

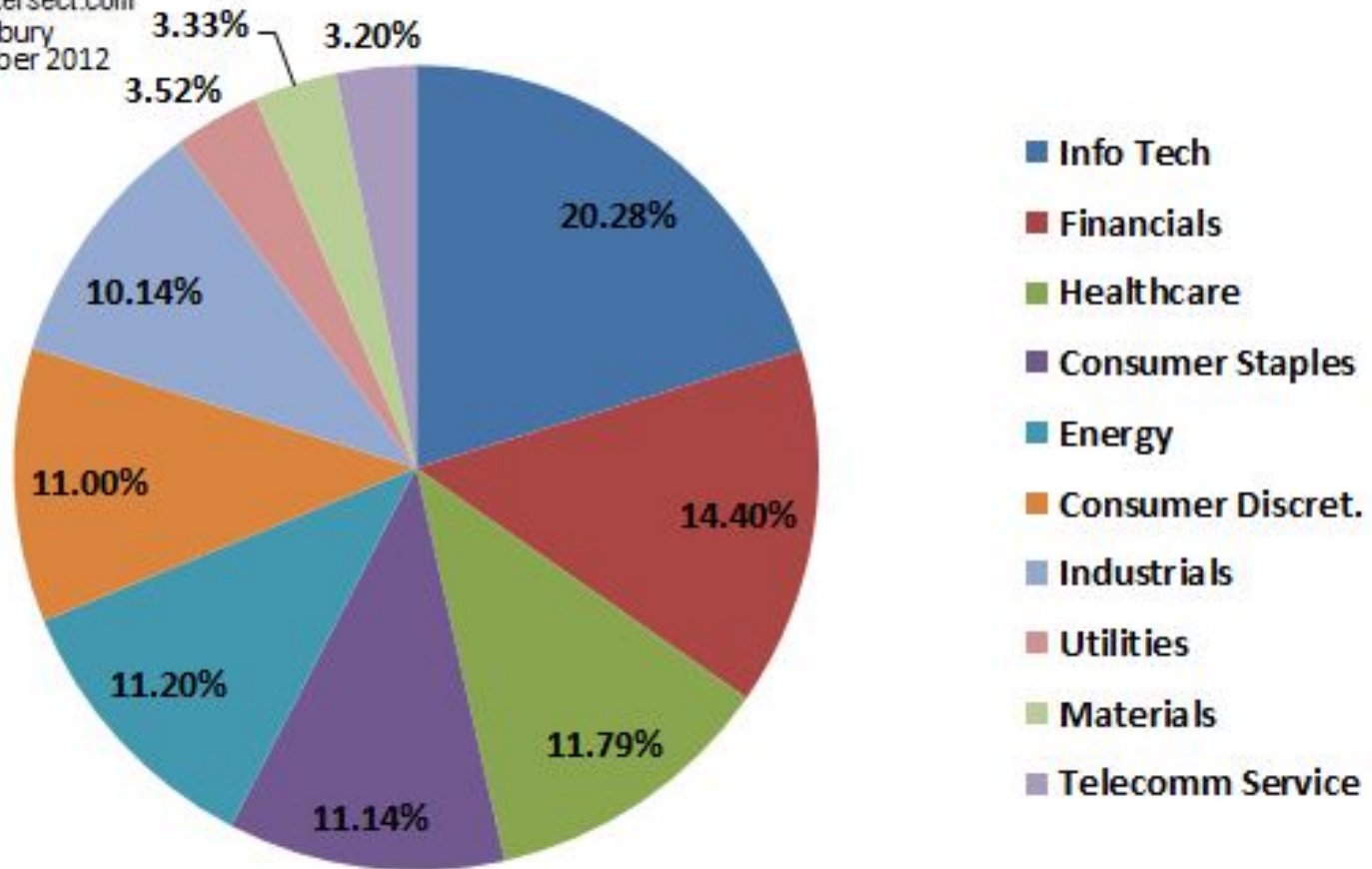
Materials Sector

Taylor Woodruff and Garrett Lachney



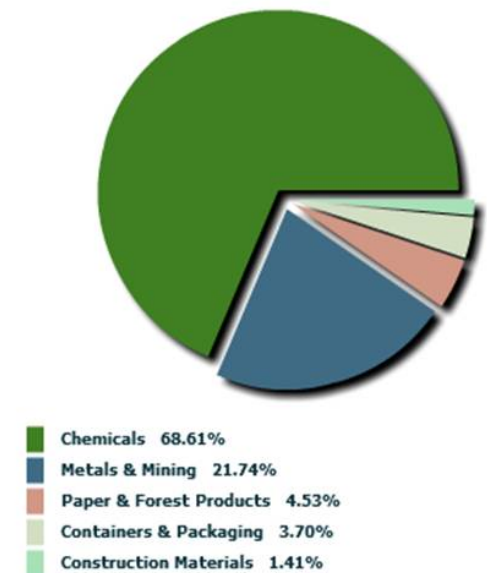
Distribution of the Market

www.econintersect.com
Lounsbury
03 September 2012



Brief Introduction

- **Materials sector:** The segment of the economy in which firms encompass the discovery, processing, and sale of *materials* to other *sectors* of the economy.
- **Industries within sector:**
 - Chemicals (69%)
 - Metals and Mining (22%)
 - Paper/Packaging Products (5%)
 - Other (4%)



IMPORTANT MACROECONOMIC FACTORS

- **Materials sector is very dependent on outside variables - interest rate**
 - Low interest rate, banks lend, encourages capital spending
- **Industry groups effected differently (as well as cyclically)**
 - Housing market crashed, squeezed supply, prices rise
 - This has subsequent effect on other industries, i.e. paper/packaging
- **Longview Fibre**
 - Agricultural industry is affected by weather; no relation to business cycles
 - The different industries and companies can be very interrelated

Business Fluctuation

- **Still sensitive to fluctuations in the business cycle**
 - Key economic drivers are volatile
- **Sensitive to supply and demand highs and lows**



Global Impacts

- **Sub-sectors can be impacted by global events, but depends on industry.**
 - For example, International Paper in global operations
 - Interesting example: the gold craze, governments, and precious metals industry

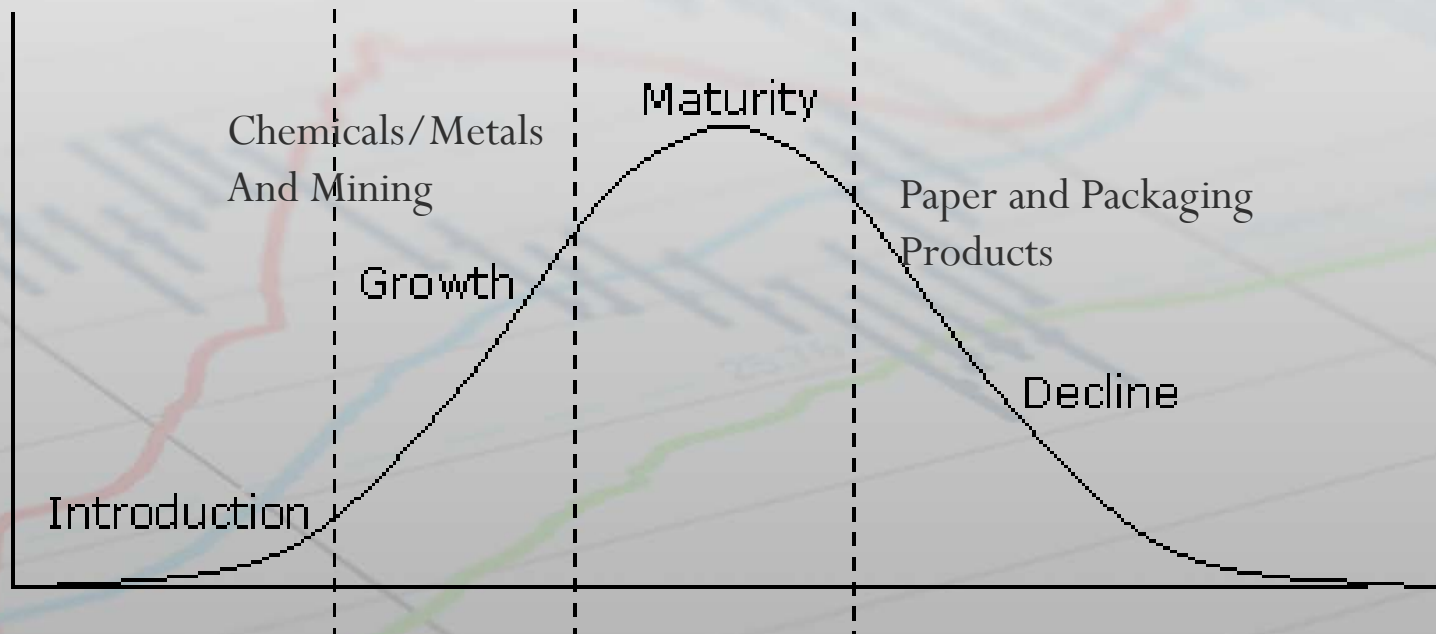


Competitive Landscape

- **Very globally active sector (as well as domestic)**
 - Metal and mining companies expand their operations to where the resources are, as well as to maintain business relationships
- **Ex: Monsanto (seed supplier) has created genetically modified plant cell and now sells them to farmers across the globe**
 - Companies use the global arena to increase market cap, sales, profits, etc.

Industry lifecycle

Product (Industry) Life Cycle stages



Industry Life Cycle

- The Materials sector is heavily dependent upon the **strength of the economy**.
 - Each industry will move separately, based upon the demand driven by the economy as a whole.
 - Ex. Construction demand: As the economy declined in '09, we also saw a decline in the materials sector almost identical to that of the S&P.
- Chemicals/Metals and Mining:
 - Growth (Coal vs. Commodities?)
 - Important to analyze differences within industries
- Paper and Packaging Products:
 - Maturity → Decline

Commonly Used Matrixes

- **P/E Ratio:** Important when comparing two companies in same sector.
 - MAT companies tend to have high P/E's, due to high expected growth (typically high P/E's are unattractive)
- **PEG Ratio:** Favored over the P/E ratio because growth is taken into account (relevant to MAT sector).
- **P/S Ratio and P/B ratio**

Other relevant statistics

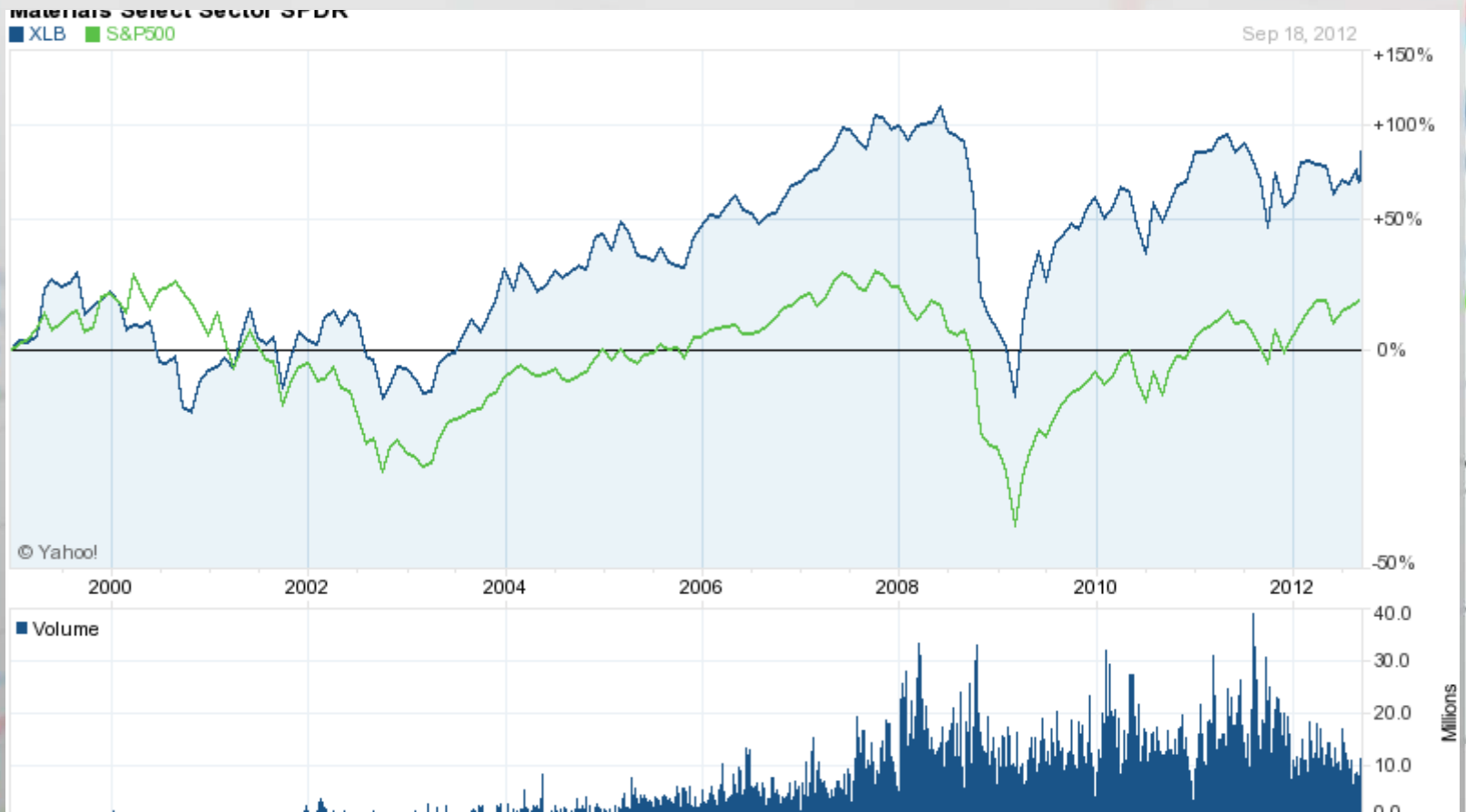
- **Beta(β , systematic risk) and Standard Deviation:** very important to know the risk associated within each specific industry and the return it expects to yield in comparison to the market as a whole.



Materials Sector Performance

- **Historically, materials sector is fairly stable in growth in the long-term.**
 - The economy needs its raw materials.
 - Important to keep in mind the specific industries' lifespan in stock market (coal).
 - Recently, materials has been about on par with S&P 500.
 - YTD for materials about 3% lower than S&P 500 performance.

Materials Sector ETF (XLB) vs. S&P500



Sources:

<http://www.investopedia.com/ask/answers/05/industrysector.asp#axzz26rjVRHBA>

<https://www.spdrs.com/product/fund.seam?ticker=XLB>

<http://finance.yahoo.com/q?s=XLB&q1=1>

<http://www.sectorspdr.com/eqsnaps/?do=snapshot&symbol=XLB>

http://www.investopedia.com/terms/b/basic_materials.asp#axzz26rXLIcHp

<https://www.fidelity.com/viewpoints/materials-sectors-2012>

<https://www.spdrs.com/product/fund.seam?ticker=XLB>

<http://investing.businessweek.com/research/sectorandindustry/sectors/sectordetail.asp?code=15>

<http://money.cnn.com/data/markets/sandp/>