

Fortrend Securities

Earnings Preview



FORTREND
SECURITIES

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
- Europe, China and US
- Fortrend's view of the world
- Warnings season
- Stock Selection: Sell SLG, Buy JPM

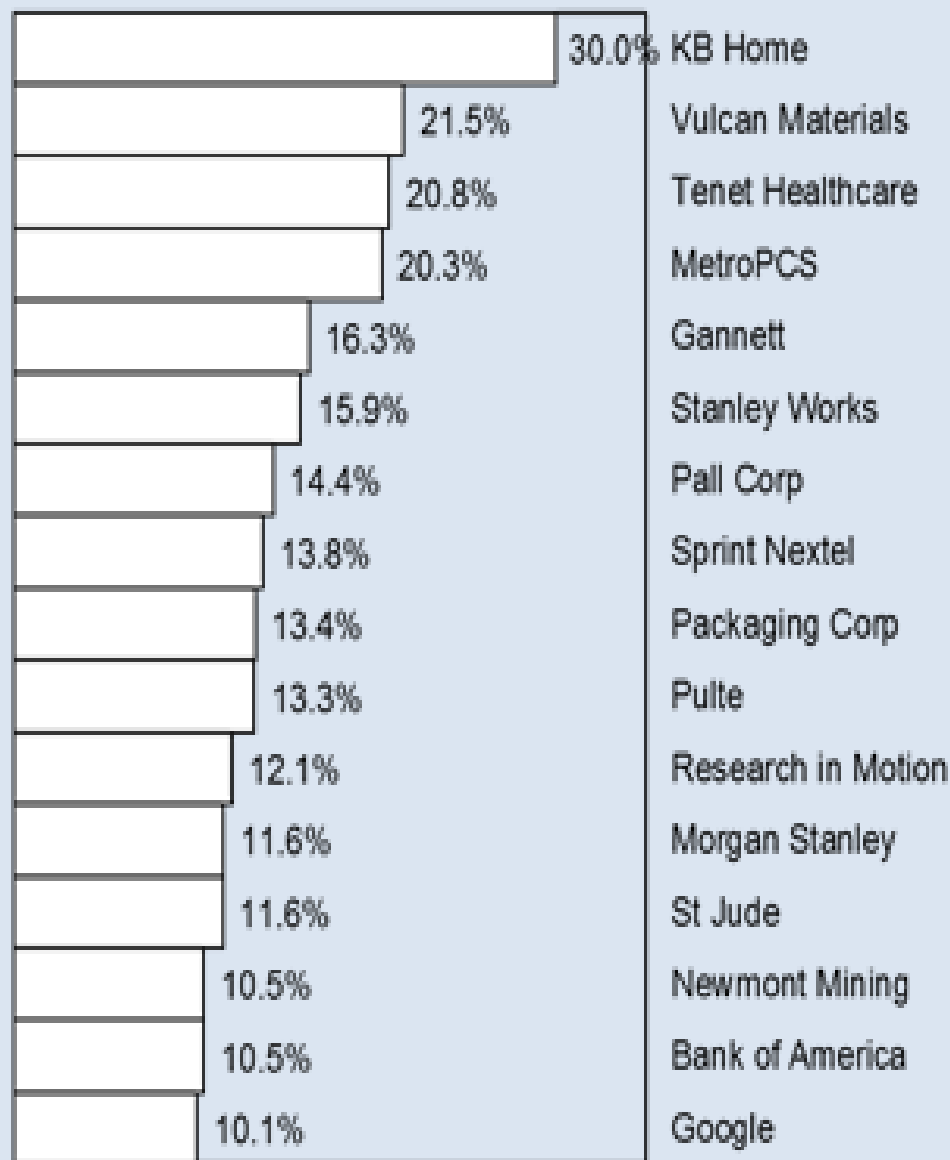


Market Performance

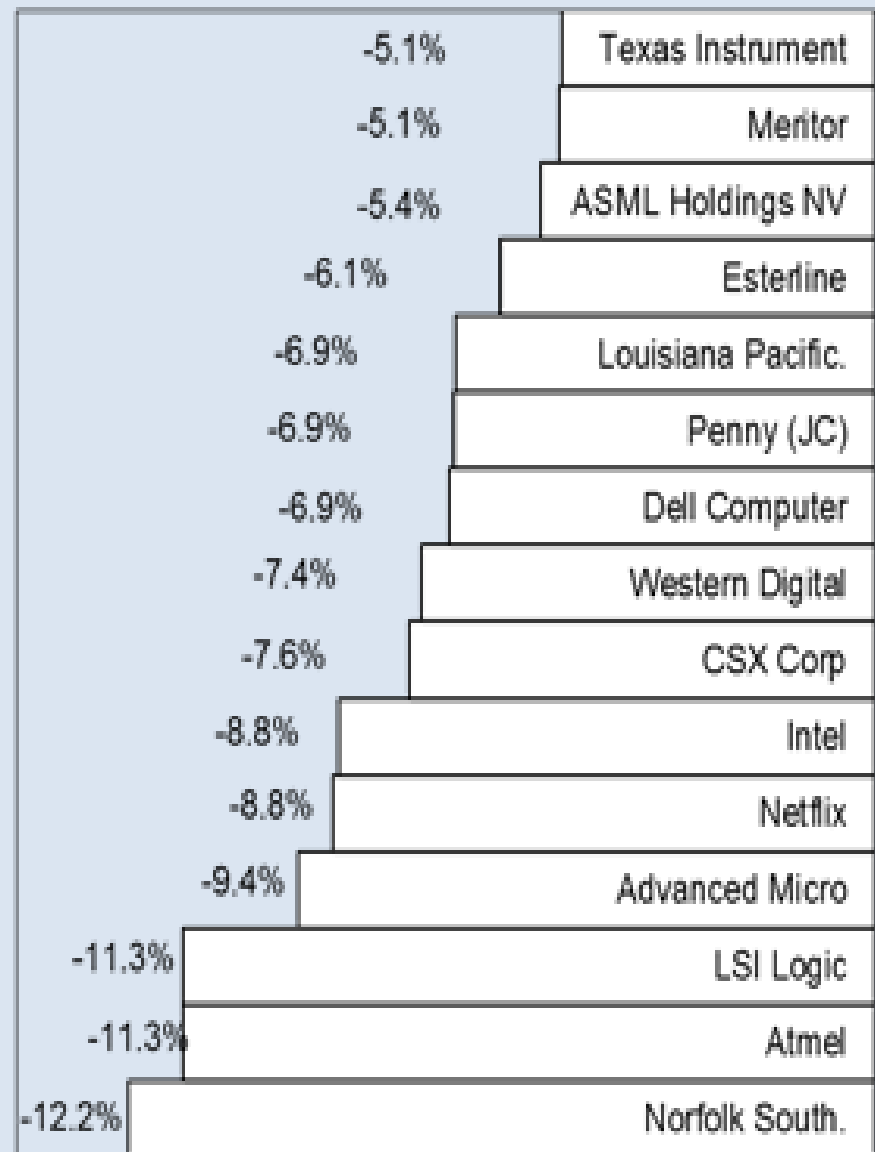
- S&P 500 rose 2.4%
- EE'13 stabilized, rising + 0.1%
- P/E rose 2.3% to 12.5
- The 10 year yield is 1.67, (stocks yield more than bonds)
- Sell SLG buy JP Morgan



Best Performers

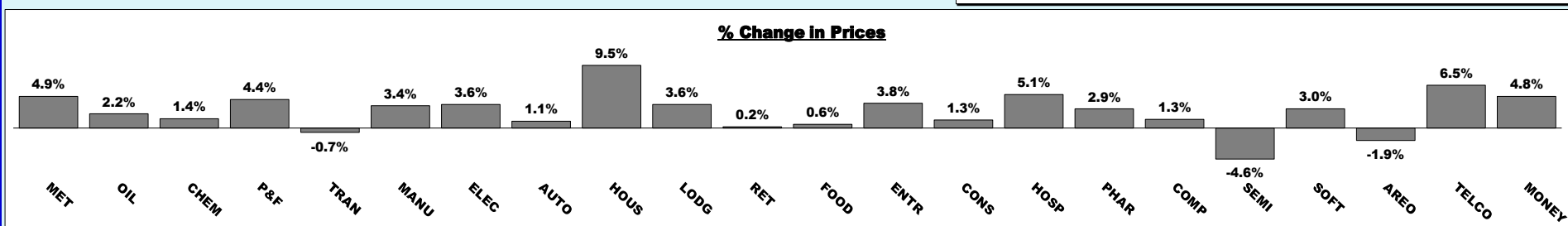
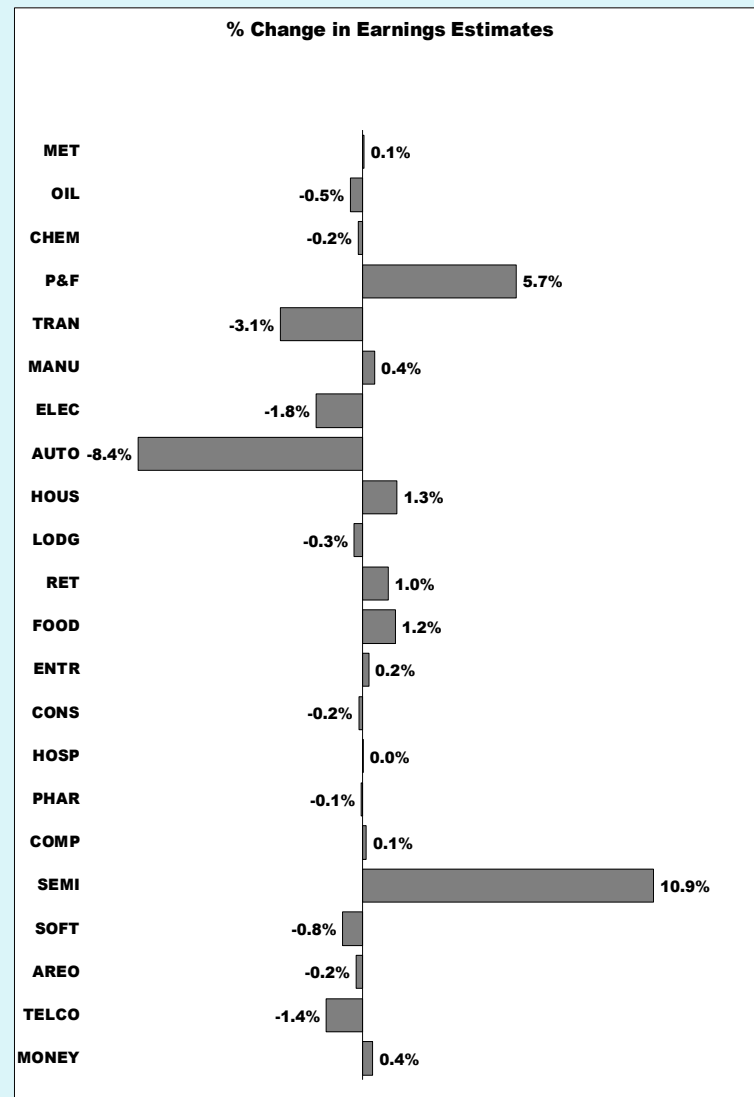


Worst Performers

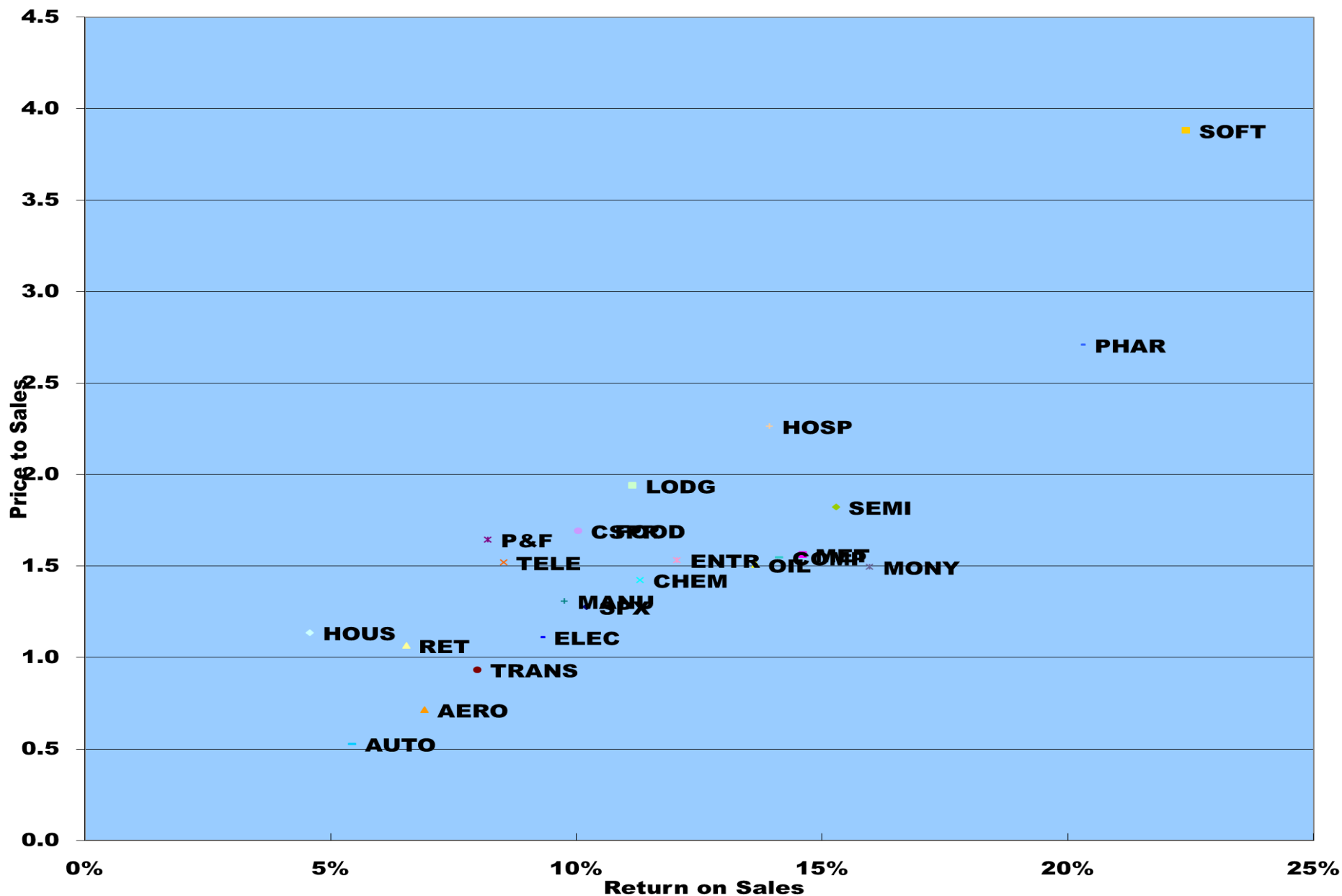


Relative Value Model

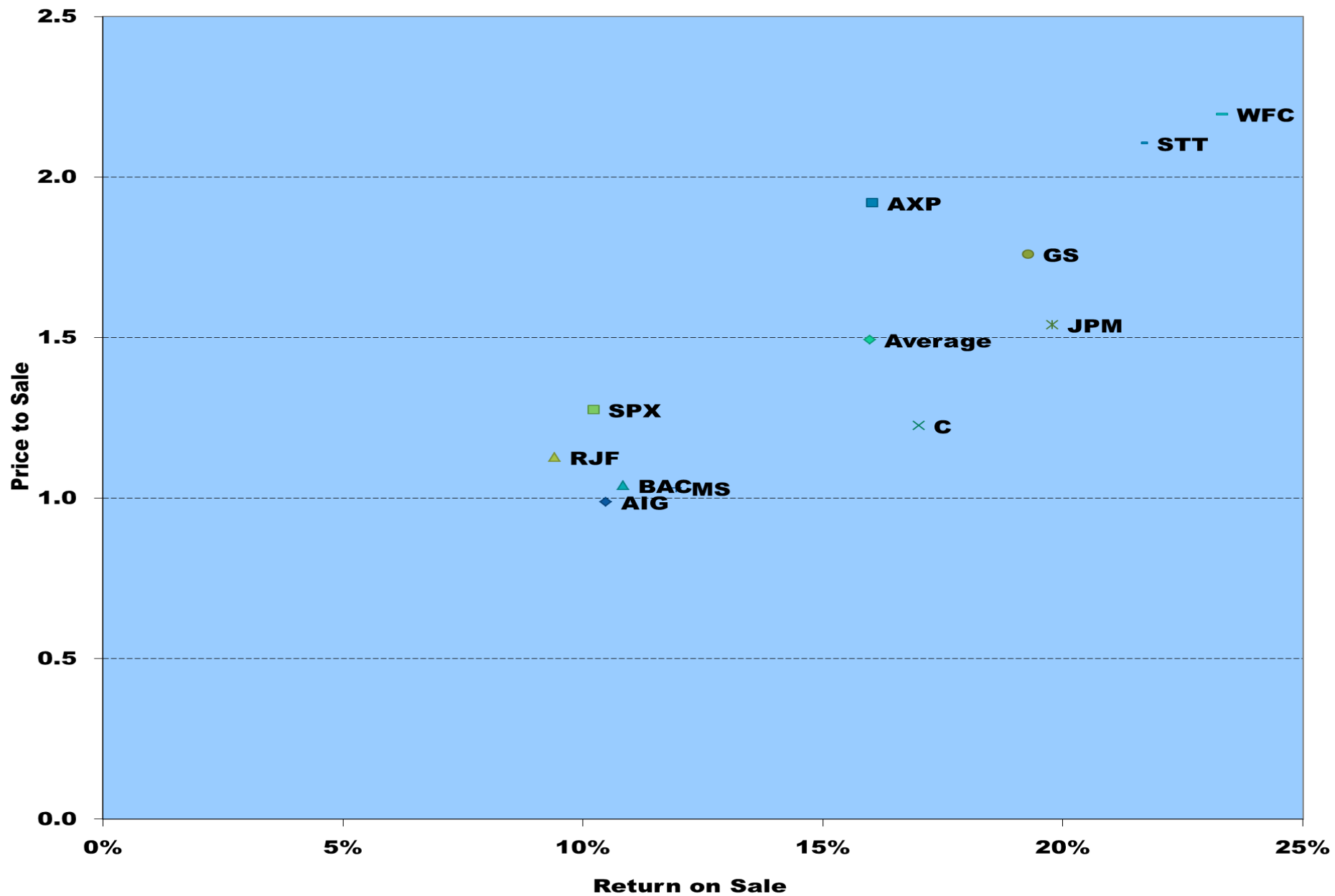
Plus Percentage Change in Price/Book	1.9%
Minus Percentage Change in ROE 2013.....	-0.4%
Equals Percentage change in P/E 2013	2.4%
Current P/E 2013	12.5
SPX Dividend Yield.....	2.4%
10 year Treasury Yield	1.7%



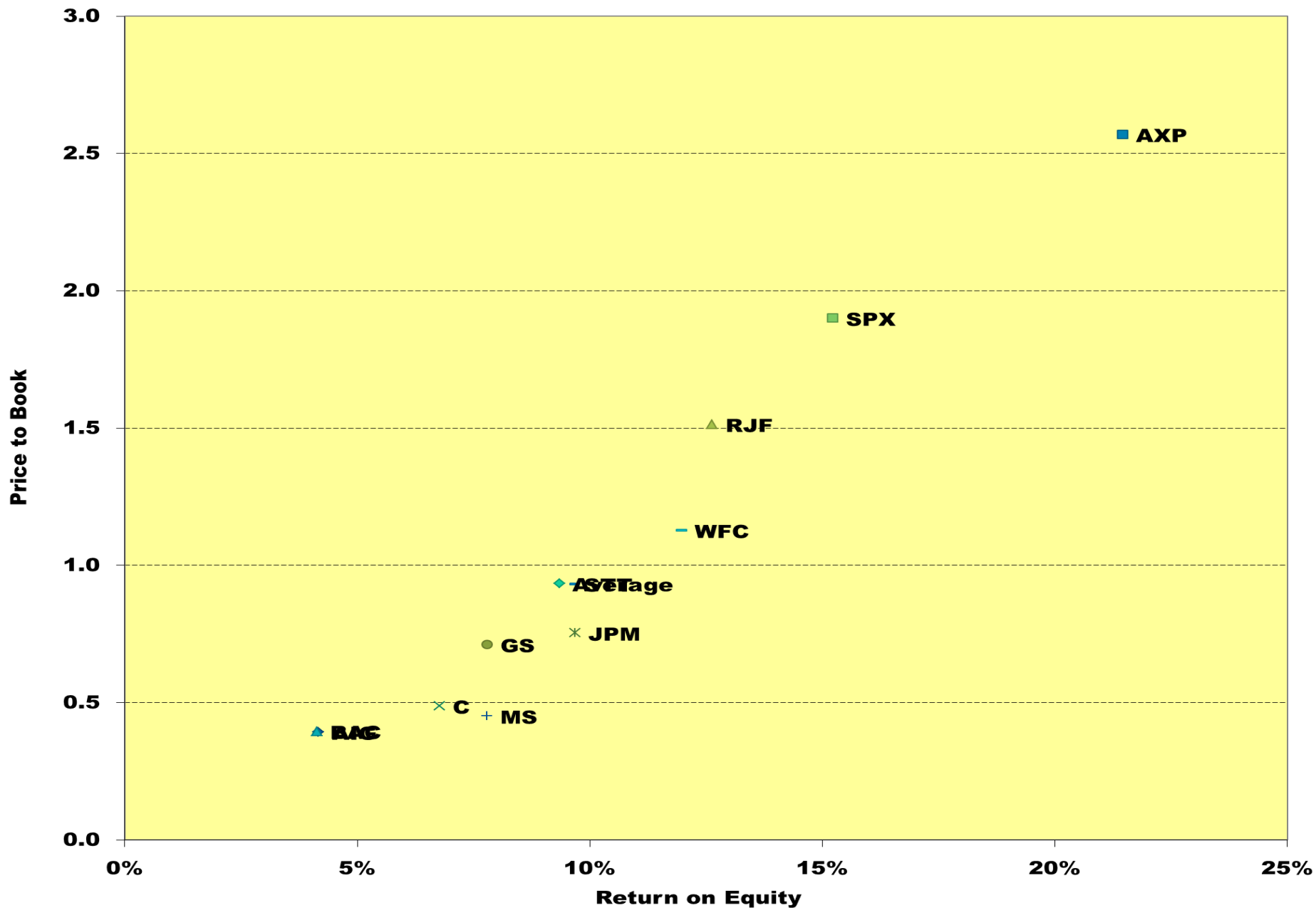
Price to Sales vs Return on Sales



Price to Sale vs Return on Sale



Price to Book vs ROE





FORTREND
SECURITIES

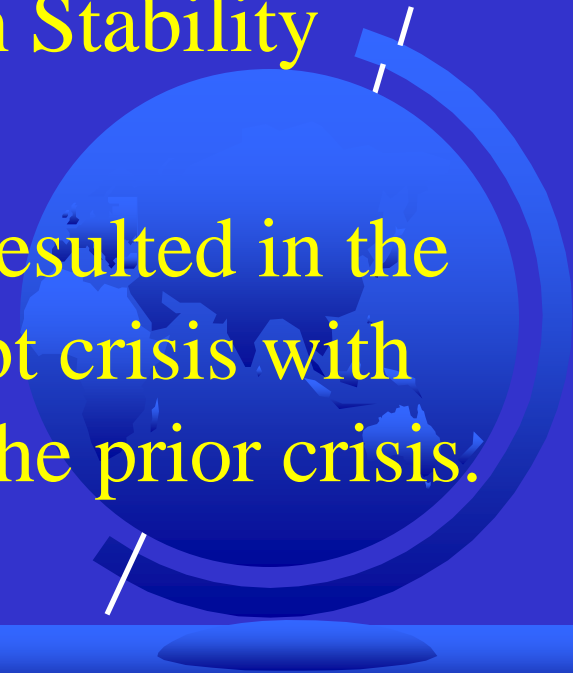
Europe

- Spain, Austria, Belgium and Germany returned to bond markets after a month out of the market, and before the ECB meeting in Frankfurt.
- Mario Draghi, ECB President, confirmed his view that the primary mandate is to intervene in bond markets, and wrest back control of interest rates and ensure the Euro's survival
- UBS lowered S&P 500 estimates based on Europe and FX headwinds



Europe

- Weaker data drove down commodities and cyclical companies like Caterpillar and Cliff.
- Germany's Federal Constitutional Court approved the (€500B) European Stability Mechanism.
- The commitment to the Union resulted in the passing of the 3rd European debt crisis with only half the market impact of the prior crisis.



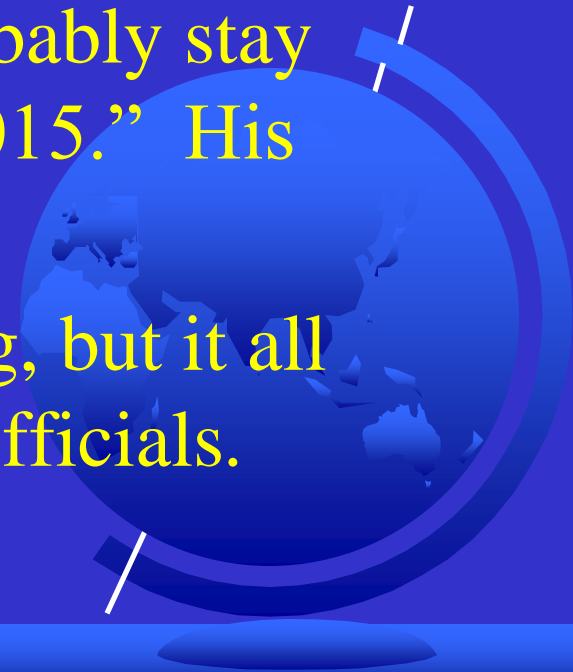
U.S.A

- Obama is in slight lead to win Nov 6th, but either candidate could win.
 - Romney could implement austerity and cause a recession. If Romney wins, defense stocks and financial stocks win. JPM is weak going in.
 - Obama wins: The concern about Obama is that he is ineffective and will do nothing. Health Care stocks win. TMO is strong going in.
- Goldman Sachs is negative on US markets because they believe Congress will fail to deal with the Fiscal Cliff issues (see September 4th research report).



U.S.A.

- Bernanke wants Congress to do more. Fed's tools are limited: QE3 (\$40B/month on mortgage backed securities, driving housing stocks higher) may be ineffective
- FOMC said interest rates will probably stay near zero “at least through mid-2015.” His focus is on employment rates.
- The economy is slowly recovering, but it all hinges on the policies of elected officials.



China

- Joe & Ted's excellent adventure: Beijing, Nanjing, Shanghai, Shenzhen, and Hong Kong.
- Beijing: Imagine Melbourne extended to Torquay and Wonthaggi, with Port Phillip bay filled in and covered with 10 story buildings.
- Capitalists with new property rights, now generating ST business plans with confidence



- However, single party system, the legal framework is unstable, and capital markets are unregulated.
- Dangerous, for example - Senkaku Islands, Nippon Air halved flights to China because Beijing wont process people through customs. Soft trade barrier was erected in no time, discourages foreign investment.
- Moral of the story is that you can do business with the Chinese as long as they want to under their (changing) terms.



Earnings Preview Oil

Estimates fell as oil prices fell from \$100/bl to \$90/bl this month.

Devon Energy, the Giant Independent O&G producer had a significant narrowing of estimates with an asymmetric shift to the left.

Halliburton, the oil field services company, Rig's continue to be taken out of gas fields, causing further cuts in estimates this month. However, optimistic prospects for shale.



Industrial Cyclical

- **du Pont** and **Dow Chemical** continue to see estimates eroded. Dow's focus on Asia, combined with its \$5B purchase of Rohm & Haas exposes it to slowing growth markets.
- Lower raw material prices cannot be passed on in this market, but eventually there will be a big cyclical upturn for the sector in six to 12 months.
- Paper & Forest Products, **Packaging Corp** had a great month on containerboard price increases.



Transportation

- Estimates slashed with **United Continental** and **Delta** leading the sector lower (trans-Atlantic routes more than offsetting a rise in Asian routes.)
- **FedEx**, the economic bell-weather, had a particularly bad warning. They said clients are shifting to lower cost alternatives – taking a sense of urgency out of economic activity.



Manufacturing and Electrical Equipment

- Stable with the exceptions of **Pall Corp** (Fine water filters for industrial use) which guided much higher,
- and **Alcatel-Lucent** which guided lower because much of its technology is becoming obsolete.



Consumer-Cyclicals

- Stable, except for **Navistar**: regulatory investigation into accounting and the CEO was forced out. Watch this for a potential turnaround opportunity.
- Estimates for home builders rose strongly and the stock prices continue to surge, largely as a result of cheap finance provided by the Fed. **KB Homes** rose 30%!



Consumer Non-durables

- **Conagra**, (Hebrew National) had a great result. Long-term strategy to exit the commodities business and concentrate on its consumer products is paying off.
- Estimates were increased and the stock price surged. There is a lot of room for margin improvement. This is a stock we're considering adding.



Computers

- **Intel** and **AMD** warned and stock prices fell. The trend out of PC's and laptops, into handhelds has not run its course. Don't get suckered into the cheap valuations for Intel. It can get a lot cheaper.
- **ARM Holdings** fell on concern that they are starting to attract attention from potential competitors.



Defense Stocks

- Generally lower on the increased probability that Obama will be re-elected, and defense budgets will be cut as the U.S. exits Afghanistan.
- **EADS**, which is merging with **BAE Systems**, was the big story for the month. The merger makes a lot of sense if the new company can pass an anti-trust review without too many issues



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

JP Morgan

Why Buy: a compelling valuation

- Commercial loan growth has been a highlight for the past eight quarters and should remain very strong.
- We expect a return of the \$10.5 billion dollar share buyback plan after the 3rd quarter.
- Shares are trading at 7.9 times next year's earnings, compared to an average of 9.7 for global financials. Combined with a 2.9% dividend, we view JP Morgan as excellent relative value.



Oracle Quarterly Results

- Earnings excluding certain items: \$0.53 a share – In-line with expectations.
- Revenue numbers dipped 2% yoy – indicating tougher time closing deals in their hardware business (sales down 24%).
- ORCL stock is up 23% year-to-date.

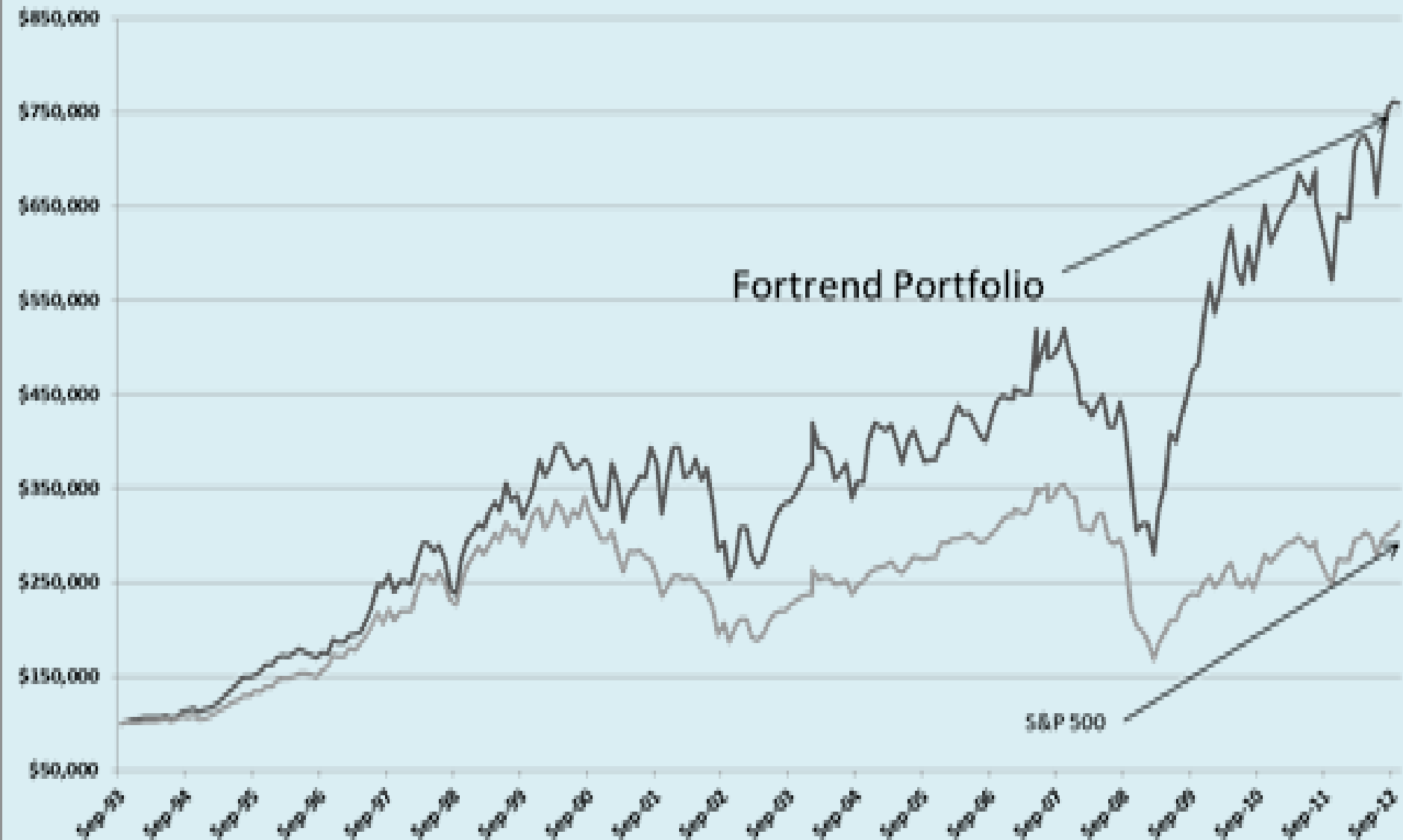


Nike Earnings

- Another tough quarter – higher costs hurt, slowdown in China.
- Revenue rose 9.7% to \$6.67bn, net income declined 12% to \$567 million
- Gross margin: 43.5%



Fortrend has outperformed the S&P 500



FORTREND
SECURITIES

Fortrend Portfolio

- Honeywell
- ITT Corp
- Dr Pepper Snapple
- Thermo Fisher
- Nike
- Procter & Gamble
- Microsoft
- Oracle
- nVIDIA
- JP Morgan
- Sell SLG

