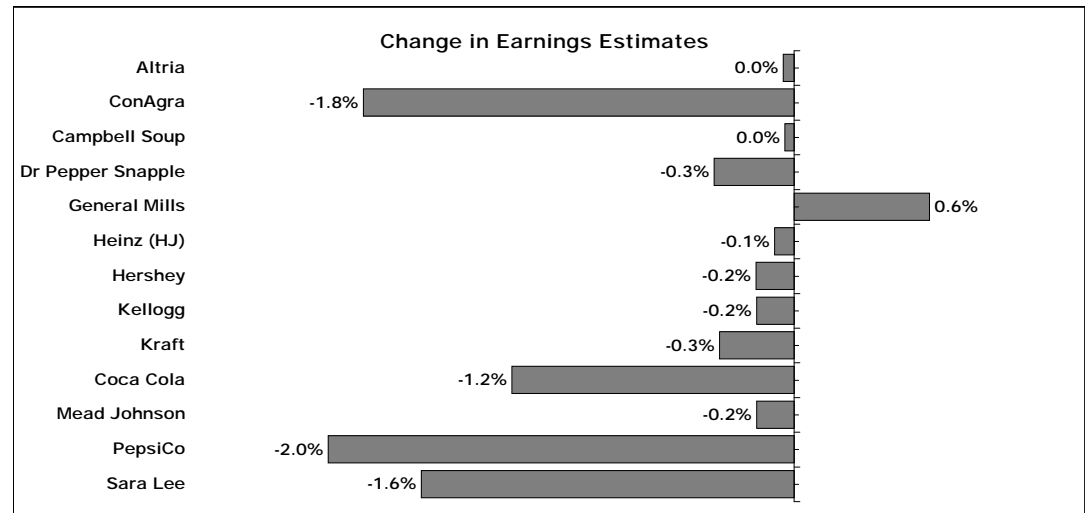
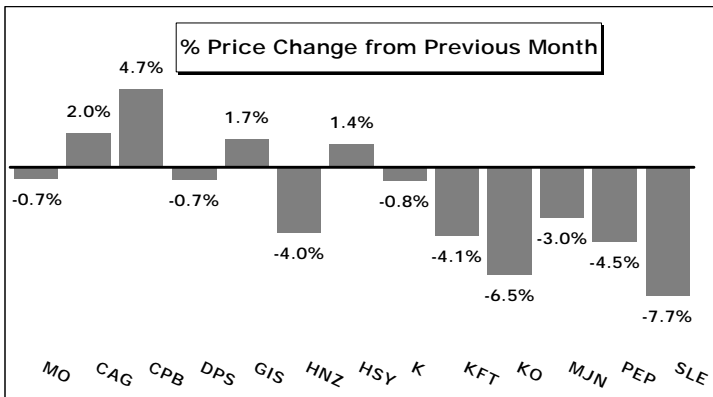
# FORTREND SECURITIES

## FOOD

| Company           | Code | Price | X Shares<br>Outstanding | = | Market<br>Cap | Equity<br>10A | EPS<br>11E | Div<br>11E | = | Equity<br>11E | EPS<br>12E | Div<br>12E | = | Equity<br>12E | Price/<br>Book | ROE<br>12E | Projected<br>Sales 12E | Price/<br>Sales | ROS<br>12E | P/E<br>12E | Yield | FYE |
|-------------------|------|-------|-------------------------|---|---------------|---------------|------------|------------|---|---------------|------------|------------|---|---------------|----------------|------------|------------------------|-----------------|------------|------------|-------|-----|
| Altria            | MO   | 26.54 | 2,071                   | = | 54,971        | 5,227         | 2.04       | 1.59       | = | 6,151         | 2.19       | 1.72       | = | 7,133         | 8.3            | 68.4%      | 17,495                 | 3.1             | 26.0%      | 12.1       | 6.5%  | Dec |
| ConAgra           | CAG  | 24.58 | 414                     | = | 10,188        | 4,709         | 1.79       | 0.95       | = | 5,060         | 1.95       | 1.01       | = | 5,450         | 1.9            | 15.4%      | 13,398                 | 0.8             | 6.0%       | 12.6       | 4.1%  | May |
| Campbell Soup     | CPB  | 32.94 | 320                     | = | 10,548        | 1,096         | 2.38       | 1.22       | = | 1,467         | 2.53       | 1.30       | = | 1,860         | 6.3            | 48.6%      | 8,047                  | 1.3             | 10.0%      | 13.0       | 3.9%  | Jul |
| Dr Pepper Snapple | DPS  | 37.46 | 217                     | = | 8,127         | 2,459         | 2.74       | 1.17       | = | 2,800         | 2.96       | 1.31       | = | 3,159         | 2.7            | 21.6%      | 6,119                  | 1.3             | 10.5%      | 12.6       | 3.5%  | Dec |
| General Mills     | GIS  | 38.04 | 643                     | = | 24,477        | 6,612         | 2.61       | 1.15       | = | 7,555         | 2.83       | 1.22       | = | 8,591         | 3.0            | 22.5%      | 17,523                 | 1.4             | 10.4%      | 13.4       | 3.2%  | May |
| Heinz (HJ)        | HNZ  | 49.66 | 321                     | = | 15,943        | 3,307         | 3.34       | 1.92       | = | 3,761         | 3.65       | 2.07       | = | 4,270         | 4.0            | 29.2%      | 12,370                 | 1.3             | 9.5%       | 13.6       | 4.2%  | Apr |
| Hershey           | HSY  | 58.01 | 167                     | = | 9,676         | 938           | 2.83       | 1.36       | = | 1,182         | 3.11       | 1.48       | = | 1,453         | 7.3            | 39.3%      | 6,373                  | 1.5             | 8.1%       | 18.7       | 2.6%  | Dec |
| Kellogg           | K    | 53.20 | 362                     | = | 19,259        | 2,154         | 3.48       | 1.67       | = | 2,810         | 3.79       | 1.77       | = | 3,542         | 6.1            | 43.2%      | 13,870                 | 1.4             | 9.9%       | 14.0       | 3.3%  | Dec |
| Kraft             | KFT  | 32.86 | 1,766                   | = | 58,034        | 35,942        | 2.27       | 1.11       | = | 38,001        | 2.54       | 1.13       | = | 40,490        | 1.5            | 11.4%      | 56,237                 | 1.0             | 8.0%       | 13.0       | 3.4%  | Dec |
| Coca Cola         | KO   | 65.23 | 2,296                   | = | 149,774       | 31,317        | 3.86       | 1.87       | = | 35,875        | 4.25       | 2.07       | = | 40,869        | 3.9            | 25.4%      | 48,519                 | 3.1             | 20.1%      | 15.4       | 3.2%  | Dec |
| Mead Johnson      | MJN  | 68.09 | 204                     | = | 13,887        | (358)         | 2.76       | 1.04       | = | (7)           | 3.17       | 1.15       | = | 406           | NM             | NM         | 4,055                  | 3.4             | 15.9%      | 21.5       | 1.7%  | Dec |
| PepsiCo           | PEP  | 60.45 | 1,583                   | = | 95,668        | 21,476        | 4.42       | 2.03       | = | 25,257        | 4.75       | 2.20       | = | 29,291        | 3.5            | 27.6%      | 69,027                 | 1.4             | 10.9%      | 12.7       | 3.6%  | Dec |
| Sara Lee          | SLE  | 16.19 | 589                     | = | 9,533         | 1,974         | 0.92       | 1.10       | = | 1,867         | 1.07       | 0.58       | = | 2,157         | 4.7            | 31.2%      | 8,804                  | 1.1             | 7.1%       | 15.2       | 3.6%  | Jun |
| Averages          |      |       |                         |   |               |               |            |            |   |               |            |            |   |               | 4.1            | 28.7%      |                        | 1.6             | 10.5%      | 14.6       | 3.4%  |     |

|         |     |       |   |   |       |     |        |       |   |     |        |       |   |     |     |       |       |     |       |      |      |
|---------|-----|-------|---|---|-------|-----|--------|-------|---|-----|--------|-------|---|-----|-----|-------|-------|-----|-------|------|------|
| S&P 500 | SPX | 1,124 | 1 | = | 1,124 | 612 | 100.02 | 26.36 | = | 685 | 111.73 | 28.83 | = | 768 | 1.5 | 15.4% | 1,102 | 1.0 | 10.1% | 10.1 | 2.6% |
|---------|-----|-------|---|---|-------|-----|--------|-------|---|-----|--------|-------|---|-----|-----|-------|-------|-----|-------|------|------|

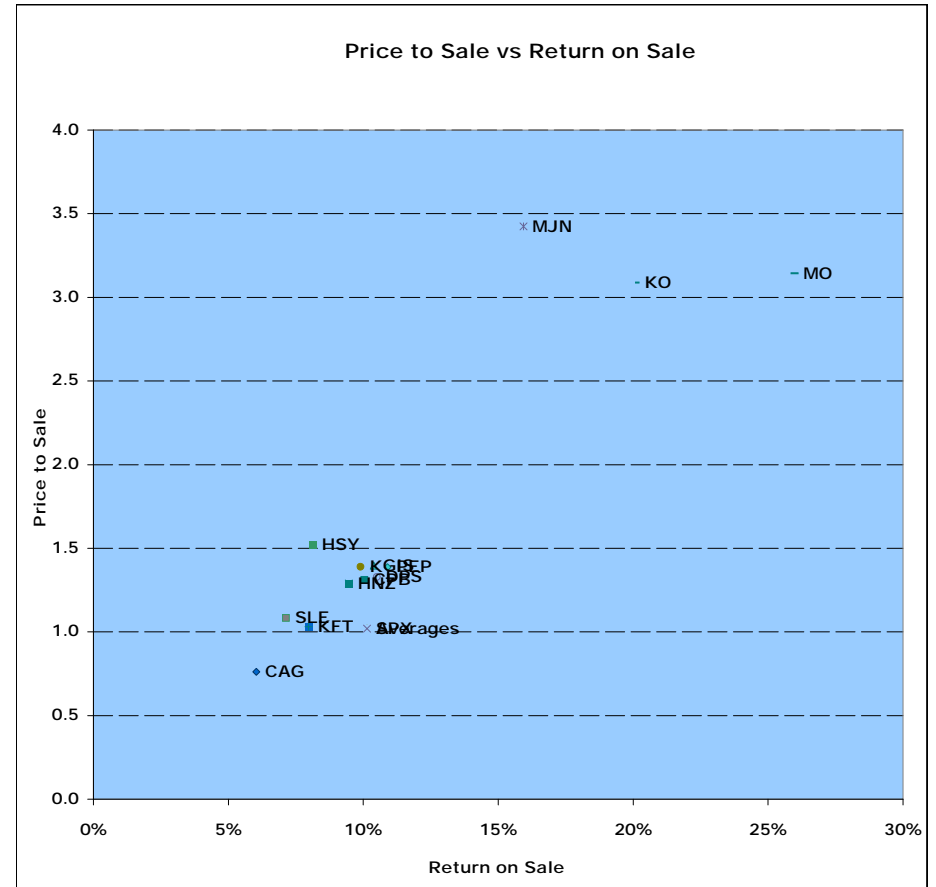
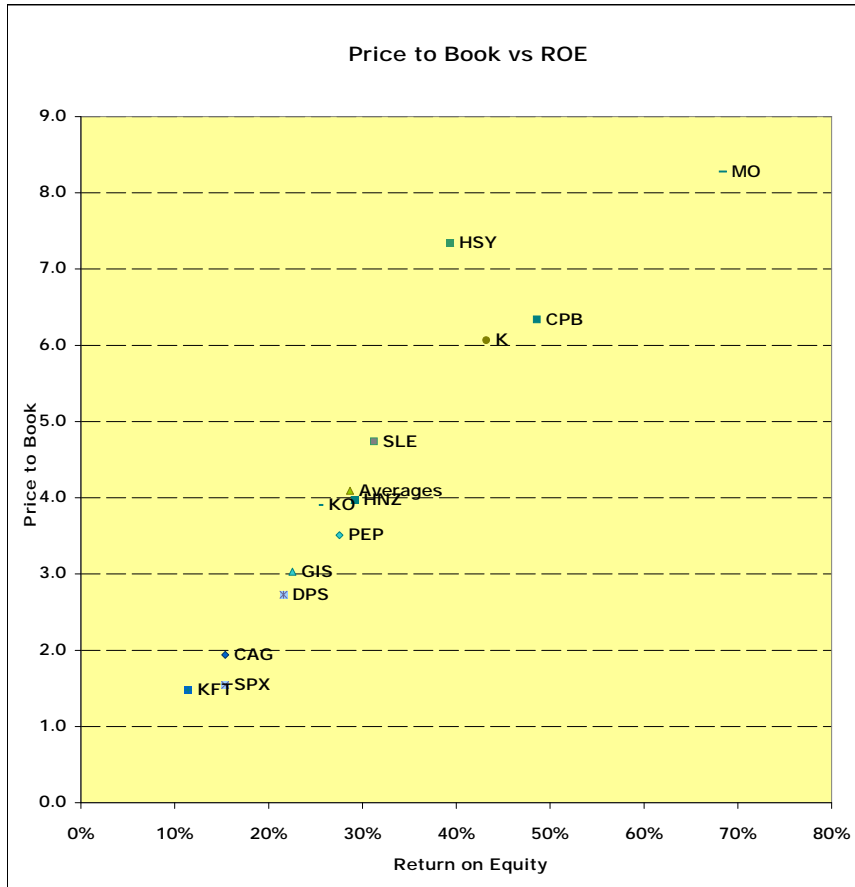
|  |       |
|--|-------|
| Plus Percentage Change in Price/Book ..... | -1.4% |
| Minus Percentage Change in ROE 2012 .....  | -0.6% |
| Equals Percentage change in P/E 2012 ..... | -0.8% |
| P/E Last Month 2012 .....                  | 14.9  |
| Current P/E 2012 .....                     | 14.6  |







# FORTREND SECURITIES





**KRAFT FOODS INC-CLASS A \$ 33.58 BUY**

|                |               |
|----------------|---------------|
| Market Cap     | \$ 59,306 Mil |
| Sales Est '12  | \$ 56,237 Mil |
| Profit Est '12 | \$ 4,471 Mil  |
| P/E Est '12    | 13.2          |

**Kraft 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.**

Asymmetric Risk Curve: High, narrow and symmetrical.

Analysts expect Kraft to earn between \$2.45 and \$2.63, which is a narrow range of only 7%, implying that analysts are confident in their ability to predict cash flows.

Compared to Dr Pepper, Kraft has a more diversified product range, giving stability to cash flow, countered by increased FX risks, which cancel each other out.

The high narrow bell curve collates with a relatively high P/E of 13.2, and lower premiums in the options market.

At the money options only provide a 25% annualized return. Although this is better than the 21% provided by Dr Pepper, we still recommend buying the stock, instead of selling puts so that you can participate in the upside in the stock price.

If the stock price falls by 5% sell puts.

**Sell KFT Nov 19<sup>th</sup> strike 34 Puts @ \$1.53**

|                   |       |
|-------------------|-------|
| Price             | 33.58 |
| Strike price      | 34.00 |
| Premium           | 1.53  |
| In the Money      | 0.42  |
| Break Even        | 32.47 |
| Return: 7 weeks   | 3.3%  |
| Annualized Return | 24.6% |

**PFIZER INC \$ 17.68 BUY**

|                |               |
|----------------|---------------|
| Market Cap     | \$137,942 Mil |
| Sales Est '12  | \$ 63,337 Mil |
| Profit Est '12 | \$ 17,642 Mil |
| P/E Est '12    | 7.7           |

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

Asymmetric Risk Curve: High, narrow and symmetrical, with quarterly incremental shifts to the right.

Analysts expect Pfizer to earn between \$2.21 and \$2.46, which is a narrow range of 11%, implying that analysts are confident in their ability to predict cash flows.

The range has narrowed and heightened over the past 12 months as certainty around patent expirations improves, but the stock still trades at a discounted P/E of 7.7 due to risk in cash flows after 2012. After 2012, there is uncertainty regarding pipelines and patent expirations, but clarify is improving risk is coming down, and the P/E is improving.

The options premiums sell at an annualized return of 35%, somewhere between food stocks and the S&P 500.

We recommended selling options on Pfizer. 4.8% return on 7 weeks is attractive considering the risk profile.

**Sell PFE Nov 19<sup>th</sup> strike 18 Puts @ \$1.16**

|                   |       |
|-------------------|-------|
| Price             | 17.68 |
| Strike price      | 18.00 |
| Premium           | 1.16  |
| In the Money      | 0.32  |
| Break Even        | 16.84 |
| Return: 7 weeks   | 4.8%  |
| Annualized Return | 35.3% |



|  |  |                     |
|--|--|---------------------|
| <b>NVIDIA CORP</b>   |  | <b>\$ 12.51 BUY</b> |
| <b>Market Cap</b>  |  | <b>\$ 7,553 Mil</b> |
| <b>Sales Est '12</b>   |  | <b>\$ 4,469 Mil</b> |
| <b>Profit Est '12</b>  |  | <b>\$ 775 Mil</b>   |
| <b>P/E Est '12</b>   |  | <b>9.9</b>          |
| <b>nVIDIA 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> |  |                     |

Asymmetric Risk Curve: Wide with a strong shift to the left.

Analysts expect nVIDIA to earn between \$1.02 and \$1.56, which is a huge range of 43%, implying that analysts are unable to confidently predict cash flows and have been reducing estimates.

We believe the momentum has overshot to the left, and the risk discount is too high and the P/E is too low at 9.9.

If fact nVIDIA increased forecasts and said that sales may reach \$5 billion for fiscal 2013. Average estimates were \$4.47 billion.

The company is winning share in sales of graphics processors AMD, as the sell more Tegra processors to mobile phones companies. Gross margin will be about 51% to 53%, the company predicted.

We recommended selling options on nVIDIA. 8.3% return on 7 weeks is attractive considering the risk profile. However, it is a close call and buying the stock outright would also be a good strategy.

**Sell NVDA Nov 19<sup>th</sup> strike 13 Puts @ \$1.153**

|                   |       |
|-------------------|-------|
| Price             | 12.51 |
| Strike price      | 13.00 |
| Premium           | 1.53  |
| In the Money      | 0.49  |
| Break Even        | 11.47 |
| Return: 7 weeks   | 8.3%  |
| Annualized Return | 61.8% |

|   |  |                      |
|---|--|----------------------|
| <b>MICROSOFT CORP</b>   |  | <b>\$ 24.89 BUY</b>  |
| <b>Market Cap</b>   |  | <b>\$208,535 Mil</b> |
| <b>Sales Est '12</b>  |  | <b>\$ 79,587 Mil</b> |
| <b>Profit Est '12</b>   |  | <b>\$ 25,942 Mil</b> |
| <b>P/E Est '12</b>  |  | <b>8.0</b>           |
| <b>Microsoft develops, manufactures, licenses, sells, and supports software products. They offer operating system software, server application software, business and consumer applications software and Internet and intranet software. They also develop the MSN network of Internet products and services.</b> |  |                      |

Asymmetric Risk Curve: Average standard divinations with atypical left hand swell.

Analysts expect Microsoft to earn between \$2.77 and \$3.52, which is a wide range of 24%. Estimates were reduced by 1% in the past 4 weeks.

Microsoft is the inventor and reigning champion at the "beat and guide lower" game. In July, for example, they guided higher and 2012 estimates were increased from \$3.00 to \$3.20. But since then estimates have come back to \$3.11. Expect them to beat 68c quarterly estimates when the report on Oct 20<sup>th</sup>.

Accenture guided higher during "warning season" and there is a lot of concern that Microsoft is behind the curve in the global trend to hand held devices.

However, with an average bell curve and standard deviation, the stock does not deserve a discounted P/E of 8.0. The lack of upward momentum in the stock price makes selling puts a very attractive proposition.

**Sell MSFT Nov 19<sup>th</sup> strike 25 Puts @ \$1.151**

|                   |       |
|-------------------|-------|
| Price             | 24.89 |
| Strike price      | 25.00 |
| Premium           | 1.51  |
| In the Money      | 0.11  |
| Break Even        | 23.49 |
| Return: 7 weeks   | 6.0%  |
| Annualized Return | 44.9% |

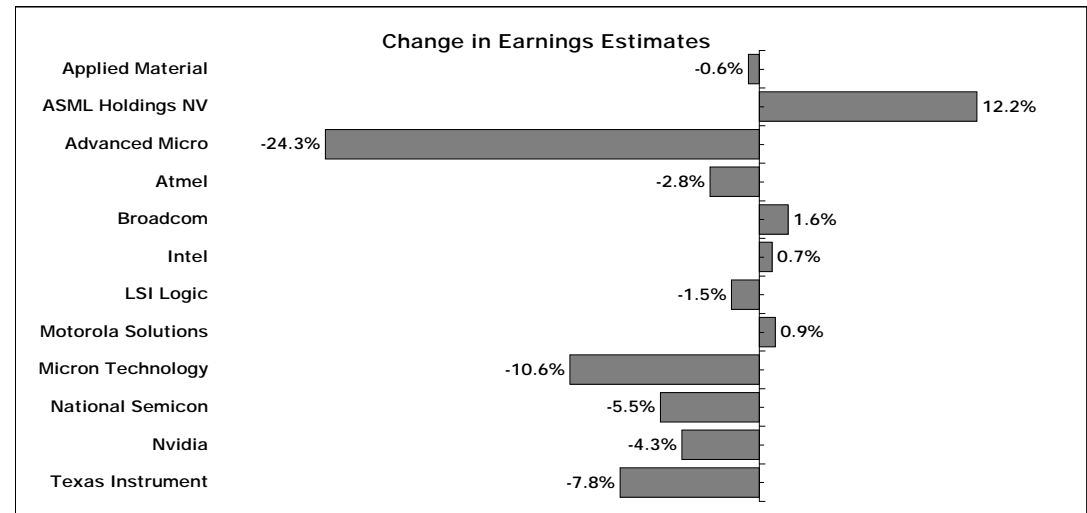
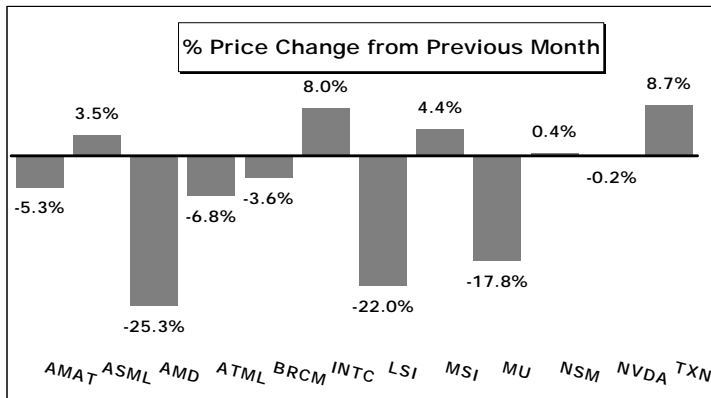


# FORTREND SECURITIES

## SEMICONDUCTORS

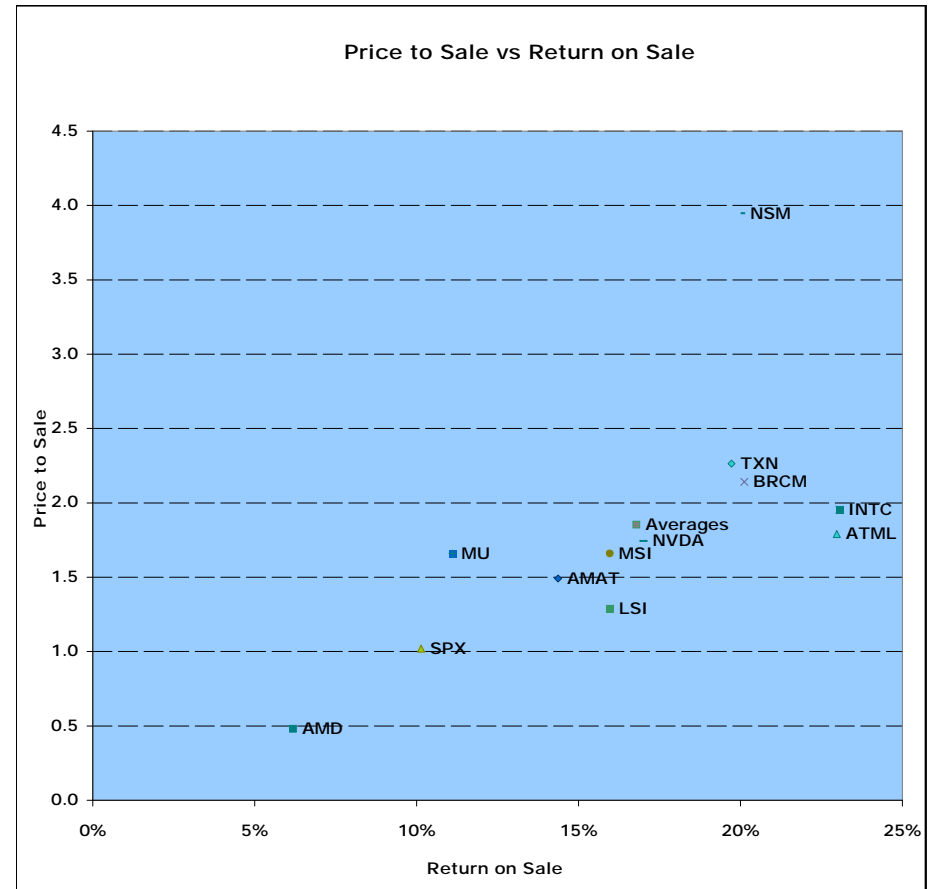
| Company            | Code | Price | X Shares<br>Outstanding | = | Market<br>Cap | Equity<br>10A | EPS<br>11E | Div<br>11E | = | Equity<br>11E | EPS<br>12E | Div<br>12E | = | Equity<br>12E | Price/<br>Book | ROE<br>12E | Projected<br>Sales 12E | Price/<br>Sales | ROS<br>12E | P/E<br>12E | Yield | FYE |
|--------------------|------|-------|-------------------------|---|---------------|---------------|------------|------------|---|---------------|------------|------------|---|---------------|----------------|------------|------------------------|-----------------|------------|------------|-------|-----|
| Applied Material   | AMAT | 10.27 | 1,318                   | = | 13,531        | 7,536         | 1.29       | 0.30       | = | 8,848         | 0.99       | 0.29       | = | 9,765         | 1.5            | 14.0%      | 9,071                  | 1.5             | 14.4%      | 10.4       | 2.9%  | Oct |
| ASML Holdings NV   | ASML | 35.10 | 444                     | = | 15,601        | 3,022         | 3.43       | 0.50       | = | 4,325         | 2.91       | 0.45       | = | 5,419         | 3.2            | 26.6%      | 5,171                  | 3.0             | 25.0%      | 12.1       | 1.3%  | Dec |
| Advanced Micro     | AMD  | 4.72  | 691                     | = | 3,263         | 1,020         | 0.42       | -          | = | 1,312         | 0.61       | -          | = | 1,733         | 2.1            | 27.7%      | 6,801                  | 0.5             | 6.2%       | 7.8        | 0.0%  | Dec |
| Atmel              | ATML | 7.98  | 466                     | = | 3,715         | 1,053         | 0.95       | -          | = | 1,497         | 1.02       | -          | = | 1,974         | 2.1            | 27.5%      | 2,075                  | 1.8             | 23.0%      | 7.8        | 0.0%  | Dec |
| Broadcom           | BRCM | 33.31 | 535                     | = | 17,821        | 5,826         | 2.94       | 0.36       | = | 7,206         | 3.13       | 0.37       | = | 8,682         | 2.2            | 21.1%      | 8,322                  | 2.1             | 20.1%      | 10.6       | 1.1%  | Dec |
| Intel              | INTC | 21.22 | 5,251                   | = | 111,426       | 49,430        | 2.39       | 0.78       | = | 57,889        | 2.51       | 0.83       | = | 66,664        | 1.8            | 21.1%      | 57,046                 | 2.0             | 23.1%      | 8.5        | 3.9%  | Dec |
| LSI Logic          | LSI  | 5.14  | 573                     | = | 2,945         | 1,318         | 0.49       | -          | = | 1,599         | 0.64       | -          | = | 1,964         | 1.7            | 20.5%      | 2,286                  | 1.3             | 16.0%      | 8.1        | 0.0%  | Dec |
| Motorola Solutions | MSI  | 42.19 | 343                     | = | 14,477        | 10,987        | 2.50       | 0.29       | = | 11,746        | 2.82       | 0.73       | = | 12,463        | 1.2            | 8.0%       | 8,723                  | 1.7             | 11.1%      | 14.9       | 1.7%  | Dec |
| Micron Technology  | MU   | 4.52  | 1,004                   | = | 4,538         | 9,816         | 0.21       | -          | = | 10,026        | 0.59       | -          | = | 10,619        | 0.4            | 5.7%       | 10,034                 | 0.5             | 5.9%       | 7.6        | 0.0%  | Aug |
| National Semicon   | NSM  | 24.99 | 253                     | = | 6,329         | 851           | 1.16       | 0.41       | = | 1,040         | 1.27       | 0.42       | = | 1,255         | 5.5            | 28.0%      | 1,604                  | 3.9             | 20.0%      | 19.7       | 1.7%  | May |
| Nvidia             | NVDA | 12.90 | 604                     | = | 7,788         | 3,181         | 1.16       | -          | = | 3,884         | 1.26       | -          | = | 4,644         | 1.8            | 17.8%      | 4,469                  | 1.7             | 17.0%      | 10.2       | 0.0%  | Jan |
| Texas Instrument   | TXN  | 27.25 | 1,155                   | = | 31,482        | 10,437        | 2.24       | 0.53       | = | 12,416        | 2.37       | 0.58       | = | 14,491        | 2.3            | 20.4%      | 13,902                 | 2.3             | 19.7%      | 11.5       | 2.1%  | Dec |
| Averages           |      |       |                         |   |               |               |            |            |   |               |            |            |   |               | 2.2            | 19.9%      |                        | 1.9             | 16.8%      | 10.8       | 1.2%  |     |
| S&P 500            | SPX  | 1,124 | 1                       | = | 1,124         | 612           | 100.02     | 26.36      | = | 685           | 111.73     | 28.83      | = | 768           | 1.5            | 15.4%      | 1,102                  | 1.0             | 10.1%      | 10.1       | 2.6%  |     |

|  |       |
|--|-------|
| Plus Percentage Change in Price/Book ..... | -2.6% |
| Minus Percentage Change in ROE 2012.....   | -2.7% |
| Equals Percentage change in P/E 2012 ..... | 0.0%  |
| P/E Last Month 2012.....                   | 10.8  |
| Current P/E 2012 .....                     | 10.8  |





# FORTREND SECURITIES





|   |                |                      |
|---|----------------|----------------------|
| <b>ORACLE CORP</b>  |                | <b>\$ 28.74 BUY</b>  |
| <b>Market Cap</b>   |                | <b>\$144,982 Mil</b> |
| <b>Sales</b>  | <b>Est '12</b> | <b>\$ 41,491 Mil</b> |
| <b>Profit</b>   | <b>Est '12</b> | <b>\$ 13,671 Mil</b> |
| <b>P/E</b>  | <b>Est '12</b> | <b>10.9</b>          |
| <p><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, mainframe computers.</b></p> |                |                      |

Asymmetric Risk Curve: Average standard deviations with symmetrical risk.

Oracle reported sales and profit that beat estimates. Sales rose 12% to \$8.37 bil as companies increased spending on database software and applications that help run their businesses. 1Q12 earnings were 48c, beating the average 47c estimates.

CEO Larry Ellison has spent more than \$40 bil on takeovers since 2005, aimed at adding programs that help large corporations manage operations and tackle complicated computing tasks, including \$7.4 bil purchase of Sun Microsystems.

Analysts expect Oracle to earn between \$2.19 and \$2.56 in 2012, which is a wide range of 24%. Estimates were reduced by 1% in the past 4 weeks.

With an average bell curve and above average growth, the stock deserves P/E better than 10.9. Selling puts is very attractive with a 55% annualized return, but you could miss some upside.

**Sell ORCL Nov 19<sup>th</sup> strike 29 Puts @ \$2.15**

|                   |       |
|-------------------|-------|
| Price             | 28.74 |
| Strike price      | 29.00 |
| Premium           | 2.15  |
| In the Money      | 0.26  |
| Break Even        | 26.85 |
| Return: 7 weeks   | 7.4%  |
| Annualized Return | 55.1% |

|  |                |                      |
|--|----------------|----------------------|
| <b>MORGAN STANLEY</b>  |                | <b>\$ 13.51 BUY</b>  |
| <b>Market Cap</b>  |                | <b>\$ 26,046 Mil</b> |
| <b>Sales</b>   | <b>Est '12</b> | <b>\$ 34,775 Mil</b> |
| <b>Profit</b>  | <b>Est '12</b> | <b>\$ 4,642 Mil</b>  |
| <b>P/E</b>   | <b>Est '12</b> | <b>5.6</b>           |
| <p><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></p> |                |                      |

Asymmetric Risk Curve: Extremely wide bell curve, bulging to the left.

Analysts expect Morgan Stanley's 2012 earnings to range from \$1.99 to \$3.25, a huge 52% range. Estimates were reduced by 13% the past 4 weeks and the stock price fell 15%. The risk discount is similar to the discount at the depth of the GCF, driving option premium through the roof.

BofA Merrill analyst Guy Moszkowski slashes estimates. for Goldman, Morgan Stanley and Citi on weaker FICC trading, lower-margin equity trading, meaningful decline in investment banking, declines in equity, credit markets driving position markdowns, litigation exposure and European concerns.

He cited upside catalysts: Greece resolution, stemming Euro contagion, Euro bank capital infusion, improving macro indicators, mortgage litigation resolution, better clarity on regulation.

The cost of buying the swaps, or CDS, which offer protection against a default of Morgan Stanley's debt for five years, has surged to 456 basis points, or \$456,000, for every \$10 million of debt insured, from 305 basis points, according to prices provided by London-based CMA. Italy's Intesa Sanpaolo SpA has CDS trading at 405 basis points, and UniCredit SpA at 424, the data show. A basis point is one-hundredth of a percent.





**Sell MS Nov 19<sup>th</sup> strike 14 Puts @ \$1.60**

|                   |       |
|-------------------|-------|
| Price             | 13.51 |
| Strike price      | 14.00 |
| Premium           | 1.60  |
| In the Money      | 0.49  |
| Break Even        | 12.40 |
| Return: 7 weeks   | 11.4% |
| Annualized Return | 84.9% |



| <b>Relative Value Model</b> |                          |               |                 |                       |                 |
|-----------------------------|--------------------------|---------------|-----------------|-----------------------|-----------------|
| <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>\$ 43.91</b> | <b>42 / 62</b>        | <b>9.9</b>      |
| Elec. & Mfg Equipment       | <b>3M</b>                | <b>Buy</b>    | <b>\$ 71.19</b> | <b>72 / 98</b>        | <b>10.6</b>     |
| Automobile                  |                          |               |                 |                       |                 |
| Housing                     |                          |               |                 |                       |                 |
| Lodging & Restaurants       |                          |               |                 |                       |                 |
| Retail                      |                          |               |                 |                       |                 |
| Real Estate                 | <b>SL Green</b>          | <b>Buy</b>    | <b>\$ 58.15</b> | <b>58 / 90</b>        | <b>13.7XCF</b>  |
| Food                        | <b>Kraft</b>             | <b>Buy</b>    | <b>\$ 33.58</b> | <b>30 / 36</b>        | <b>13.2</b>     |
|                             | <b>Dr Pepper Snapple</b> | <b>Buy</b>    | <b>\$ 38.78</b> | <b>33 / 43</b>        | <b>13.1</b>     |
| Media / Entertainment       |                          |               |                 |                       |                 |
| Consumer Products           |                          |               |                 |                       |                 |
| Hospital                    |                          |               |                 |                       |                 |
| Pharmaceutical              | <b>Pfizer</b>            | <b>Buy</b>    | <b>\$ 17.68</b> | <b>16 / 21</b>        | <b>7.7</b>      |
| Computers                   |                          |               |                 |                       |                 |
| Semiconductors              | <b>nVIDIA</b>            | <b>Buy</b>    | <b>\$ 12.51</b> | <b>10 / 26</b>        | <b>9.9</b>      |
| Software                    | <b>Microsoft</b>         | <b>Buy</b>    | <b>\$ 24.89</b> | <b>24 / 29</b>        | <b>8.0</b>      |
|                             | <b>Oracle</b>            | <b>Buy</b>    | <b>\$ 28.74</b> | <b>25 / 36</b>        | <b>10.9</b>     |
| Aerospace                   |                          |               |                 |                       |                 |
| Financial                   | <b>Morgan Stanley</b>    | <b>Buy</b>    | <b>\$ 13.51</b> | <b>12.5 / 31</b>      | <b>5.6</b>      |

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