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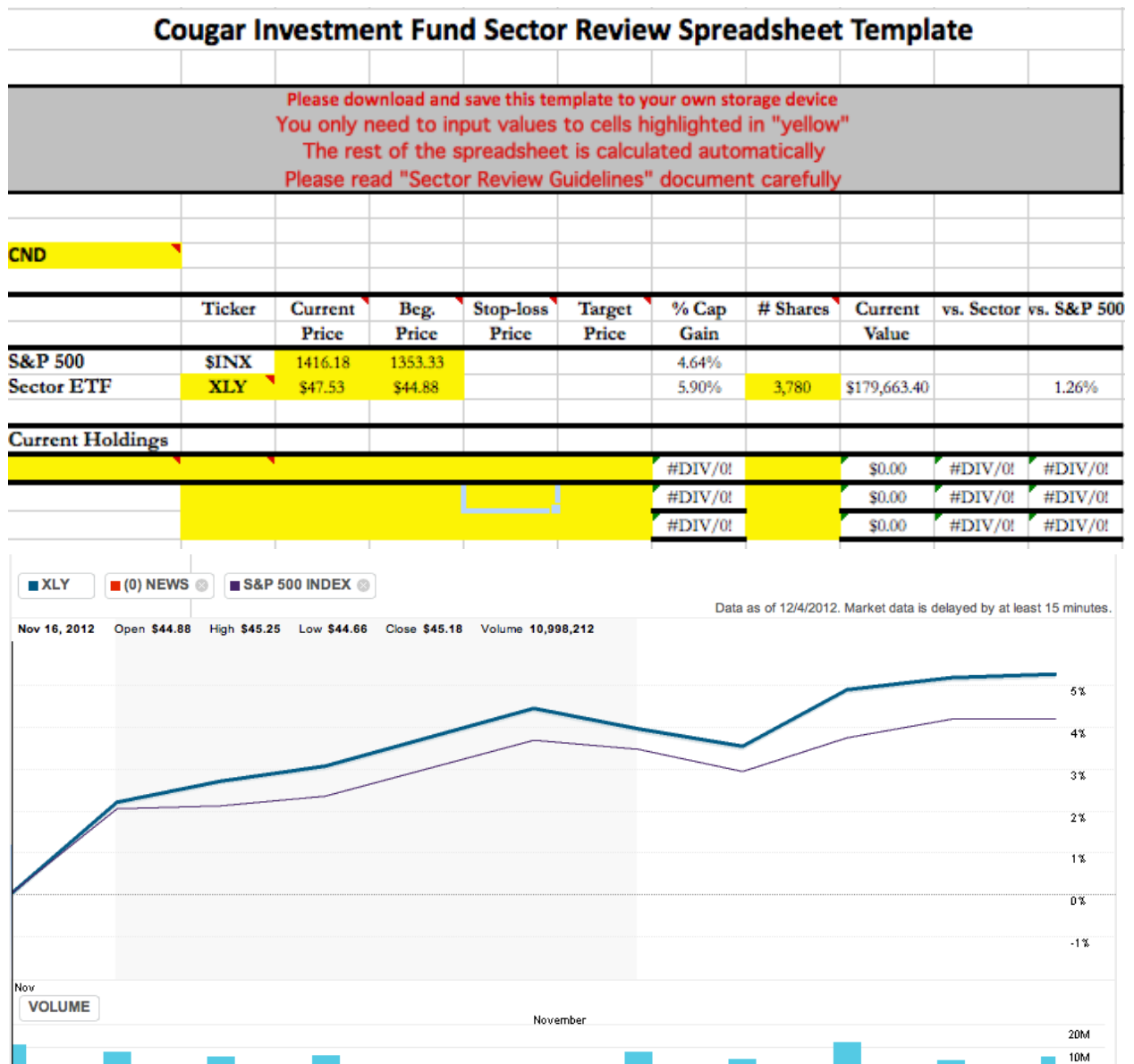
Analyst: Eric Russell\_\_

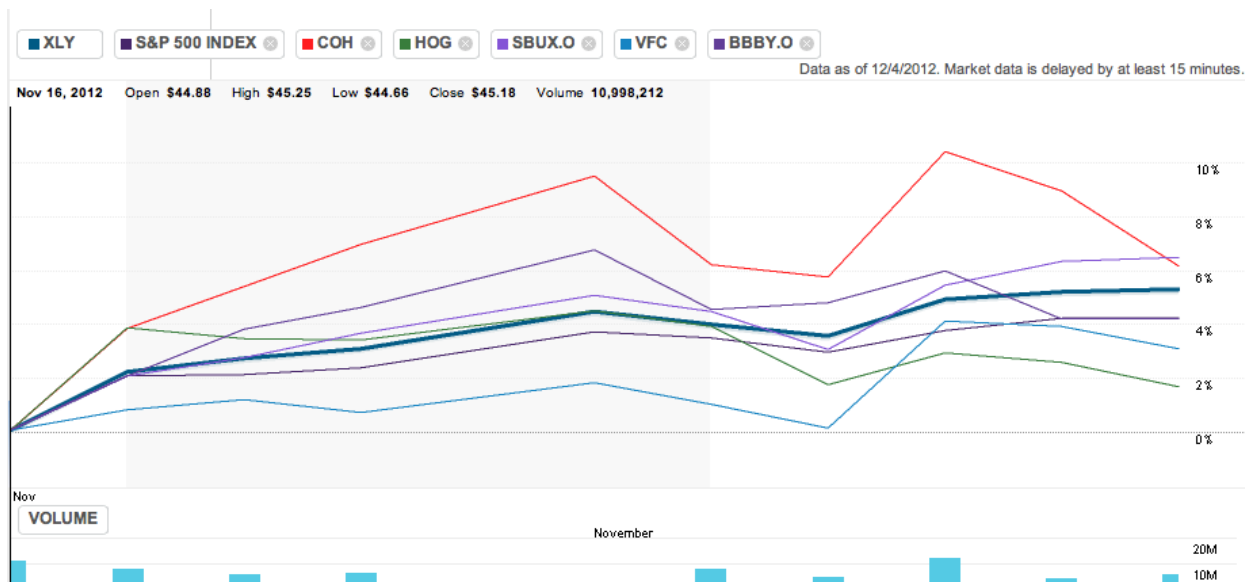
## CIF Sector Recommendation Report (Fall 2012)

Sector \_\_Consumer Discretionary\_\_

Review Period \_\_Nov. 16-Nov. 30\_\_

### Section (A) Sector Performance Review

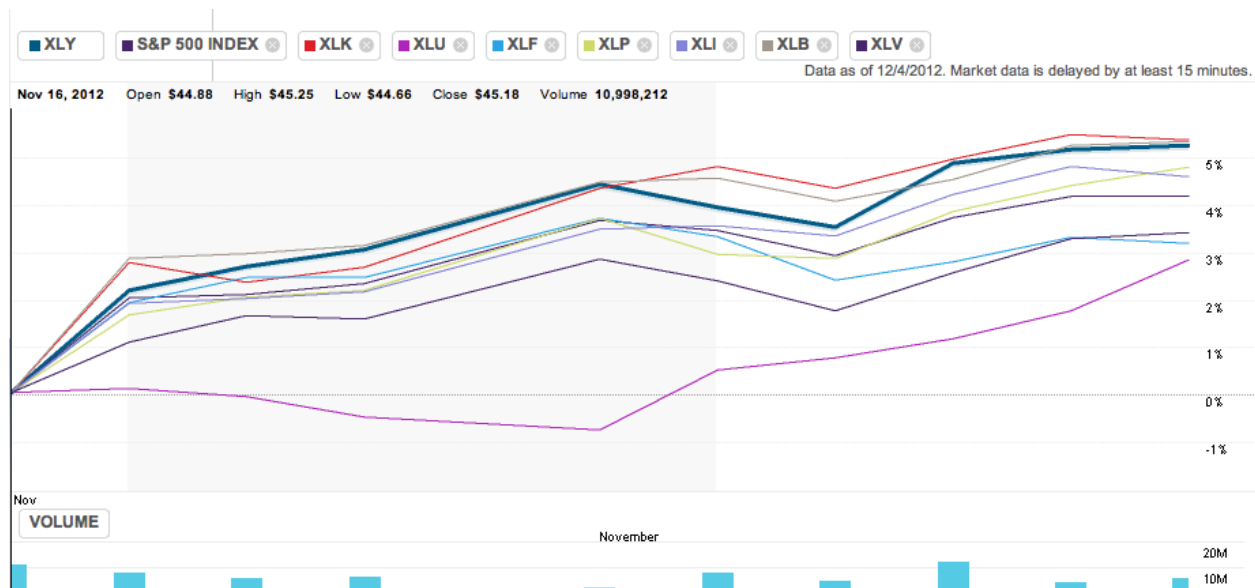




**Review sector performance relative to the broad market (SP500) and explain why; include a two-week (for the two-week window reviewed) price chart of the SPDR sector ETF and SP500 (on the same chart)**

From the first chart that I have it is comparing just the S&P 500 vs. the consumer discretionary sector. Both have seen pretty decent returns over these past couple of weeks. The S&P as a whole has grown 4.64% while XLY has grown 5.90%. Over these past couple of weeks the market as a whole has seen a steady increase, and this is why the discretionary sector has been outperforming the market. In times when the market is doing well, XLY outperforms the market and many other sectors. Also many companies in our sector perform well in the fourth quarter of their fiscal year, which for many ends within the next couple of months. This has a lot to do with holiday spending, a fair amount of discretionary items are purchased during the holidays and this is certainly a contributor to the overall health of XLY.

In the second chart I put up here I showed all of the stocks that have been recommended, “buy” in our sector throughout the semester. During this two-week review period all of the companies have seen an increase in stock price, with the largest increase seen by Starbucks. Although at the end of the period Starbucks showed the greatest increase, during this two-week period Coach actually rose a little over 10% at one point. This may be because Coach has recently seen big gains in China sales, in turn increasing stock price and domestic sales. Also, as I said earlier, this is one of the companies in our sector that generally does well during this time of year. Overall, it’s really too bad we do not have any holdings in XLY as they are showing increasing returns over these past few weeks.



I just wanted to show this chart as well comparing all of the sectors within the S&P 500. This past couples of weeks has been very good for the markets; the lowest increase for any sector is about 3% while the highest is about 6%. Consumer Discretionary is doing well, pretty close to the highest gainer sitting at 5.90% as I said earlier. Just wanted to show this as an overall look at how, surprisingly, every sector has seen stock price increases.

### Highlight noteworthy headline news from the sector (company-, industry-, or sector- level news)

#### 5 Stocks For the Coming Consumer Nightmare:

The market has been volatile lately ahead of the possibility of a fiscal cliff-induced slowdown in the economy. Investors have been focused on business investment and let out a collective sigh of relief with the better-than-expected durable goods report this week. Friday may be a rude awakening though if recent trends in retail sales carry through to personal expenditures. Investors may want to position away from cyclically volatile sectors like consumer discretionary or names within the space facing additional weakness. Companies with stronger fundamentals that pay a reasonable dividend should outperform as the market looks to safety.

Personal income and expenditures is released at 8:30am EST on Friday and holds the potential to send the market lower on a negative surprise. Income increased 0.4% in September after a 0.1% increase in August while spending rose 0.8% as [consumers opened their wallets at the expense of savings](#). Demand for services increased by 0.4%, the largest since a 0.5% increase in April. Strength in last month's report belies a weaker trend in quarterly numbers with a declining rate of growth in expenditures (Hogue, Joseph).

## Consumer Staples ETFs, Consumer Discretionary ETFs Brave The Fiscal Cliff Headwinds:

(11/28/12) turnaround:

Sector ETFs: Optimism On The Fiscal Cliff					
					11/28 Optimism
Consumer Discretion Select SPDR ( <a href="#">XLY</a> )					1.4%
Consumer Staples Select SPDR ( <a href="#">XLP</a> )					1.0%
Energy Select Sector SPDR ( <a href="#">XLE</a> )					0.9%
Industrials Select Sector SPDR ( <a href="#">XLI</a> )					0.8%
Health Care Select Sector SPDR ( <a href="#">XLV</a> )					0.8%
S&P 500 SPDR Trust ( <a href="#">SPY</a> )					0.8%
iShares Dow Jones Telecom ( <a href="#">IYZ</a> )					0.7%
Technology Select Sector SPDR ( <a href="#">XLK</a> )					0.6%
Materials Select Sector SPDR ( <a href="#">XLB</a> )					0.4%
Utilities Select Sector SPDR ( <a href="#">XLU</a> )					0.4%
Financials Select Sector SPDR ( <a href="#">XLF</a> )					0.4%

Energy (XLE) is the most "skittish" with regard to the ongoing dialogue in Washington. The investment community may view unresolved tax policy and automatic spending cuts as particularly painful for energy stocks.

Not surprisingly, Utilities (XLU) appear to be the least "skittish." Not only is there an absence of cyclicity in the type of businesses that XLU represents, but the vehicle is the least correlated with the S&P 500. Indeed, it may be the most sensitive to changes in comparable Treasury bond yields.

Most notably, SPDR Select Consumer Discretionary (XLY) and SPDR Select Consumer Staples (XLP) held up better during Tuesday's sell-off; they also surged on Wednesday's bounce-back. This may be a sign that resilience in consumer confidence readings, rising home values and substantive increases in retail sales are overriding the daily news-feed.

The success of consumer staples right now may seem like a no-brainer. After all, we need soap, butter and beer no matter what the economic landscape is. However, the [success of XLY in the face of fiscal cliff headwinds](#) likely tells us a thing or two about near-term consumer demand; that is, the Federal Reserve's quantitative easing (QE) is still able to reflate asset prices and make people feel wealthier (Gordon, Gary).

## Blue Christmas? Consumers Will Spend Despite Fiscal Cliff Says Schoenberger :

On a morning when Wal-Mart ([WMT](#)) and Target ([TGT](#)) both reported uninspiring earnings, the National Retail Federation trumped them both. The self-described "voice of retail worldwide" sent [an open letter to the President](#) urging action to avert the fiscal cliff before Thanksgiving in order to avoid "any disruption to consumer confidence."

Suffice it to say there isn't a lot of reason to expect such actions to take place by next Wednesday, regardless of what the NRF may want. Todd Schoenberger of the [BlackBay Group](#) joined Breakout to discuss what's shaping up as a blue Christmas.

In the attached clip Schoenberger says the fiscal cliff is little more than a kitchen table scare story for the moment. Americans are going to spend for Christmas, if only by force of habit. It's next year when frozen corporate spending and resulting layoffs hit the citizenry's wallets that's really got Schoenberger in a tizzy.

"Right now everything seems to be status quo," he says. Deep down people want to believe Congress is going to come up with an idea to save the day. In contrast, what Schoenberger calls "the smart guys" are bracing themselves for a plunge.

Spending on plasma televisions, waiting in line for Black Friday bargains, and stereotypically American consumption will end when the fiscal plunge starts. "We are going way over this fiscal cliff," shouts Schoenberger. "There's not a lazy river at the bottom; it's all concrete." (Macke, Jeff).

**Highlight the biggest (+) and the biggest (-) movers from the sector holdings during the review period. Are there notable reasons why the stocks had big moves (e.g., earnings surprises, etc)?**

### Biggest Gainers

Company	Ticker	Beginning Price	Current Price	% Change
Limited Brands	LTD	\$45.50	\$52.15	14.62%
Amazon	AMZN	\$220.60	\$252.05	14.26%

### Biggest Losers

Company	Ticker	Beginning Price	Current Price	% Change
Kohl's Corp	KSS	\$51.19	\$44.65	-12.78%
Yum! Brands	YUM	\$71.31	\$67.08	-5.93%

**Highlight the largest two holdings from the sector and note any headline news on the companies**

Company	Ticker	%Holding
Comcast	CMCSA	6.82%
Home Depot	HD	6.72%

## **Comcast:**

### **Comcast no longer weighed down by NBCU:**

A report issued on Comcast by [Todd Juenger](#) of Bernstein Research on Thursday, the firm predicted an annual upside of \$1.5 billion for the network's cash flow by 2016, including \$800 million from retransmission and reverse compensation, [according to Variety](#).

NBC is in first-place this season for the first time in nine years, and has won or tied eight of the first nine weeks of the fall season, due in large part to the continued [success of programs like "The Voice" and "Sunday Night Football."](#)

"For investors in Comcast, NBCU has gone from an albatross to a key part of the bull case. Wall Street loves a turnaround story. Investors now routinely differentiate between Comcast and other cable stocks by pointing to NBCU ... as a benefit," wrote Juenger (Hall, Gina).

## **Home Depot:**

### **Pretty Powerful Backdrop Ahead For Home Depot:**

Despite a more than 65 percent rise in [Home Depot's](#) stock during the past year, one analyst says the home improvement retailer's valuation does not concern him.

"I will agree that the valuation looks expensive if you look at a historical multiple," said Peter Keith, a senior research analyst at Piper Jaffray. "But if you're looking back at the past five years, you're looking at a very depressed housing market, and so I don't think that's a really relevant valuation characteristic."

Keith told CNBC's ["Squawk on the Street"](#) that he has an "overweight" rating and a \$70 price target on the company's shares.

In what Keith described as a "double positive" for the company, discretionary spending on homes seems to be picking up while the housing recovery becomes a tailwind.

On Tuesday, the company raised its [full-year outlook](#) and beat earnings estimates as it benefited from gains in the U.S. housing market and cost-cutting measures.

"They've been saying that for a couple of years that they think **GDP** is what's driving their business, but you are starting to see the CEO admit that housing's become a bit more of a tailwind," he said.

This will be a "pretty powerful backdrop for them going into next year," Keith said.

He added that larger-ticket remodeling projects are bouncing back at the company — a trend that is benefiting its flooring, kitchen and bath segments (Little, Katie).

#### **Comment on short-term outlook of the sector (including noteworthy upcoming events)**

Judging by these past couple of weeks and analyst views on the Consumer Discretionary sector I am very bullish for these upcoming weeks. One aspect that causes some uncertainty is the fiscal cliff. I am relatively bullish for the month of December with the holidays coming up but just like everyone else, I am not sure how the fiscal cliff will turn out. The fiscal cliff could certainly affect XLY because questionable spending will not occur in this sector. Other than the fiscal cliff, which is obviously a big deal, I don't see any other upcoming news that will significantly affect the Consumer Discretionary sector.

#### **Section (B) Sector Holding Updates**

##### **No Holdings**

#### **Section (C) Sector Recommendations**

I believe we just need to stay put in the Consumer Discretionary sector. The stock price has seen a fairly steady increase over the past month and I believe this trend will continue. After doing research on a couple stocks in the sector over the semester I am certainly bullish for this upcoming couple of months. A fair number of stocks in the discretionary sector perform well during the holiday season and I see no reason for this to change.

#### **Section (D) Sector Holding Recommendations**

##### **No Holdings**

## Sources:

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