

CIF Sector Recommendation Report (Fall 2012)

Sector: Consumer Discretionary

Review Period: 10/15 -10/26

Section (A) Sector Performance Review

| Cougar Investment Fund Sector Review Spreadsheet Template | | | | | | | | | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|---------------|------------|-----------------|--------------|------------|----------|---------------|------------|---------|
| Please download and save this template to your own storage device You only need to input values to cells highlighted in "yellow" The rest of the spreadsheet is calculated automatically Please read "Sector Review Guidelines" document carefully | | | | | | | | | | |
| CND | | | | | | | | | | |
| | Ticker | Current Price | Beg. Price | Stop-loss Price | Target Price | % Cap Gain | # Shares | Current Value | vs. Sector | S&P 500 |
| S&P 500 | \$INX | 1411.94 | 1428.59 | | | -1.17% | | | | |
| Sector ETF | XLY | \$45.92 | \$46.25 | | | -0.71% | 3780 | \$173,577.60 | | 0.45% |
| Current Holdings | | | | | | | | | | |
| None | | | | | | | | | | |



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)

The S&P 500 has outperformed the consumer discretionary sector for the two week period between 10/15 and 10/26. XLY saw a return overall of -1.69%, while the S&P 500 has had a -1.96% decrease in return overall for the period. The consumer discretionary sector has outperformed the S&P 500 as well as multiple other sectors, such as XLY and XLV in numerous periods. The consumer discretionary sector has a tendency to do well during fourth quarter, partially due to the holiday season impact on consumer spending. No reports have surfaced to change this expectation. The negative return could indicate the investor's lack of confidence sales will increase substantially in the fourth quarter. With a 52-week high of \$48.01 and a 52-week low of \$36.33 the current price of \$45.92, the sector still has room before it reaches its current ceiling.

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

Consumer Spending Increases as we near holiday season: "Consumer spending in fact accounted for most of the increase in GDP, as the purchases by U.S. residents of goods and services increased 2.1% in the third quarter, compared with 1.0% increase in the second quarter. The consumer spending report released this morning by the Commerce Department was also in-line with the positive trend. Spending rose at a seasonally adjusted 0.8% rate in September, its fastest rate since February. Increasing personal consumption is a clear sign that the Americans are now becoming more confident about the economy and the job situation. This may be due to slight improvement in the recent employment data and increasing signs of a housing recovery. Many economists believe that there is a strong relationship between housing and consumer confidence. As consumer become more optimistic about the value of their homes, they are more inclined to open their wallets. As the holiday season approaches, consumer spending may gain further momentum in the coming weeks. So, now may be good time to look at Consumer Discretionary and Retail ETFs, which may outperform the broader market, due to the benefit from holiday shopping." (Zachs).

Consumer Sentiment records five year high: "Consumer sentiment is at the highest level seen in five years as U.S. citizens are feeling more upbeat about the economy. GDP also grew at a faster pace than expected in the third quarter which is also helping to part the clouds a bit after the financial crisis although the jobs market remains soft.

“The Thomson Reuters/University of Michigan’s final reading on the overall index on consumer sentiment rose to 82.6 from 78.3 in September. It was at its highest level since September 2007 on a final reading basis,” Leah Schnurr wrote on Reuters. Economists were expecting a reading of 83. Furthermore, there are a number of households that are experiencing rising income. “While the surge in confidence will act to bolster consumer spending during the upcoming holiday season, it also means that this higher level of confidence is more vulnerable to reversal and has thus raised the stakes for post-election economic policies,” Richard Curtin said. The upcoming spending cuts and tax increases are still looming dark spots and anything can happen after the Presidential election. Implied election promises could be bolstering this confidence, as Bush era tax cuts and payroll tax cuts could be extended.” (ETFTrends).

Hurricane Sandy: “Hurricane Sandy, the perfect storm or “Frankenstorm,” is expected to leave billions in damages along its wake as it ravages through the Northeast. When the markets start trading again, sector exchange traded funds investors will have to keep an eye on a couple of key areas. Retail, “While hurricanes and other natural disasters are extremely negative for wealth, they are usually positive for growth,” Jason Schenker, president of Prestige Economics, said in the Investor Business Daily article, “whether it is the last-minute run to hardware stores and supermarkets, or after-the-storm replacement of furniture, windows, cars, and other damaged durable and nondurable goods.” (ETFTrends).

Biggest(+) Movers

| Name | Ticker |
|---------------------|--------|
| Tenneco | TEN |
| Titan International | TWI |
| Paccar | PCAR |

During the two week review period; these companies had the largest gains for the consumer discretionary sector. It’s notable that while Tenneco did have an extremely large positive change, however, “flat revenue growth should signal that it's not out of the woods yet” (Bowman).

Biggest(-) Movers

| Name | Ticker |
|--------------|--------|
| Crocs | CROX |
| Jarden | OSG |
| Tempur-Pedic | TPX |
| IRobot | IRBT |

These are the biggest negative movers for the consumer discretionary sector. While Tempur-Pedic, Crocs and IRobot all missed their sales targets, and produced negative returns during the two week period, Overseas Shipholding was the biggest loser, losing over “two-thirds of its value after revealing that it's considering strategic alternatives including the possibility of filing for bankruptcy reorganization” (Munarriz).

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

| Symbol | Name | %Asset | Change | %Change | Market Cap (Billions) |
|--------|---------------|--------|--------|---------|-----------------------|
| CMCSA | Comcast Corp. | 6.71% | 1.2 | +3.30% | \$101.52 |
| AMZN | Amazon | 6.45% | 15.32 | +6.87% | \$107.91 |

This data was collected from yahoo finance.

Major Retailers fight back against amazon (Revolutionizing retail): “Founded by Jeff Bezos in 1994, Amazon forever changed the way we shop. And it's no secret that big-box stores have since suffered at the hands of the online powerhouse. However, major retailers are finally making a meaningful attempt to fight back. In fact, even consumer electronics giant Best Buy (NYS: BBY) is stepping out of the box with a new pricing strategy meant to beat Amazon at its own game. Many industry experts argue that Best Buy has fallen out of favor largely due to so-called “showrooming” -- a notion I support. Up until this point, Best Buy has shown little concern over the growing number of customers who use its stores to comparison-shop. According to *The Wall Street Journal*, only about 40% of Best Buy shoppers actually leave its stores having made a purchase. Meanwhile, there's a good chance that a large portion of the other 60% of shoppers later made their purchases elsewhere online. To protect itself ahead of

the critical holiday shopping season, Best Buy plans to match merchandise pricing offered online at Amazon and other retailers' sites. To prove just how serious it is, the electronics chain is also throwing in free delivery on products that it doesn't have on-hand in stores.” (Rutter)

Cable operators preparing for Lines Down: “Cable and satellite operators are gearing up to deal with increased customer calls and possible damage as Hurricane Sandy churns up the East coast. Comcast Corp., Time Warner Cable Inc. and Cox Communications Inc., the three largest cable operators, say no storm-based disruptions had been reported as of late morning Monday, but they warn that it is still early into the expected crisis. In anticipation of the storm’s effects, Time Warner Cable delayed its earnings announcement, previously set for Wednesday, until next Monday, Nov. 5. (...) Time Warner Cable, Comcast and Cox are keeping employees on standby to deploy into affected markets if needed. The companies are also readying backup generators in their main distribution centers in case of power outage. The cable operators warn that most TV and Internet outages that come with natural disasters go hand-in-hand with power company outages. So if utility poles are down, for instance, cable workers have to wait until the electric company fixes the power line before they can repair the cable wiring.” (Gara).

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

The short term outlook for the consumer discretionary sector looks promising. With October ending and November beginning, consumers will begin spend more, due to the holiday season. Specifically, retail stores should see the most significant improvement in sales. Companies such as Amazon, Nordstrom’s, Wal-Mart, Target and other retail companies should expect an increase in consumer spending, which should lead to better returns for quarter 4.

Section (B) Sector Holding Updates

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|---------------------------------------------------|
| Company #1: <u>Company Name and Ticker</u> |
|---------------------------------------------------|

No Holdings

Section (C) Sector Recommendations

I recommend the Cougar Investment Fund to do nothing and continue to hold the current ETF holding. The consumer discretionary sector has, on average, outperformed the S&P 500 for the period of my report, as well as the four years. This makes it a very attractive ETF to hold on to. With a beta of 0.92, its volatility is slightly less volatile than other sectors, making it

an ETF which is more focused on consistent growth. I am neutral on the sector largest because of the dependency for consumer spending. Although analysts estimate high amounts of sales during the holiday season, it will be interesting to see if the sector can breach its price ceiling of \$48, which it has had trouble hurdling since September.

Section (D) Sector Holding Recommendations

No Holdings

Works Cited

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