Materials Sector
Taylor Woodruff and Garrett Lachney
Distribution of the Market

- Info Tech: 20.28%
- Financials: 14.40%
- Healthcare: 11.00%
- Consumer Staples: 11.20%
- Consumer Discret.: 11.79%
- Energy: 11.14%
- Industrials: 10.14%
- Utilities: 3.52%
- Telecomm Service: 3.20%
- 3.33% other categories
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

- Introduction
- Growth
- Maturity
- Decline

- Chemicals/Metals And Mining
- Paper and Packaging Products
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 \( \rightarrow \) 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:

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