

Fortrend Securities

Bulls vs Bears



General Advice

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



Contents

- Market Overview and Movers
- Relative Value Model
- Bulls vs Bears
- Europe, China and US
- Fortrend's view of the world
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Market Performance

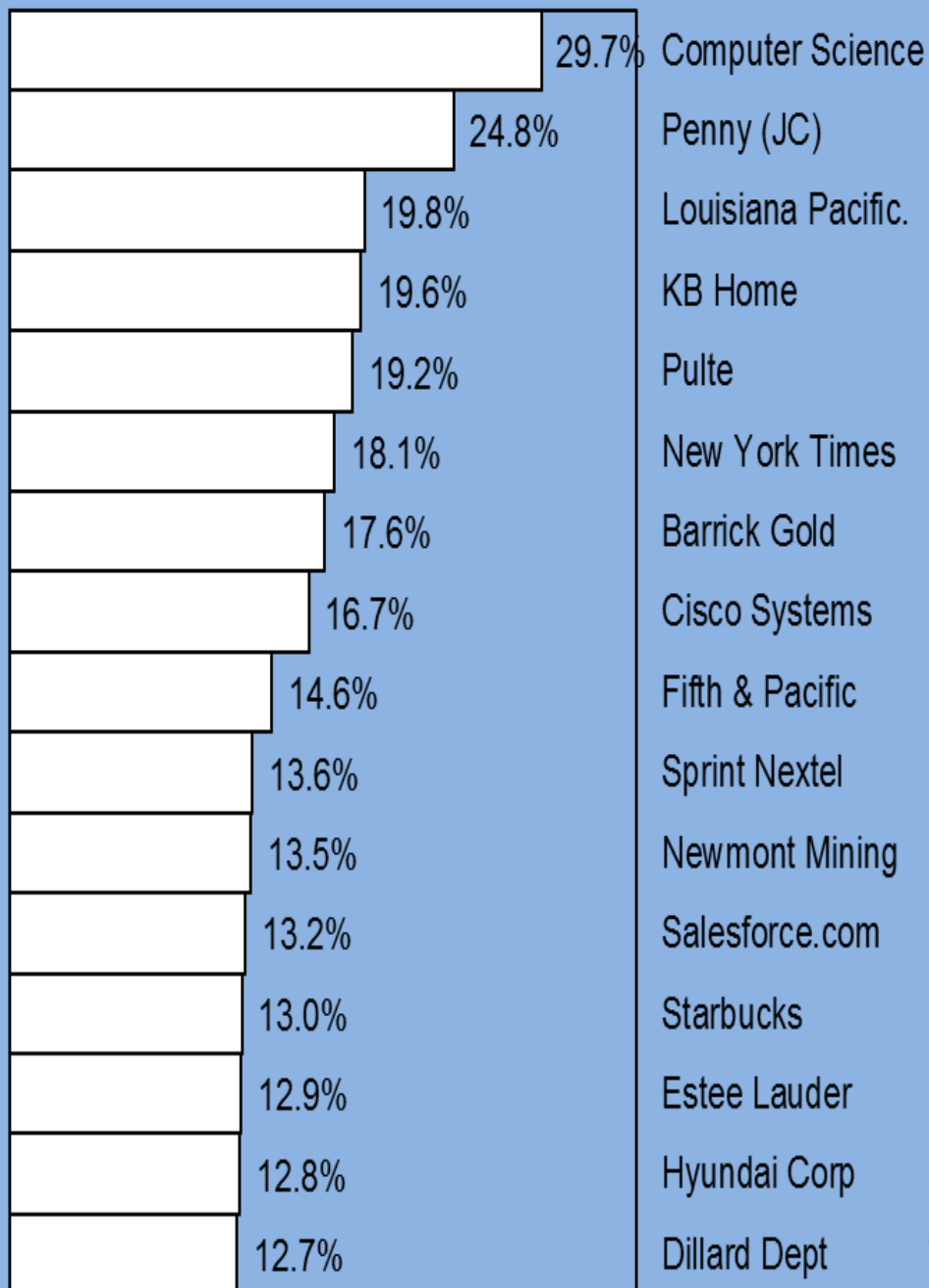
- S&P 500 rose 1.1%
- EE'13 stopped falling + 0.1%
- P/E rose 1.0% to 12.2
- The 10 year yield is 1.55%, (stocks yield more than bonds)
- VIX increased a little to 17.5
- Europe surged: sell EWG, buy NKE



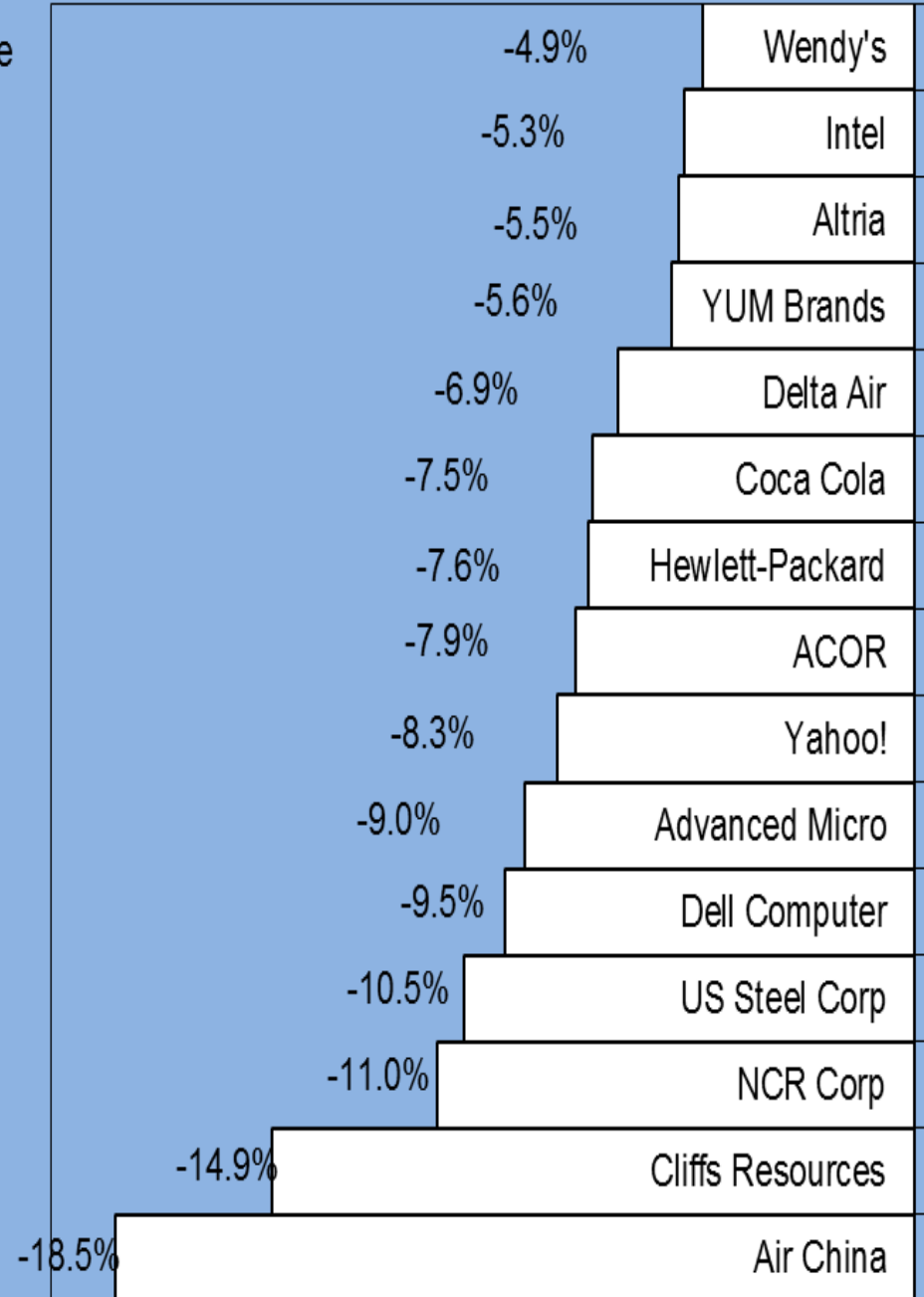
S&P500 Volatility Index



Best Performers

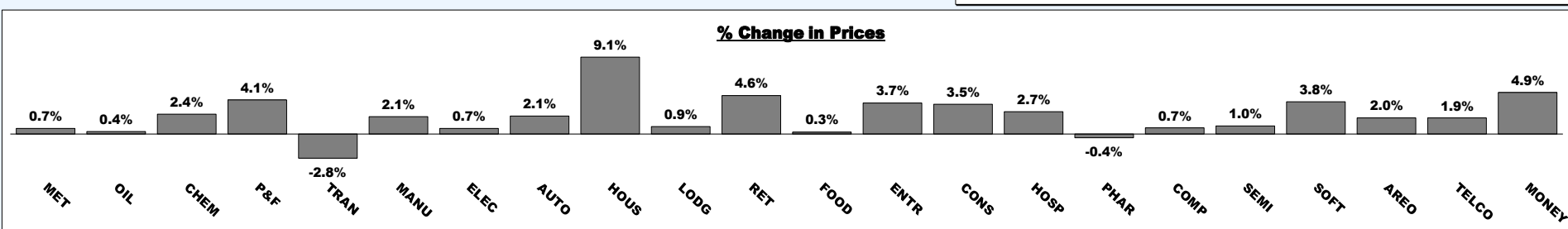
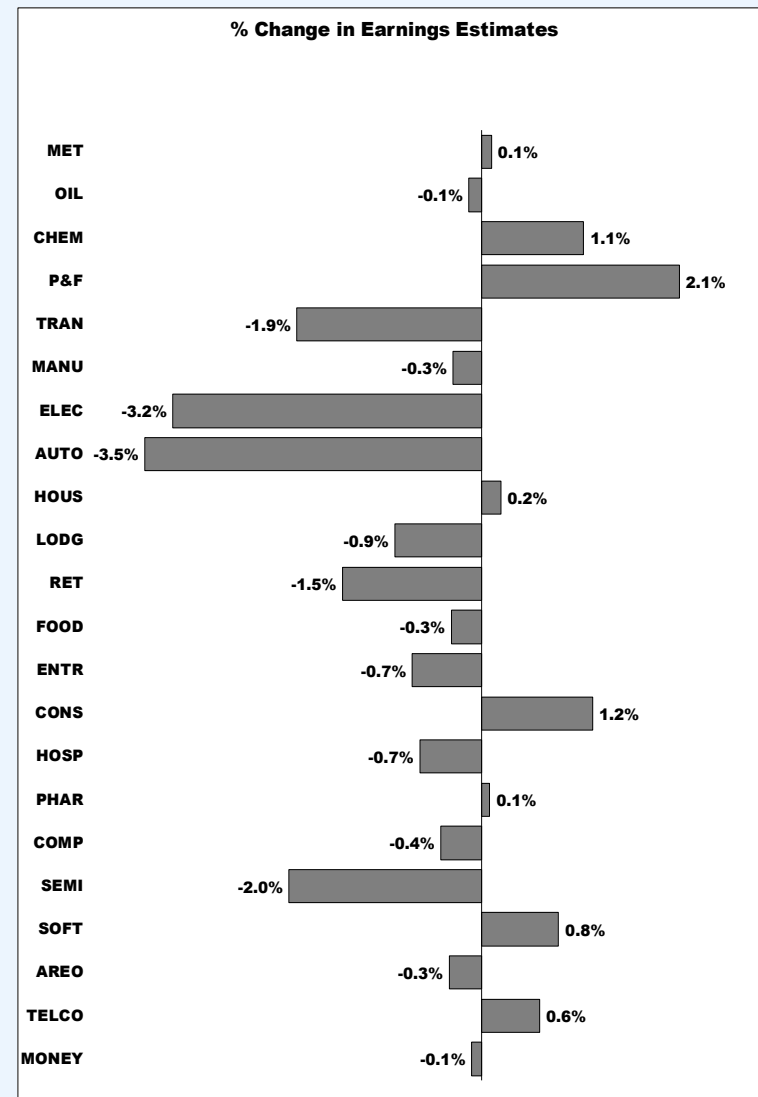


Worst Performers

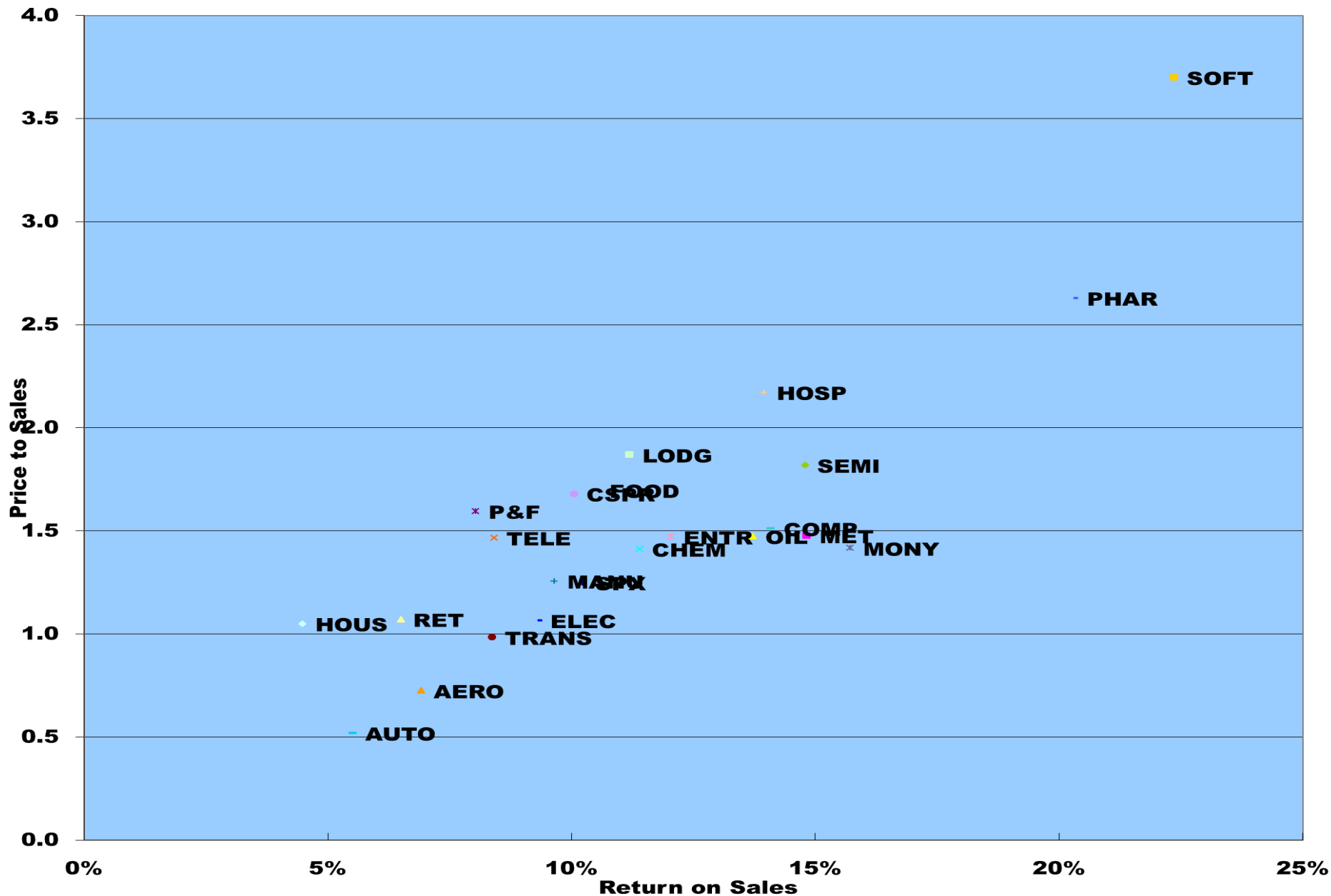


Relative Value Model

Plus Percentage Change in Price/Book	0.9%
Minus Percentage Change in ROE 2013.....	-0.1%
Equals Percentage change in P/E 2013	1.0%
Current P/E 2013	12.2
SPX Dividend Yield.....	2.4%
10 year Treasury Yield	1.6%



Price to Sales vs Return on Sales



Bulls vs. Bears

- **Bulls**
 - Bank of America Merrill Lynch strategist Savita Subramanian
 - JP Morgan strategist Thomas Lee
 - Deutsche Bank strategist Binky Chadha
- **Bears**
 - Morgan Stanley strategist Adam Parker
 - Goldman Sachs strategist David Kostin
- **Fortrend Bullish with volatility warning.**



Bank America ML Subramanian

- The GDP and political cycle are in sync. “As the economy decelerates - around the fiscal cliff and drag from the European crisis - there is a negative impact on confidence which could result in a Romney victory.”
- The Fed has dwindling options.
- If Romney is elected, lower debt and expenses could “also serve to increase the near-term probability of a recession.”
- If Obama wins health care stocks win.
- Romney wins, defense stocks win. Expect lower taxes and relaxed regulation which would benefit utilities, financials and for-profit education, as well as high end consumer stocks.
- Obama currently has a slight lead but GDP growth has slowed from 4.1% in 4Q to 2.0% in 1Q to 1.5% in 2Q.
- We largely agree with the analysis.



JP Morgan, Thomas Lee

- On August 3rd, a month after the bottom, he recommended “investors be buyers of the dip” because
 - 1. Market weakness reflected disappointment over central bank action (Fed and ECB),
 - 2. Economic indicators are turning up,
 - 3. Construction improved and gasoline is lower. He said investors should get cyclical when economic activity picks up.
- We believe he should pay some attention to extraneous events like the cliff, US elections, and European debt issues.
- Risk on/off issues are driving the economy, market and election - interatively



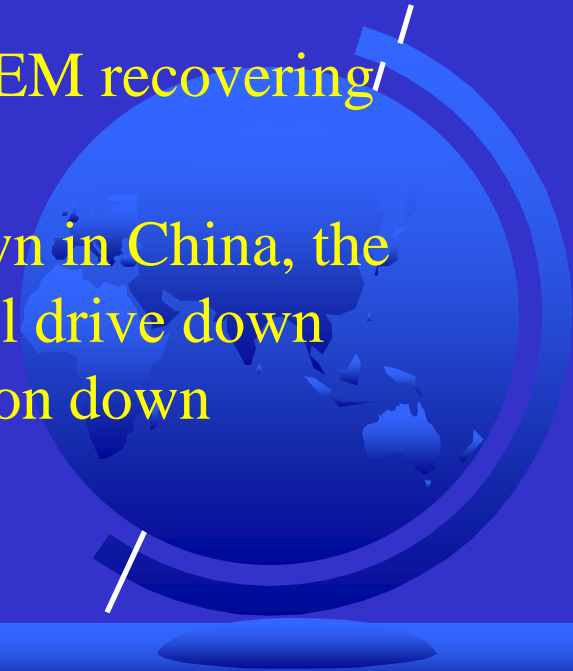
Deutsche Bank, Binky Chadha

- He says that after the “V” recovery from the “Great Recession” growth has stalled due to foreign events in Europe and EM.
- 1. Global earnings have been volatile, but weakness is focused in energy, materials and financials, while sales have been resilient outside these sectors.
- 2. Margins have been flat in the U.S., regained some ground in EM and continue to fall in Europe,
- 3. USD strength has shaved off 3% from US sales growth yoy.



Deutsche Bank

- 2Q earnings expectations were low because of pre-announcements, so number of misses were low.
- Going forward he sees global earnings growth at a trend-like pace. Global sales growth at 5% (yoy local currency). The drag from energy and materials have been realized and should grow in line going forward.
- Margins vary strongly by region: US flat, EM recovering and Europe remaining weak.
- Our view is that he is missing the slowdown in China, the world's second largest economy. That will drive down mineral prices, but also keep global inflation down
- Trade mission.....

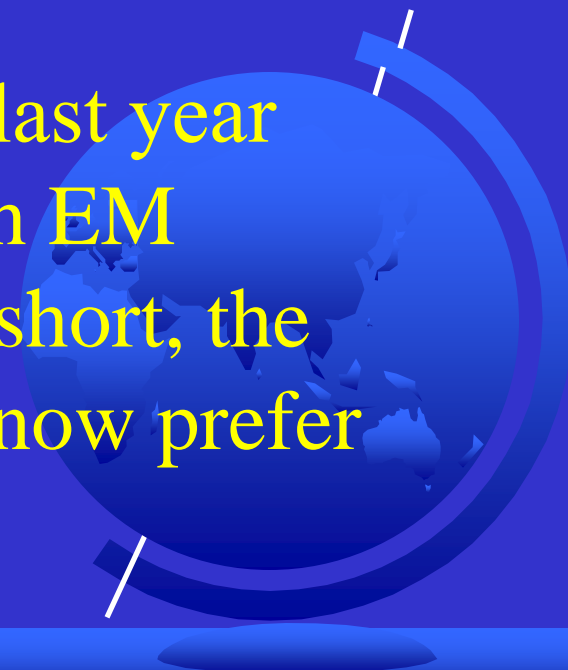


Morgan Stanley, Adam Parker

- Biggest bear, predicts 17% fall to 1167 He asks 4 rhetorical questions:
 - 1. Doesn't everyone know estimates are too high?,
 - 2. Isn't the fiscal cliff already discounted into estimates?,
 - 3. Isn't the US the best market in a group of bad markets, making it the best alternative?,
 - 4. Aren't huge cash balances a positive?



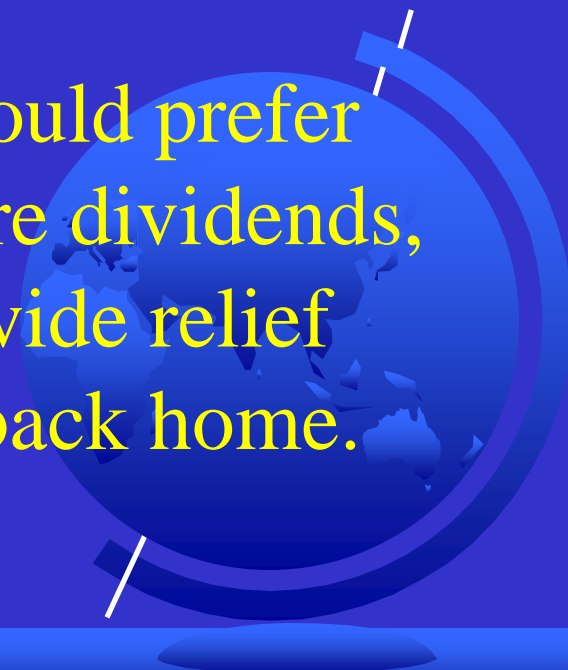
- 1. Estimates normally start the year optimistically and fall, strong down year.
- 2. RE Fiscal cliff, he notes his estimates do not account for the cliff, and he is the lowest on the street based. Romney/Ryan = austerity, recession.
- 3. US is best of a bad bunch? “last year investors wanted US stocks with EM exposure to go long, now to go short, the pendulum has swung, and they now prefer EM over US equities.



- 4. RE cash balances: US corporates hold \$1.5T cash, but he shows that most of this is held abroad.
 - MSFT \$60B: 84% abroad.
 - GOOG \$49B, 52% abroad.
 - CSCO \$47B, 89% abroad.
 - KO \$16B, 88% abroad.
 - He claims that investor sentiment towards punishing cash hoarders and rewarding companies that invest for growth is a swinging target.



- Our view is that he is way out on a limb.
- His estimates and projections are so far away from consensus that he loses credibility. The fact is that earnings fell during the Euro crisis, and stabilized this month along with Europe.
- Regarding cash balances, we would prefer to see tech companies issue more dividends, but congress would need to provide relief from taxes on bringing money back home.



Goldman Sachs, David Kostin

- S&P will drop to 1250 by year end.
- Positive developments in Europe and green shoots in the U.S. minus Fiscal Cliff risk = asymmetric risk to the downside because of “last year’s precedent” that congress will fail to address the fiscal cliff.
- ‘The ECB’s early August promise lowered global risk premiums’ but there are outstanding risks: debt ceiling, sequestration, U.S. elections, China growth, European political climate, sovereign debt, bank funding crisis and Iran/Israel tensions.

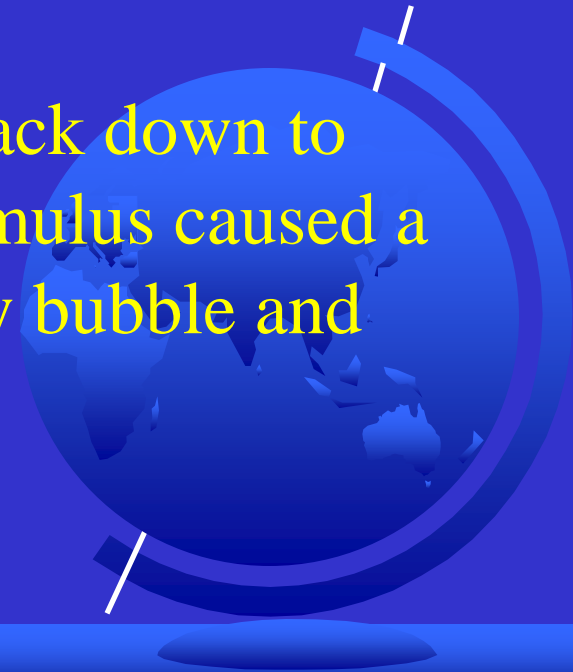


- If no agreement is reached before the election, it will require a lame duck congress to address the topic.
- Kostin calculates that failure by congress will cut 0.4% off GDP next year, and \$5 off earnings. He provides a matrix of earnings and P/E's and concludes there is asymmetric risk to the downside, forecasting 1250 in the S&P 500 by year end.



Fortrend EM

- Don't count on China to bail ROW out again.
- 2008-09 they ran a 4 trillion Yuan stimulus program, combined with a \$17 trillion surge in credit expansion.
- GDP increased from 6% to 12%. Back down to 8% after averaging 10.6%. That stimulus caused a surge in inflation to 6.5%, a property bubble and downgrades for banks.



EM continued

- New stimulus looks designed to manage downside risk rather than support US & Europe.
- Accelerated approval of 800 billion Yuan for green energy such as wind power, hydro and efficient cars.
- Reduced reserve requirements for banks by 1.5 points in three cuts since Nov to 20%.
- Current stimulus seems more focused on maintaining 8% growth than compensating for a drop off in demand from Europe.



Fortrend - Europe

- Greece out the bottom? Germany out the top? Or Stay together?
- We believe they will stay together, although the process will be long and volatile.
 - Repeat: Centralized monetary policy and decentralized fiscal policies. The challenge is to create new protocols that move towards fiscal accountability. It will take time for nations to give up control to the collective.
- 3rd debt crisis in 3 years, volatility falls each time. Amount of debt is clear, sharing the pain is the ?
- We bought EWG in a crisis, it bounced strong, great profit. sell



Fortrend U.S.

- Government, & consumer debt is US eco-centric, leveraged economy, not a leveraged S&P 500.
- Earnings are solid, balance sheets are extremely strong, and growth in profits is good. Interest rates and inflation are low so P/E's could be 16-18.
- But stocks are trading at a 30% - 40% risk discount which reflects US-centric debt.
- The debt levels are like a margin loan, which creates volatility. The DCF is sensitive to growth, interest rates and Government budget.
- Budget is current risk.



- Expect volatility, be prepared to sell options
- Background on Bubbles etc.:
 - The trade deficit \$50B per month = an Apple a year
 - Trading widgets & oil for USD.
 - The current account must = \$0, so buy US assets:
 - Stocks, bonds, real estate and bank deposits.
- In the 1990's stocks, P/E's rose to 24 – .
- From 2000 to 2008 residential housing
- 2008 – 2012 Treasuries, yields less than *i*.
- Commercial Real Estate can not absorb. (SLG)



- ? Will shale shrink the deficit?
- If not, where will those exported USD go?
- If Romney gets in there is likely to be fewer bonds issued by the US government.
- We see two scenarios:
 - 1. A surge in demand for US dollar denominated stocks, or
 - 2. issuance of debt by US corporations.
- The US is in a bull market, and the trade deficit could fuel stock advances.



RV Model Portfolio Holdings

Holdings by Sector	Industry	Price (\$)	Est'd 2013 P/E	Market Cap (\$b)	Revenue (\$m 2011)	Income (\$m 2011)	Debt to Assets (%)	S&P LT Rating
<i>Industrials</i>								
Honeywell International Inc	Aerospace &	58.45	11.7	45.5	36,529	2,067	19.0	A
ITT Corp	Machinery	19.9	10.7	1.8	2,119	-130.0	0.2	BBB-
<i>Financials</i>								
SL Green Realty Corp	Real Estate Investment Trusts	80.6	15.8 *	7.4	1,263	647.4	44.9	BB+
<i>Consumer Staples</i>								
Dr Pepper Snapple Group Inc	Beverages	44.81	13.9	9.4	5,903	606.0	29.2	BBB
Procter & Gamble Co/The	Household	67.19	16.0	185.3	83,680	10756.0	22.5	AA-
<i>Consumer Discretionary</i>								
NIKE Inc	Textiles, Apparel & Luxury Goods	97.36	16.5	44.6	24,128	2223.0	2.5	A+
<i>Health Care</i>								
Thermo Fisher Scientific Inc	Life Sciences Tools & Services	57.35	10.8	21.0	11,726	1329.9	26.2	A-
<i>Information Technology</i>								
NVIDIA Corp	Semiconductors &	14.03	10.7	8.7	3,998	581.1	0.4	NR
Microsoft Corp	Software	30.82	9.3	258.4	73,723	16978.0	9.8	AAA
Oracle Corp	Software	31.65	10.8	154.5	37,121	9981.0	21.0	A+

* Estimated Price to FFO.

Sourced from Bloomberg: 4/09/2012

RV Model Portfolio Active Weights

S&P500 Index Sectors	S&P/ASX200 Index Weight	S&P500 Index Weight	RV Portfolio Weight	Active Weight (vs. S&P500)
Energy	7%	11%	0%	-11%
Materials	20%	3%	0%	-3%
Industrials	7%	10%	20%	10%
Financials	42%	14%	10%	-4%
Consumer Staples	9%	11%	20%	9%
Health Care	4%	12%	10%	-2%
Information Technology	1%	20%	30%	10%
Consumer Discretionary	3%	11%	10%	-1%
Utilities	2%	4%	0%	-4%
Telecommunication Services	5%	3%	0%	-3%
All Securities	100%	100%	100%	

Sourced from Bloomberg:

4/09/2012

NIKE

A compelling investment

Why Buy:

- 1. The company is re-focusing on its core footwear and apparel businesses;
- 2. Nike's new single thread "Flyknit" technology is expected to revolutionize the shoe making process, creating savings and expanding margins;
- 3. 23% ROE on a \$44 billion dollar company far out-paces peers;
- 4. Excellent execution and innovation in the Digital Sports business;
- 5. Expect Nike to reap the benefits of unprecedented marketing investments in the NFL, World Cup, and Olympics.

Nike Reports again on the 27th of September and we're expecting out performance. Initial back to school sales data suggest stronger than expected numbers.

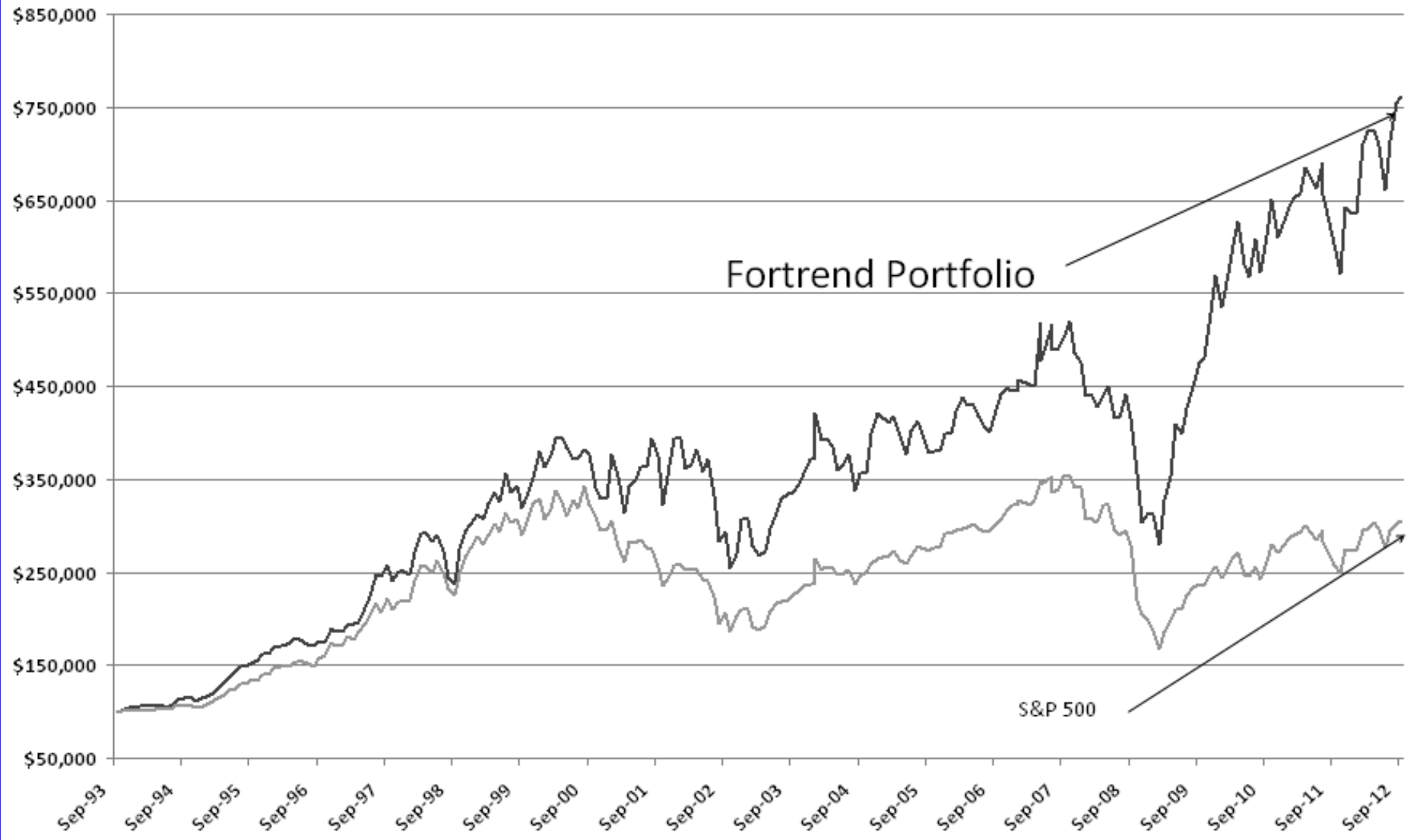


NVIDIA

- Earnings came in at 19 cents a share, 5 cents better than consensus estimates.
- Revenue was \$1.04 billion for the quarter, \$30 million better than estimates.
- Most importantly, the company raised sales guidance for the third quarter to a range of \$1.15 billion to \$1.25 billion, higher than the \$1.09 billion.



Fortrend has outperformed the S&P 500



FORTREND
SECURITIES

Fortrend Portfolio

- Honeywell
- ITT Corp
- SL Green
- Dr Pepper Snapple
- Thermo Fisher
- Nike
- Procter & Gamble
- Microsoft
- Oracle
- nVIDIA
- Sell EWG

