CIF Sector Recommendation Report (Fall 2012)

Sector: Basic Materials  
Review Period: 11/14 – 11/28

Section (A)  Sector Performance Review

Copy/paste “Sector Review Spreadsheet” (the entire spreadsheet) here

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Current Price</th>
<th>Beg. Price</th>
<th>Stop. Loss Price</th>
<th>Target Price</th>
<th>% Cap Gain</th>
<th># Shares</th>
<th>Current Value vs. Sectors S&amp;P 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>$INX</td>
<td>1409.93</td>
<td>1374.33</td>
<td>1450</td>
<td>2.59%</td>
<td></td>
<td>$2,809.00</td>
</tr>
<tr>
<td>Sector ETF</td>
<td>XLB</td>
<td>$36.42</td>
<td>$35.50</td>
<td>1450</td>
<td>2.59%</td>
<td></td>
<td>$2,809.00</td>
</tr>
</tbody>
</table>

**Current Holdings**

<table>
<thead>
<tr>
<th></th>
<th>#DIV/0!</th>
<th>#DIV/0!</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

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.
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)

![Price Chart]

**XLB – Bold Blue**  
**S&P – Thin Purple**

The materials sector in the two-week review period performed almost identically to the S&P 500. As the chart shows, the two are extremely similar in terms of movement. The materials sector is one of the most cyclical sectors in the S&P, which explains the like movements. Unlike other sectors which may have seasonal ups and downs, the materials sector is largely supply and demand driven in its commodity-like products. The gradual rise from the beginning of November in regards to returns is most likely due to the election. Conservative political views are generally favored by the economic market. This is because conservative ideologies have less regulation on the free market and encourage widespread free trade more so than more liberal perspectives. When President Obama was re-elected last month, the market endured a slight upset as investor sentiment became pessimistic. The rises in both the S&P and XLB I believe shows the recovery from this event.
Highlight noteworthy headline news from the sector (company-, industry-, or sector-level news)

Part of the reason why the XLB has trailed the S&P so steadily over the two-week review period is because there were no major upsets positively or negatively from companies within the sector or from the sector itself. Recently, the Dow Chemical Company’s CEO has called on Australia to steer away from exporting its abundance of natural gas to foreign countries and create more of a domestically-based natural gas market. Natural gas prices rise as they are exported and create higher input prices for manufacturing firms that use these commodities like Dow. Andrew Liveris, Dow’s CEO, also believes that Australia is forgoing money-making, job-creating opportunities by largely ignoring its own domestic demand for natural gas. Large amounts of exports manipulate price and skew supply/demand globally. Many articles have also suggested that manufacturing in America is once again on the rise. Many oil, gas, and chemical companies are looking to invest in new facilities in America. This includes companies from abroad. Companies with plans to open plants in the US include Royal Dutch Shell, CF Industries, Dow Chemical, and Orascom Construction Industries. Although not all of these companies are in the materials sector, history has proven that with domestic manufacturing success and economic boom, the materials sector thrives. Not only is this analyst and media perspective, but one of President Obama’s staples in the 2012 re-election campaign was bringing manufacturing back to America. The long-term outlook looks promising to some.

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)?

The biggest movers in the materials sector in the larger part of November were OM Group, which was down 6.1%, Rio Tinto plc, which was up 4.4%, and Kaman which was up 2.9%. After releasing third-quarter financial information, OM Group posted a loss for 9-months ended of about $4.8M. The company also had smaller sales numbers year-over-year. CEO Joe Scaminace attributed this to “current conditions in many of our markets [and] …lower cobalt prices in Advanced Materials and lower sales volumes in Specialty Chemicals.” Scaminace went on to say “We are responding to changing business conditions by reducing discretionary spending, rationalizing capital expenditures, and developing plans to further adjust cost structure.” I believe the market saw this as a bearish outlook.

On November 5, Rio Tinto announced that their significant investment in the Mongolian mine at Oyu Tolgio had made some headway. The mine had reached a beneficial agreement with a Chinese power company to build a large power line that will provide power access to the mine and the community around-the-clock. There is a $6 billion investment in the project that Rio
and its partners have made, and with this news, the mine is set to open in the first half of 2013. The mine will have been completed in just 28 months. This is most likely the cause of its stock price increase over the two-week review period.

Although there was only a small increase in Kaman, I believe there is still a notable cause. Kaman released its third-quarter earnings the beginning of November. Kaman beat out sales estimates by a small margin. More significantly, actual earnings-per-share was much lower than even the lowest estimate. Kaman has seen a gradual rise in stock price since that time.

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


Ironically, the most noteworthy news during the two-week review period in regards to these two companies comes from the same circumstance. Apparently, DuPont “knowingly perpetrated fraud against the court”. In 2009, Monsanto filed a lawsuit against DuPont for using a patented soybean seed of theirs and infringing upon the patented genetically modified seed. DuPont has been telling the court ever since 2009 that they had the right to modify the already modified Monsanto seed. The seed had been altered by Monsanto to tolerate the weed-killer “Roundup”. DuPont was attempting to incorporate a second trait to the seed. On November 16th, new evidence in the form of insider emails revealed that DuPont knew it had no legal right to alter the patented Monsanto seed. It is likely that the $1 billion plaintiff claim by Monsanto will be awarded, and perhaps even tripled, according to Ronald A. Cass, dean emeritus of the Boston University School of Law.

DuPont's stock was not affected greatly. In the two days that followed the legal fraud disclosure, DuPont’s stock dropped two dollars; from $42.26 to $41.95, but quickly rebounded. This legal trouble would probably have a more hampering effect on any other two companies. However, the nature of the genetically modified seed business has always been tangled with patents and the legal system. The patents in this business are always being infringed upon and these companies are always at legal war with something. The lobbying power of these companies is nothing short of immense and both of these companies have the resources to employ an army of lawyers to defend its cause. Sales are not severely impacted because of the agricultural need for the goods these firms produce.
Comment on short-term outlook of the sector (including noteworthy upcoming events)

In short, this sector is very cyclical and follows the market closely. Unless something significant happens to a big player in the sector, the short-term outlook will most likely be the slow, steady returns that the XLB has seen over the past year as the market continues to recover from the recession. However, this is very contingent upon the happenings in Washington D.C. The fiscal cliff is still a cause for concern. If policies are not enacted to avoid the economic squeeze that is set to occur in 2013, the XLB will be the first to follow the market down. With the newly re-elected president Obama, there is still question as to what he is going to do to continue to spur the economy into recovery. Many of the materials sector companies receive government subsidies. If government cannot agree on a debt ceiling, money may not make it to these subsidized companies, which will have a drastic effect on the sector as a whole. In short, if the politicians in Washington can take care of the tax cuts, spending cuts, and debt issues in a reasonable manner in the near future, the sector will likely continue to gain ground through 2013. There are optimistic signs of investment in factories and companies within American materials. However, if congress remains unresolved, our economic stance will falter again, along with the XLB.

Section (B)  Sector Holding Updates

<table>
<thead>
<tr>
<th>Company #1: Company Name and Ticker</th>
</tr>
</thead>
</table>

Date Recommended: MM/DD/YYYY  
Date Re-evaluated: MM/DD/YYYY  

Company Update

Briefly update what happened to the company the last two weeks (up through your re-evaluation date). This should include noteworthy headline news on the stock (e.g., earnings announcement, management’s comments on company outlook and/or strategic changes, change in analyst recommendations or estimate revisions, new product launch, management turnover, legal or regulatory issues, merger/acquisition announcement, restructure announcement, news from major competitors, etc.)  

Relative Performance

Review relative performance of each sector holding, over the two-week review period, both relative to the SP500 and to the respective SPDR sector ETF. Relate your comments on relative performance to the updates discussed above.  

Price Charts
Insert a price chart of the stock for **the most recent three months**. You should include on the same chart (1) the SPDR sector ETF, (2) and the SP500 prices for the same period.

Insert a price chart of the stock for the **most recent one year**. You should include on the same chart (1) the SPDR sector ETF, (2) and the SP500 prices for the same period.

**Valuations Analysis**

**Original Analysis**
Copy/paste P/E (TTM), P/S (TTM), P/B (MRQ), P/CF (TTM) of the stock, the industry, and the sector from “**ratio analysis**” section of the original stock recommendation report (from CIF website, “reports” tab).

**Re-evaluation Analysis**

Briefly discuss the changes.

**Historical Surprises**

**Original Analysis**
Copy/paste “**Historical Surprises**” Table from the original stock recommendation report (from CIF website, “reports” tab).

**Re-evaluation Analysis**
Copy/Paste the “**Historical Surprises**” Table from [http://www.reuters.com/](http://www.reuters.com/) , “Analysts” tab (include both revenue and earnings; make note that revenues might be in “millions”).

Briefly discuss the changes.

**Consensus Estimates**

**Original Analysis**
Copy/paste “**Consensus Estimates Analysis**” Table from the original stock recommendation report (from CIF website, “reports” tab).

**Re-Evaluation Analysis**
Copy/paste the “**Consensus Estimates Analysis**” Table from [http://www.reuters.com/](http://www.reuters.com/), “Analysts” tab (include both revenue and earnings).

Briefly discuss the changes.
Estimate Revision Analysis

Original Analysis (MM/DD/YYYY)

Copy/paste “Estimates Revision Summary” Table from the original stock recommendation report (from CIF website, “reports” tab)

Re-Evaluation Analysis

Copy/paste the “Estimates Revisions Summary” Table from http://www.reuters.com/, “Analysts” tab (include both revenue and earnings)

Briefly discuss the changes

Analysts’ Recommendations

Original Analysis

Copy/paste “Analyst Recommendations and Revisions” Table from the original stock recommendation report (from CIF website, “reports” tab)

Re-Evaluation Analysis

Copy/paste the “Analyst Recommendations and Revisions” Table from http://www.reuters.com/, “Analysts” tab (include both revenue and earnings)

Briefly discuss the changes

Company #2-?: Company Name and Ticker

Repeat the above for Company #2, and all other sector holdings in CIF.

Section (C) Sector Recommendations

You will make recommendations on whether CIF should continue to own its sector holdings.

Provide your views on the sector. Are you bullish, bearish or neutral on the sector, and why?

Discuss whether you recommend CIF to (1) stay put with its current sector holdings, or (2) sell out of the sector, and why?
Although the CIF does not own any specific companies within the XLB, we have a significant amount invested in the sector ETF. My recommendation is to keep the ETF. Until a set-in-stone plan (or lack of) is placed in Washington pertaining to the fiscal cliff and debt ceiling, there is no reason to be worried about the sector’s immediate performance. With political policies aside, there actually are more positive indicators than negative ones in regards to the sector itself. Manufacturing may see a boom in 2013, which will drive the XLB price upwards.

However, because the political policies of the fiscal cliff cannot be ignored, I am rather neutral on the sector itself. As the circumstances in congress change, my outlook may as well.

Section (D) Sector Holding Recommendations

Based on your analysis, are there stocks CIF currently owns from your sector you would recommend to:

1. Sell and why?
2. Adjust “target price” and why? If you recommend an adjustment, you must suggest a new “target price”
3. Adjust “stop-loss price” and why? If you recommend an adjustment, you must suggest a new “stop-loss price”

Provide your recommendations in the following table

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Ticker Symbol</th>
<th>Date Recommended</th>
<th>Date Re-evaluated</th>
<th>Recommendation (Explain Why)</th>
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<tr>
<td></td>
<td></td>
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<td></td>
<td>Sell</td>
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Sources:


Yahoo: [http://finance.yahoo.com/q/hp?s=%5EGSPC+Historical+Prices](http://finance.yahoo.com/q/hp?s=%5EGSPC+Historical+Prices)


Yahoo: [http://finance.yahoo.com/q/hp?s=DD+Historical+Prices](http://finance.yahoo.com/q/hp?s=DD+Historical+Prices)

Investopedia: [http://www.investopedia.com/stock-analysis/sectorsummary/riotintoplcanotherbigmoversinbasicmaterialsonnovember292012.aspx#axzz2DwXXjXR0](http://www.investopedia.com/stock-analysis/sectorsummary/riotintoplcanotherbigmoversinbasicmaterialsonnovember292012.aspx#axzz2DwXXjXR0)

