

Fortrend Securities

Bulls vs Bears



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
- The Fiscal Cliff – we are going off
- Bulls vs Bears
- Stock Selection – no changes, hold 10% cash for opportunity.



Market Performance

- S&P 500 rose 0.1%
- EE'13 fell 0.2%
- 2013 P/E was unchanged at 12.3
- VIX remained relatively steady at 15
- Hold 10% cash for opportunity, probably ConAgra



Best Performers

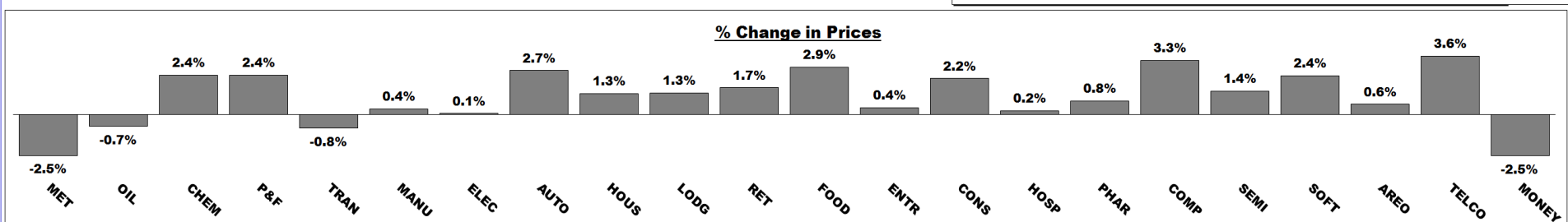
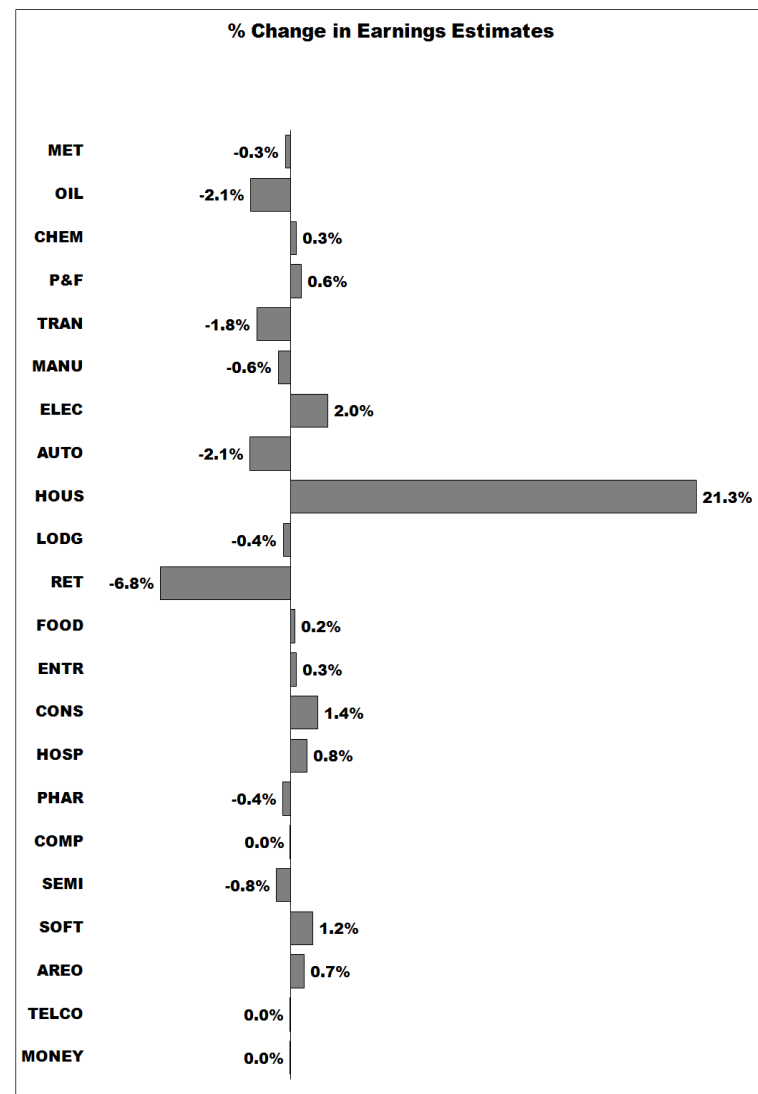
33.2%	Research in Motion
22.3%	Computer Science
15.7%	Tenet Healthcare
14.3%	Atmel
14.3%	Network Apps
14.0%	Vulcan Materials
12.6%	Toyota
12.2%	Dillard Dept
11.1%	ASML Holdings NV
9.9%	Worthington Ind
9.7%	Yahoo!
9.5%	Louisiana Pacific.
9.1%	Time Warner
9.0%	Superior Ind.
9.0%	Cisco Systems

Worst Performers

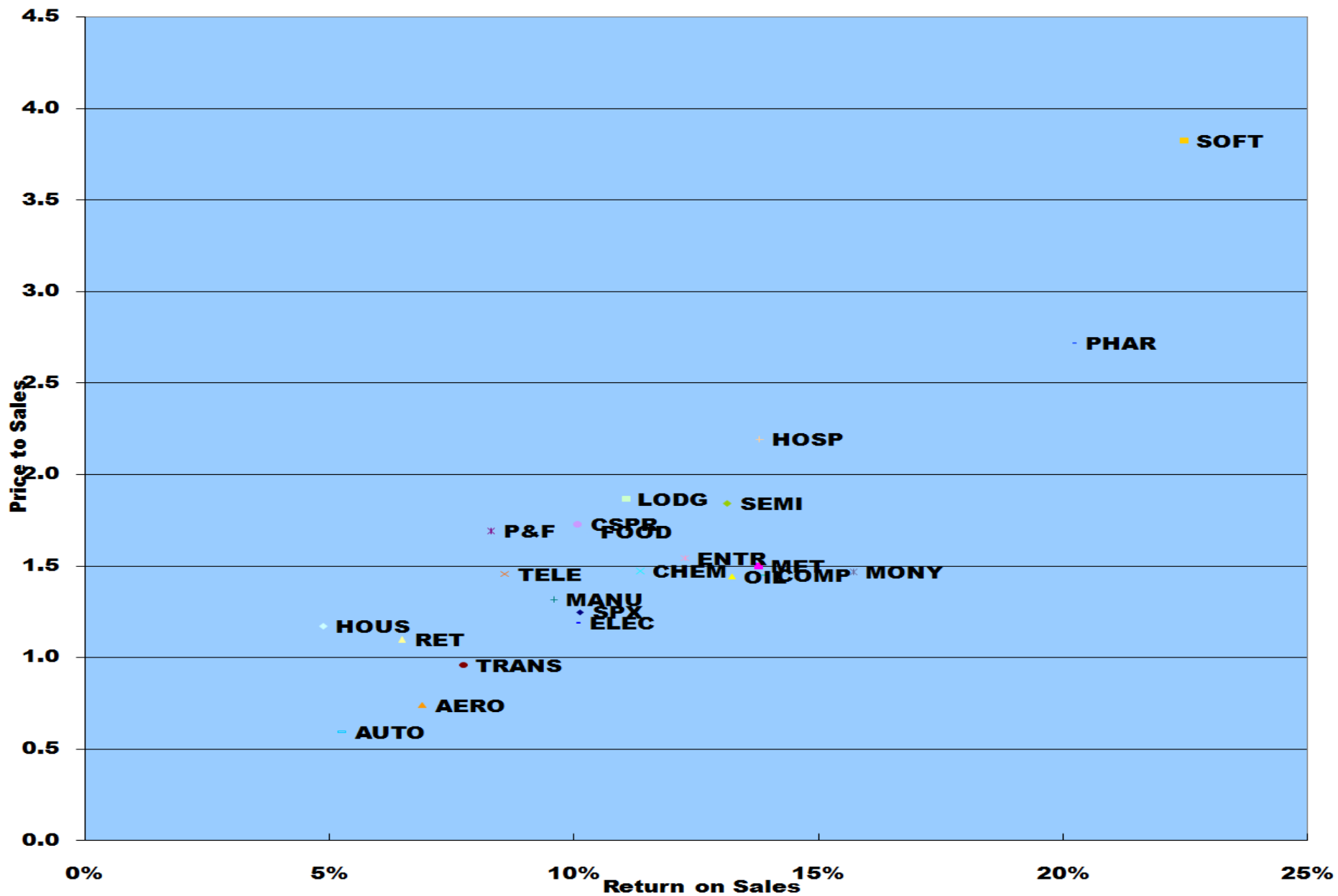
-8.2%	Meritor
-8.2%	Avon
-8.6%	Air China
-9.8%	Microsoft
-10.0%	LAN Airlines
-10.0%	Sandisk
-10.3%	KB Home
-10.6%	Devon Energy
-10.9%	Joy Global
-11.0%	St Jude
-11.3%	Intel
-11.5%	Telephone & Data
-13.0%	Humana Inc
-14.2%	Sony
-20.7%	Cliffs Resources

Relative Value Model

Plus Percentage Change in Price/Book	-0.2%
Minus Percentage Change in ROE 2013.....	-0.7%
Equals Percentage change in P/E 2013	0.4%
Current P/E 2013	12.3
SPX Dividend Yield.....	2.4%
10 year Treasury Yield	1.6%



Price to Sales vs Return on Sales



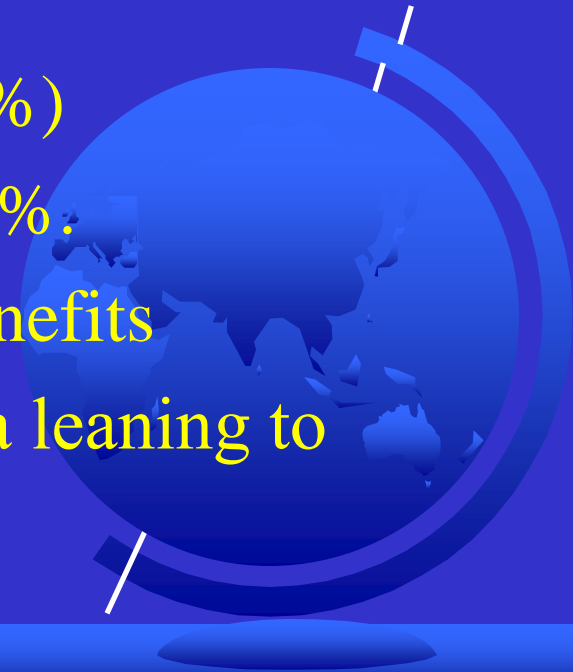
Fortrend View

- We are going off the Cliff
- I am nervous about missing out on upside.
- Stocks could be the next bubble.



In Round Numbers

- GDP is \$14.5T
- Debt is \$11.5T
- Budget deficits are about \$1T.
- \$0.5T if we go off the cliff
- GDP would slow from 1.7% to (0.5%)
- Unemployment up from 8.1% to 9.0%.
- New debt trajectory has good LT benefits
- CEO's want certainty regardless of a leaning to the left or right.



Negotiating Power with right

- Investors not expect to “go off the cliff”, but The Tea Party two years ago
- Super committee to create a budget.
- Sequestration will by default take effect.
- I think Greenspan put it best when he said the election “perpetuated the political status quo and hasn’t increased the probability of resolving the national’s fiscal challenges.”



After January

- Political / economic cycle will decouple
- At Midterm they will both point fingers
- Back to fundamentals and money flow
- The bubble cycles
 - .com
 - Housing
 - Treasuries



Solution to Trade Deficit

- Oil shale works in the US because they have infrastructure, drilling technology and skills.
- \$40 oil?
- Immigration: give 1M Arabs and Chinese citizenship if they spend \$1M on a house = \$1T
- US Government will reduce debt issues, reducing risk making a good P/E expansion argument. Foreign capital will chase equities.



Tobias Levkovich Bull

- He expects the market to close 2013 at 1,615.
- “The Cliff and Europe will drive volatility in December.”
- He says that 2% GDP estimates assume payroll tax cut breaks will not be extended, but if the full fiscal cliff hits we will drop into recession.
- Markets will rise 15% next year – driven by a 5% gain in earnings and a 10%



Subramanian, BoA Bull

- Big bull from the top down.
- Synchronized political/economic cycles will diminish
- new focus yield with growth.
- Demand from retirees for yield will outstrip supply which has been limited by the low interest rate environment.
- investors sold yield stocks in anticipation changing tax policies, is not supported by any other analysts. Others say that tax exempt investors out-weigh the market impact of taxable investors.
- Food companies like Heinz and Conagra and Pharmaceutical stocks like Merck and Bristol-Myers.



JP Morgan – Tom Lee Bull

- most bullish. “We are in a secular bull market and the P/E will rerate to 16 over the next two years.
- RE Cliff, we have already fallen off the cliff in terms of market pricing,” but he is optimistic there will be a resolution. Republicans have lost a lot of leverage and Democrats are getting pressure from unions to settle. He implies the right will win more points, we agree.
- On page 10 of his weekly “Dashboard”

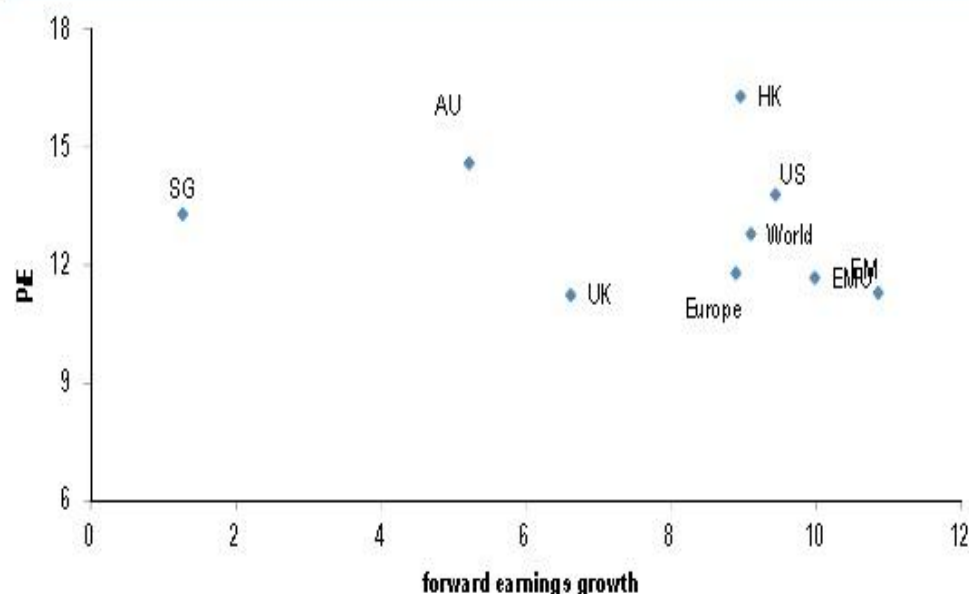


Value: Regional and Countries Valuations

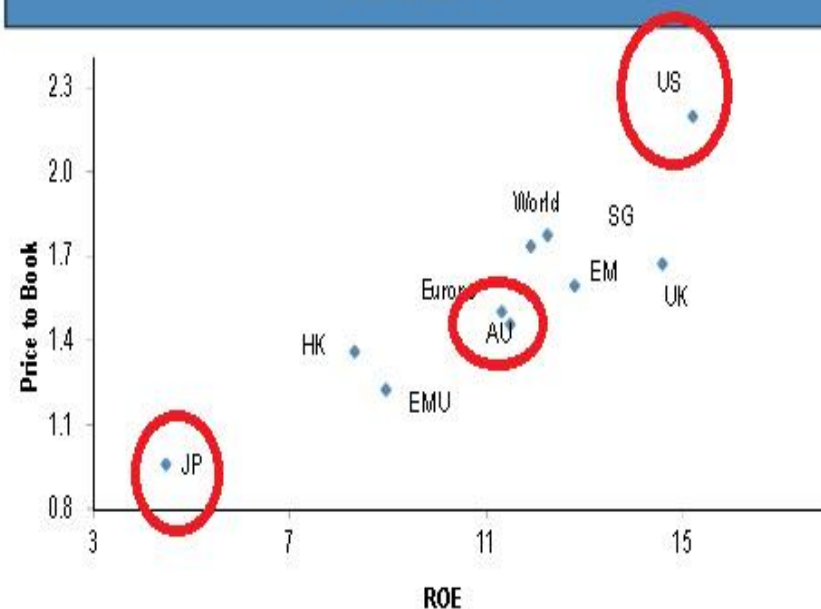
	23-Nov-12 MSCI Index	P/E (x)						Div. Yield (%)			P/BV (x)			ROE (%)		
		Historical			Prospective											
		2010	2011	Current	12 month	2012E	2013E	2010	2011	Current	2010	2011	Current	2010	2011	Current
MSCI World	1,305	14.6	12.8	12.8	11.6	12.7	11.4	2.4	2.9	2.9	1.9	1.6	1.7	13.7	12.3	11.9
USA	1,345	15.3	13.2	13.8	12.6	13.7	12.5	1.8	2.2	2.2	2.2	2.0	2.2	13.9	14.8	15.2
Europe	1,390	12.3	10.8	11.8	10.9	11.8	10.8	3.1	4.2	3.9	1.7	1.4	1.5	15.7	12.4	11.3
EMU	150	11.4	10.1	11.7	10.7	11.7	10.6	3.5	5.0	4.3	1.3	1.1	1.2	14.8	10.7	9.0
United Kingdom	1,149	12.1	10.0	11.2	10.6	11.3	10.5	3.0	3.7	3.8	1.9	1.6	1.7	19.3	14.7	14.6
Japan	2,091	27.8	14.5	20.7	15.7	21.5	15.2	2.0	2.6	2.6	1.2	0.9	1.0	8.5	5.0	4.5
Australia	835	16.3	11.7	14.6	13.5	14.6	13.4	4.1	5.1	4.6	2.1	1.7	1.8	15.6	13.8	12.2
Singapore	3,963	15.1	12.9	13.3	12.6	13.3	12.5	2.8	3.7	3.3	1.9	1.4	1.5	16.1	13.1	11.5
Hong Kong	8,750	17.4	11.5	16.3	15.3	16.5	15.2	2.4	3.1	2.7	1.8	1.2	1.4	10.6	11.2	8.3
MSCI Emerging Markets	996	13.9	10.9	11.3	10.1	11.3	10.0	2.1	3.0	2.9	2.1	1.6	1.6	16.7	14.7	12.8

Source: IB/E/S, MSCI, J.P. Morgan estimates

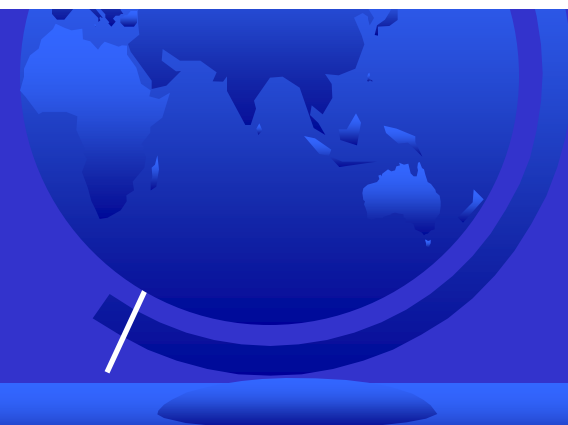
P/E versus Earnings Growth



P/B versus ROE



Developed World	<u>Market Composition</u>		<u>EPS Growth Consensus</u>		
	Market Cap	Earnings	2011	2012E	2013E
Total Market	100%	100%	7%	4%	11%
Energy	11%	13%	27%	-8%	5%
Materials	7%	6%	22%	-20%	21%
Industrials	11%	11%	11%	5%	11%
Consumer Discretionary	11%	10%	-5%	31%	18%
Consumer Staples	11%	9%	7%	5%	9%
Health Care	11%	10%	5%	3%	7%
Financials	20%	22%	0%	10%	12%
Information Technology	12%	12%	12%	7%	11%
Telecommunication Services	4%	4%	-3%	-1%	9%
Utilities	3%	3%	-19%	14%	13%



USA	<u>Market Composition</u>		<u>EPS Growth Consensus</u>		
	Market Cap	Earnings	2011	2012E	2013E
Total Market	100%	100%	16%	7%	10%
Energy	11%	13%	35%	-8%	4%
Materials	4%	3%	27%	-12%	22%
Industrials	10%	10%	24%	7%	9%
Consumer Discretionary	12%	10%	11%	16%	12%
Consumer Staples	11%	9%	9%	3%	9%
Health Care	12%	12%	9%	3%	7%
Financials	15%	16%	10%	24%	14%
Information Technology	19%	20%	19%	11%	8%
Telecommunication Services	3%	2%	-1%	5%	23%
Utilities	3%	3%	1%	-7%	2%

Australia	<u>Market Composition</u>		<u>EPS Growth Consensus</u>		
	Market Cap	Earnings	2011	2012E	2013E
Total Market	100%	100%	-2%	-1%	11%
Energy	6%	5%	11%	11%	5%
Materials	22%	22%	-8%	-18%	23%
Industrials	5%	4%	-3%	28%	16%
Consumer Discretionary	2%	1%	-23%	-27%	7%
Consumer Staples	9%	8%	6%	7%	8%
Health Care	4%	3%	6%	15%	12%
Financials	48%	54%	-1%	4%	6%
Information Technology	0%	0%	-12%	13%	15%
Telecommunication Services	2%	2%	5%	7%	3%
Utilities	2%	1%	7%	7%	7%

Goldman Bear or Bull?

- Bear next month, and the biggest bull for next year.
- “Our uncertainty-based fair value P/E model suggests a forward multiple of 11.2x estimates which = 1275.”
- S&P 500 has near-term political risk but long-term policy support. Our year-end 2013 S&P 500 target of 1575 reflects nearly 16% potential upside from current levels.



Morgan Stanley, Adam Parker

- Biggest bear say risk is less acute.
- Increasing China exposure, as China-centric US equities have lagged and are cheap vs. US-centric equities.
- Combination of dividend and dividend growth will outperform in 2013.
- Mega caps remain attractively valued and generally are higher quality.
- Eat Turkey if you want a job.



UBS Bear

- “Right now we don't know whether we're going over the fiscal cliff or not. We don't know whether the Fed's going to keep having to print \$500B to \$1T a year. Corporate earnings are weak. (are they?) Companies are really loathed to spend money. (are they?)
- Just ignore them, they are a basket case.



Holdings by Sector	Industry	Price (\$)	Est'd 2013 P/E	Est'd 2013 Yield (%)	Market Cap (\$b)	Revenue (\$m 2011)	Income (\$m 2011)	Debt to Assets (%)	S&P LT Rating
<i>Industrials</i>									
Honeywell International Inc	Aerospace & Defense	60.58	12.2	2.5	47.5	36,529	2,067	19.0	A
<i>Financials</i>									
JPMorgan Chase & Co	Diversified Financial Services	40.41	15.3 *	2.9	153.6	110,838	18,976	29.9	A
<i>Consumer Staples</i>									
Dr Pepper Snapple Group Inc	Beverages	45.04	14.1	3.0	9.4	5,903	606	29.2	BBB
Procter & Gamble Co/The	Household Products	69.46	16.2	3.3	189.9	83,680	10,756	22.5	AA-
<i>Consumer Discretionary</i>									
NIKE Inc	Textiles, Apparel & Luxury Goods	97.71	16.4	1.6	44.4	24,128	2,223	2.5	A+
<i>Health Care</i>									
Thermo Fisher Scientific Inc	Life Sciences Tools & Services	63.7	11.8	0.7	22.9	11,726	1,330	26.2	A-
<i>Information Technology</i>									
NVIDIA Corp	Semiconductors &	12.085	10.2	0.6	7.6	3,998	581	0.4	NR
Microsoft Corp	Software	26.43	8.2	3.4	222.4	73,723	16,978	9.8	AAA
Oracle Corp	Software	32.465	11.1	0.7	156.5	37,121	9,981	21.0	A+

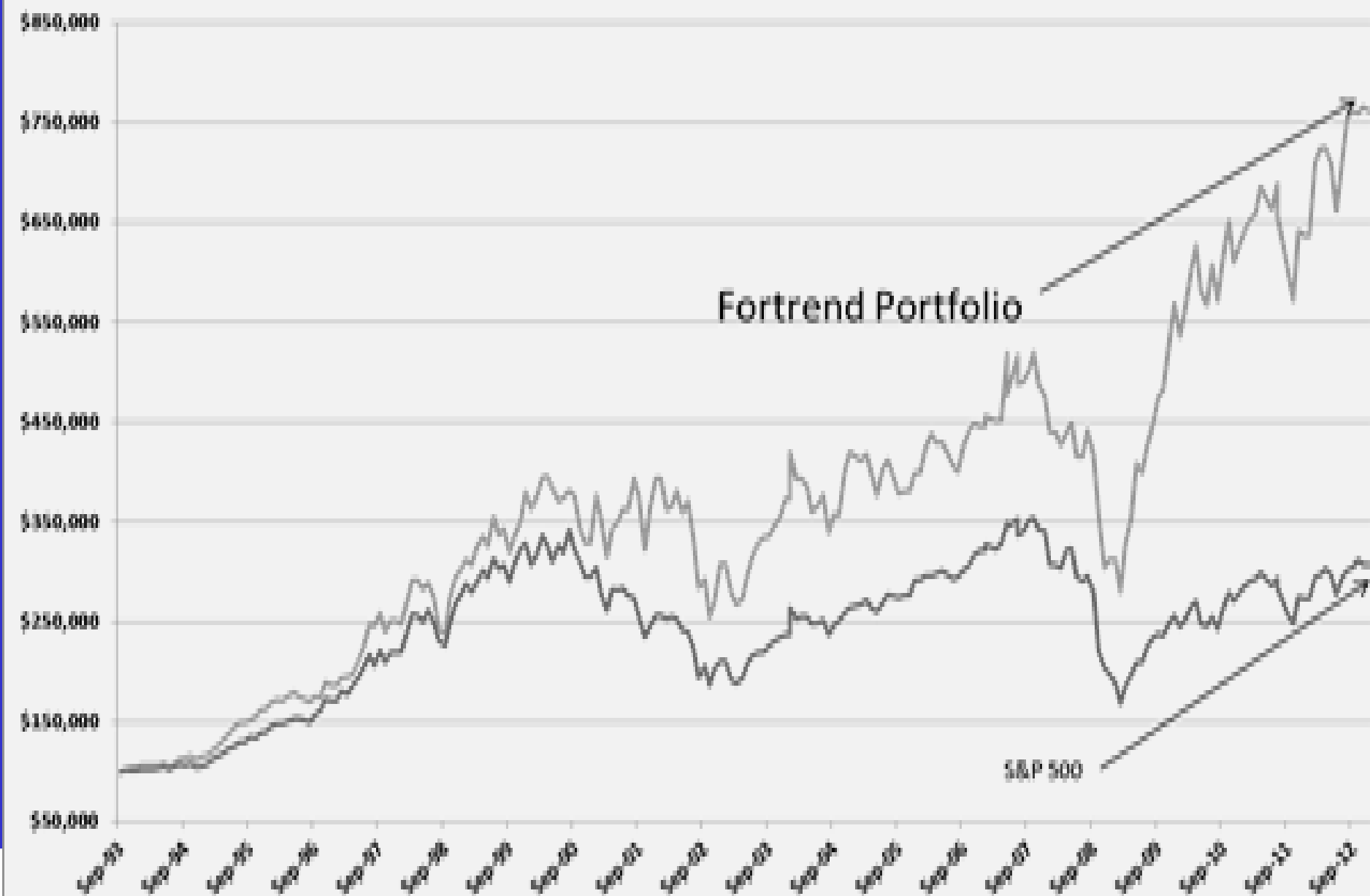
Sourced from Bloomberg: 5/12/2012

NVIDIA

- 3Q revenue \$1.2bn inline with estimates
- EPS of \$0.35 was better than estimates of \$0.30
- GPU revenue of \$740mn (up 11%) grew much faster than the PC market. Professional up 12% and Consumer up 36%
- Gross margin increased to 52.9%
- Nvidia initiated a dividend of 7.5cents per quarter= yield of 2%. Also repurchasing \$1.2bn of stock over 2 years.



Fortrend has outperformed the S&P 500



Fortrend Portfolio

- Honeywell
- Dr Pepper Snapple
- Thermo Fisher
- JP Morgan
- Nike
- Procter & Gamble
- Microsoft
- Oracle
- NVIDIA
- Cash

