CIF Sector Update Report (Spring 2014)

Sector Consumer Discretionary **Analyst:** Erik Fritz

Presentation Date: March, 24th 2014

Review Period: **Start Date:** February 24th, 2014 **End Date:** March 19th, 2014

Section (A) Sector Performance Review

(A-1) Sector Performance Relative to SP500

Cougar Investment Fund Sector Performance Review Spreadsheet Template

CND

	Ticker	Current Price	Beg. Price	Stop-loss Price	Target Price	% Capital Gain	# Shares	Current Value	vs. Sector	vs. S&P 500
S&P 500	^GSPC	1860.77	1836.25			1.34%				
Sector ETF	XLY	$65.93	$65.00			1.43%	3455	$227,788.15		0.10%
Current Holdings										
	DIS	$80.52	$80.13			0.49%	380	$30,597.60	-0.94%	-0.85%

*Source: Yahoo! Finance

1-Month Sector Price Chart

*Source: Yahoo! Finance

How did the sector perform relative to the broad market (SP500) during the review period? What might have caused the out-/under-performance of the sector in relation to the broad market? You should weigh in macro, sector/industry, and company-specific factors that might have contributed to the out-/under-performance

The consumer discretionary sector underperformed when observing the stock price over the past month. Although the overall performance of the sector was worse than the S&P 500, the sector managed to perform better than the S&P 500 for a majority of the month until the final couple days.

On February 25th, The Conference Board reported a decline of 1.3 from the previous month. Concerns over the short-term outlook of the business environment, low earnings numbers by companies, and a pessimistic outlook on the job market continue to drive the Consumer Confidence Index downward ("Consumer Confidence Survey").

On February 19th Janet Yellen made several announcements future unemployment, inflation, and interest rates. Yellen announced that the Fed would cut back by-back purchases down to $55 billion a month as part of its Quantitative Easing process. Investor also reacted to Yellen's hinting that rising interest rates may happen sooner than expected. This will impact the corporations and companies attempting to borrow money, as they will be required to pay back more money. This could lead to a decrease in consumer spending as people may attempt to pay off previous debts while rates are low. The final significant piece of information that came from Janet Yellen's announcement was about the unemployment rate (currently at 6.7%). The Fed expects the unemployment rate to decrease down to about 5.7% by the end of 2015 ("Janet Yellen").

Another factor that has contributed to the poor performance in the sector is a result of the poor climate that has been characteristic all across the Untied States this past winter. Companies involved in construction (ex: Home Depot) and housing development have seen decreased business as cold and severe weather make construction a difficult task.

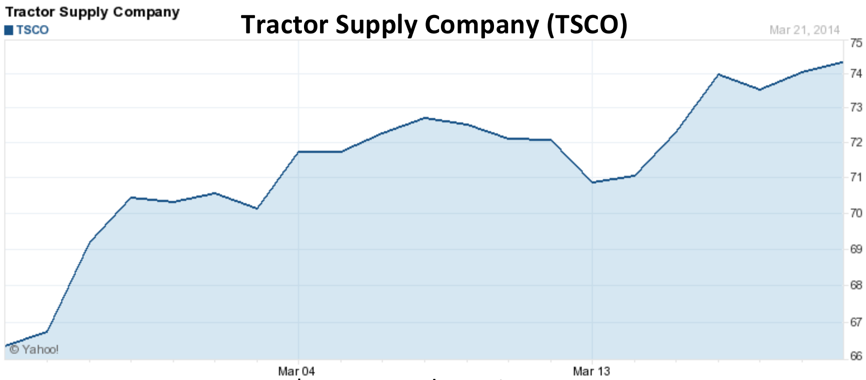
Finally, geopolitical turmoil between Russia and Ukraine have economies all around the world on alert for any signal further actions as embargoes and sanctions could have an impact on those companies who conduct business in Russia or Ukraine.

(A-2) Big Sector Movers

Identify two largest sector gainers and losers from recent 1 month.

Gainers

Tractor Supply Company (TSCO)



*Source: Yahoo Finance

Tractor Supply Company (TSCO) was the largest gainer in the sector over the past month posting growth of 12%. Over the month, the share price for tractor supply increased by $7.97 (SectorSPDR.com).

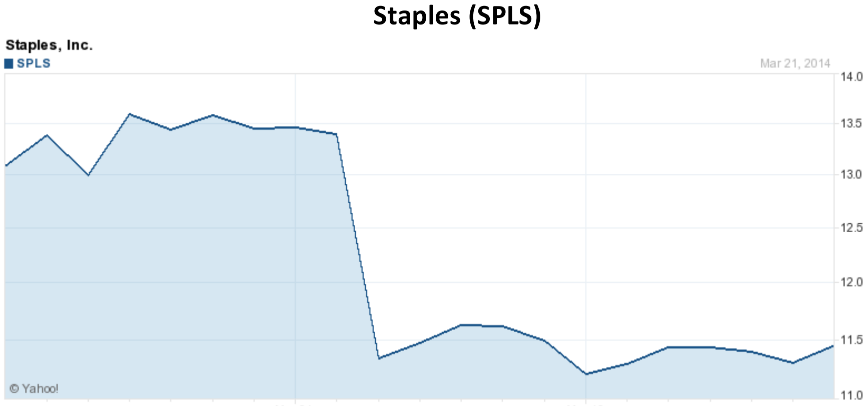
Chipotle Mexican Grill (CMG)

*Source: Yahoo Finance

The second largest sector gainer over the past month was Chipotle Mexican Grill (CMG). Chipotle increased their overall share price $61.16, a growth of 11.21% (SectorSPDR.com)

Losers

Staples (SPLS)



*Source: Yahoo Finance

The biggest loser within the consumer discretionary sector was Staples showing a decrease in share price of 12.53%. Over the past month, the share price has declined by a total of $1.64 (SectorSPDR.com).

D.R. Horton Inc. (DHI)

*Source: Yahoo Finance

The second largest loser in the past month was D.R Horton, Inc. showing an overall decrease of share price of $2.23 or 9.43% (SectorSPDR.com).

What might have contributed to big price moves in the period examined (recent 1-month) of each of the named gainers/losers?

Tractor Supply (TSCO): On February 19th Tractor Supply Company filed its 10-K report with the SEC. The report included information about earnings per share growth of 22.1% through the 2013 fiscal year. Anticipation and expectations regarding the strong performance of the company had an impact on the price growth leading up the 10-K filing (Reuters).

Chipotle Mexican Grill (CMG): Chipotle released fourth quarter earnings on January 30th that were 29.7% higher than estimates. Chipotle has made an effort to cater to changing consumer preferences such as organic ingredients as well as other menu innovations. Since the release of fourth quarter numbers, the stock price of Chipotle has steadily been increasing.

Staples (SPLS): Over the past month, the Staples Company has decided to cut back on the number of stores operating in North America by 225 stores or 12%. Their goal is to focus more of their marketing into online sales in an attempt to reduce operating costs.

D.R. Horton Inc. (DHI): DHI is a company involved in home building company that is involved in purchasing and development of land for residential homes. This is one sector that has been greatly impacted by the poor weather this winter.

Identify two largest sector gainers and losers of during recent 3 month.

Gainers

Harman International Industries (HAR)

*Source: Yahoo Finance

In the past three months, the strongest performer in the consumer discretionary sector was Harman International Industries (HAR) posting an increase in share price of $25.96 or 31.13% (SectorSPDR.com).

TripAdvisor (TRIP)

*Source: Yahoo Finance

The company that posted the second largest gain in the past three months was TripAdvisor (TRIP). TripAdvisor showed an increase in share price of $18.38 or 22.11% (SectorSPDR.com).

Losers

Best Buy (BBY)

*Source: Yahoo Finance

Over the previous month the largest loser within the consumer discretionary sector was Best Buy (BBY), the share price has decreased by $12.70 or 32.02% (SectorSPDR.com).

Staples (SPLS)

The second biggest loser in the past three months came from Staples. Staples share price decreased by a total of $4.28 or 27.21% (SectorSPDR.com).

*Source: Yahoo Finance

What might have contributed to big price moves in the period examined (recent 3 month) for each of the named gainers/losers?

<u>Harman International Industries (HAR):</u> HAR is a producer of audio products, lighting solutions, and electronic systems owning a wide range of brand names such as JBL, Harman/Kardon, and BBS. Harman Industries released its quarterly report on January 30th, that same day, the stock price shot up as a result of the companies net sales up 25.5% over the prior year (Yahoo! Finance: Harman Industries 10-Q).

<u>TripAdvisor (TRIP):</u> On February 11th, TripAdvisor filed its 10-K report with the SEC. This filing included increased revenues for the 2013 fiscal year up 24% from the previous year. TripAdvisor relies on click-based advertising, which showed increased revenues of $108 million. Since the release of this strong revenue information, the stock has continued to increase (Yahoo! Finance: TripAdvisor 10-K).

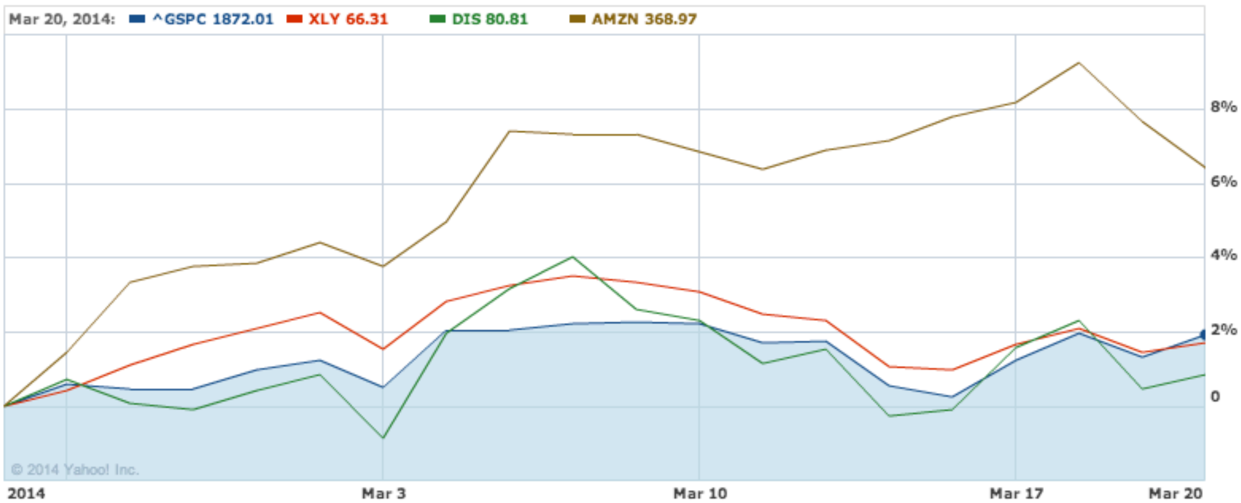
<u>Best Buy (BBY):</u> Best Buy, as with Staples, is experiencing a transition from physical stores to online retailing as competitors such as Amazon can provide the same products with much greater convenience.

<u>Staples (SPLS):</u> Staples has been experience a drastic decline in revenues due to consumer preference changes on how they conduct their shopping. For example, companies such as Amazon and Wal-Mart can provide the exact same products online at reduced prices without having to physically enter a store. As a way to combat this, Staples has started to make an attempt to convert to more online sales.

(A-3) Two Largest Stocks in the Sector

Identify two stocks with the largest weight in the sector ETF.

The two stocks within the consumer discretionary sector are the Walt Disney Corporation (DIS) and Amazon (AMZN). The Walt Disney makes up 6.41% of the sector while Amazon, the largest company, makes up 6.52% of the sector (SectorSPDR.com). Below Disney and Amazon are compared to the sector ETF (XLY) and the S&P 500 index over a 1 month period.



*Source: Yahoo! Finance

Highlight noteworthy news, announcements, or events relevant to the two stocks.

During the review period, Amazon (AMZN) announced that it would increase the cost of its subscription service called Prime from $79 to $99. This price increase is expected to harm the performance of the company, as customers will look to other locations rather than paying the higher prices. Amazon claims the increased price of the service is attributable to the equally increasing cost of acquiring the video/movies. Amazon also has plans to release a video streaming device similar to Apple TV in which they can generate additional profits by advertising and app downloads. Currently, Amazon streaming services are only available through other devices, leaving room for additional profits ("Amazon to Ship Video-Streaming Device in April").

For news and updates on the Walt Disney Company, please see the section below labeled (B-1)-Relative Performance (Disney stock selected for original stock recommendation).

(A-4) Short-term (up to Three Months) Outlook of the Sector

What is your short-term (up to three months) outlook of the sector? Provide arguments in support of your view.

The short-term outlook for the consumer discretionary sector looks fairly promising, as interest rates have been kept low to stimulate economic growth and spending. Now that interest rates are expected to rise within the next year, consumers may choose to make some big-ticket purchases. In addition, the unemployment rate continues to decline (or stay relatively consistent) over recent months with the expectation of the number to decline even further as quantitative easing continues. This means more discretionary income for consumers to spend on products that are considered nonessential. However, employment statistics indicate that there is a high level of underemployment in the economy. This means that a lot of jobs that are being created are part time jobs and do not help the economic situation in the long run. The consumer discretionary sector housing development and related companies will experience growth in business, as many projects will be completed with improving weather conditions in the upcoming months.

Section (B) Sector Holding Updates

Company #1: The Walt Disney Company (DIS)

Date Recommended: 03/05/2014

Date Re-evaluated: 03/24/2014

(B-1) Company Updates and Stock Performance

Company Update

On February 25th, Disney unveiled a plan to create an exclusive cloud based digital service in which customers can purchase any Disney, Pixar, and Marvel Movie. Currently, the primary provider for Disney Movies is currently ITunes. This will further increases the audience that Disney and its entertainment services are able to reach instantly which should lead to increased sales ("Watch Disney, Pixar, And Marvel Movies").

On March 3rd, Disney announced a long term, distribution agreement with DISH Network Corporation (DISH) that will give customers access to Disney's line of entertainment, sports, and news across a wide range of media devices. Services such as ESPN, ABC Family, and the Disney channel will soon be available to all of DISH customers for a price ("The Walt Disney Company and DISH Network").

Finally, on March 18th the Walt Disney Company elected new members of its Board of Directors. All 10 of the board members up for re-election were once again elected and made few statements about past and future performance. Disney Chairman and CEO Robert A. Iger highlighted the increased revenues of 7% over the past year to a record level of $45 million as well as driving up shareholders return of 27% in 2013. At the annual meeting Robert Iger announced that the company plans to release movies such as the Incredibles 2 and Cars 3. Iger also announced that "Frozen" continues to thrive in the market and has the potential to best Toy Story 3 to become the highest grossing animated film ever ("Shareholders Elect All 10 Directors").

Relative Performance

Over the course of the review period, Disney has experienced an overall capital gain of 0.49% while the S&P 500 and the sector ETF recorded capital gains of 1.34% and 1.43% respectively. This means that Disney has underperformed compared to the S&P 500 and sector ETF by -.8486% and -0.94% respectively.

The stock price of Disney over the review period has been consistent, only increasing a slight amount. Disney seems to be attempting to expand the availability of its movies to drive up revenues to stimulate business while they have a brief hiatus before launching big projects such as Incredibles 2 and Cars 3. Allowing for more partnerships for other companies to provide Disney movies makes it possible for customers to view the movies at lower costs due to streaming rather than purchasing. These contracts and agreements will be more influential in driving up revenues once the transactions have been finalized.

<u>1-Year Price Chart</u>

*Source: Yahoo! Finance

Over the past year, Disney has outperformed both the sector ETF and the S&P 500. Over this period of time, Disney's stock price has increased by 42.32% with very strong performance coming in the beginning of 2014. In comparison, the sector ETF has grown by 24.82% and the S&P 500 has grown by 20.24% over the same period of time (Yahoo! Finance). In general, the company has experienced steady growth over the period as revenue and earnings numbers for the 2013 fiscal year were the highest in recent years.

(B-2) Valuations, Estimates and Recommendations

<u>Valuations</u>

Original Analysis (03/05/2014)

Ratio Analysis	Disney	Industry	Sector
P/E (TTM)	22.16	21.21	19.61
P/S (TTM)	3.08	5.39	324.51
P/B (MRQ)	3.10	2.78	0.75
P/CF (TTM)	15.16	18.35	10.36

*Source: Disney Stock Presentation (March 5th, 2014)

Re-evaluation Analysis

Ratio Analysis	Disney	Industry	Sector
P/E (TTM)	22.03	22.23	16.88
P/S (TTM)	3.06	5.61	310.28
P/B (MRQ)	3.08	2.87	2.92
P/CF (TTM)	15.07	19.18	10.56

*Source: Reuters.com

Comment on the changes

Since the original presentation of the Walt Disney Company on March 5th, 2014 the valuation ratios have shown decrease in the values across all ratios. This typically means one of two things, the stock price has declined, or the denominator of the ratio has increased (cash flow, sales, equity, ect.). When Disney was originally recommended, the stock was trading at a price of $80.18. The stock is currently trading $80.35 (Mar. 21) meaning that the stock price has slightly decreased in the past three weeks. Due to the fact that this decrease is relatively insignificant, it appears that the numerators have also increased showing potentially favorable business growth.

Historical Surprises

Original Analysis (03/05/2014)

Estimates vs. Actual	Estimate	Actual	Difference	Surprise %
SALES (in millions, USD)				
Quarter Ending Dec-13	12,256.80	12,309.00	52.20	0.43
Quarter Ending Sep-13	11,403.00	11,568.00	164.98	1.45
Quarter Ending Jun-13	11,641.70	11,578.00	-63.72	-0.55
Quarter Ending Mar-13	10,491.00	10,554.00	63.00	0.60
Quarter Ending Dec-12	11,210.10	11,341.00	130.91	1.17
Earnings (per share, USD)				
Quarter Ending Dec-13	0.91	1.04	0.13	13.95
Quarter Ending Sep-13	0.76	0.77	0.01	1.68
Quarter Ending Jun-13	1.01	1.03	0.02	1.78
Quarter Ending Mar-13	0.77	0.79	0.02	2.78
Quarter Ending Dec-12	0.76	0.79	0.03	3.82

*Source: Disney Stock Presentation (March 5th, 2014)

Re-evaluation Analysis

Estimates vs. Actual	Estimate	Actual	Difference	Surprise %
Sales (in millions, USD)				
Quarter Ending Dec-13	12,256.80	12,309.00	52.20	0.43
Quarter Ending Sep-13	11,403.00	11,568.00	164.98	1.45
Quarter Ending Jun-13	11,641.70	11,578.00	-63.72	-0.55
Quarter Ending Mar-13	10,491.00	10,554.00	63.00	0.60
Quarter Ending Dec-12	11,210.10	11,341.00	130.91	1.17
Earnings (per share, USD)				
Quarter Ending Dec-13	0.91	1.04	0.13	13.95
Quarter Ending Sep-13	0.76	0.77	0.01	1.68
Quarter Ending Jun-13	1.01	1.03	0.02	1.78
Quarter Ending Mar-13	0.77	0.79	0.02	2.78
Quarter Ending Dec-12	0.76	0.79	0.03	3.82

*Source: Reuters.com

Comment on the changes

There have been no changes to analyst's estimates of revenue and earnings information since the original stock recommendation date.

<u>Consensus Estimates</u>

Original Analysis (03/05/2014)

	# of Estimates	Mean	High	Low	1 Year Ago
Sales (in millions, USD)					
Quarter Ending Mar-14	29	11,196.00	11,417.50	10,899.00	11,143.50
Quarter Ending Jun-14	28	12,248.80	12,600.00	11,844.30	12,577.80
Year Ending Sep-14	31	48,032.20	48,650.00	47,589.00	47,934.80
Year Ending Sep-15	32	51,038.70	52,950.00	50,228.00	51,518.10
Earnings (per share, USD)					
Quarter Ending Mar-14	31	0.94	1.04	0.89	0.87
Quarter Ending Jun-14	30	1.2	1.33	1.12	1.19
Year Ending Sep-14	32	4.03	4.28	3.87	3.88
Year Ending Sep-15	34	4.57	4.85	4.37	4.42
LT Growth Rate (%)	5	15.88	19.8	12.5	12.87

*Source: Disney Stock Presentation (March 5th, 2014)

Re-Evaluation Analysis

	# of Estimates	Mean	High	Low	1 Year Ago
Sales (in millions, USD)					
Quarter Ending Mar-14	26	11,198.20	11,417.50	10,899.00	11,126.10
Quarter Ending Jun-14	25	12,251.50	12,600.00	11,844.30	12,586.70
Year Ending Sep-14	28	48,025.80	48,650.00	47,589.00	47,966.80
Year Ending Sep-15	28	51,043.60	52,950.00	50,228.00	51,510.50
Earnings (per share, USD)					
Quarter Ending Mar-14	29	0.95	1.04	0.89	0.87
Quarter Ending Jun-14	28	1.20	1.33	1.12	1.21
Year Ending Sep-14	30	4.03	4.28	3.87	3.88
Year Ending Sep-15	31	4.57	4.85	4.37	4.43
LT Growth Rate (%)	4	15.55	19.80	12.50	12.85

*Source: Reuters.com

Comment on the changes

Overall, consensus estimates for revenues and earnings have slightly declined since the original recommendation. The analyst estimates for revenues decreased by about $2-3 million for the next two upcoming quarters. In the long run, this decline continues for estimates involving the next two quarters. Finally, analysts have decreased the long-term growth expectation for Disney. In general, analyst's estimates indicate a slightly dropped in current and future operating cycles. Although these declines should be taken note of, they are fairly small when considering overall profitability of the company.

<u>Estimate Revision Analysis</u>

Original Analysis (03/05/2014)

	Last Week		Last 4 Weeks	
Number Of Revisions:	**Up**	**Down**	**Up**	**Down**
Revenue				
Quarter Ending Mar-14	1	0	11	15
Quarter Ending Jun-14	0	1	10	15
Year Ending Sep-14	0	1	15	12
Year Ending Sep-15	0	2	8	15
Earnings				
Quarter Ending Mar-14	1	0	19	6
Quarter Ending Jun-14	0	1	8	18
Year Ending Sep-14	1	0	27	0
Year Ending Sep-15	2	0	19	3

*Source: Disney Stock Presentation (March 5th, 2014)

Re-Evaluation Analysis

	Last Week		Last 4 Weeks	
Number Of Revisions:	**Up**	**Down**	**Up**	**Down**
Revenue				
Quarter Ending Mar-14	0	0	3	0
Quarter Ending Jun-14	0	0	1	2
Year Ending Sep-14	0	0	3	1
Year Ending Sep-15	0	0	2	2
Earnings				
Quarter Ending Mar-14	0	0	3	0
Quarter Ending Jun-14	0	0	0	2
Year Ending Sep-14	0	0	3	0
Year Ending Sep-15	0	0	3	1

*Source: Reuters.com

Comment on the changes

Within the past week, analysts have not made any revisions to their revenues and earnings estimates. However, over the past month 9 analysts have moved their estimates for both revenues and earnings up. In comparison, only 5 analysts have revised their estimates for revenues down and only three have moved their earnings estimates down. When comparing the activity of revisions in the original stock recommendation you see a drastic decline in the activity of analysts. This demonstrates the confidence that analysts continue to have in the company as not many have decided to make a revision down.

Analysts' Recommendations

Original Analysis (03/05/2014)

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	10	11	10	11
(2) OUTPERFORM	10	10	9	8
(3) HOLD	12	12	13	13
(4) UNDERPERFORM	0	0	0	0
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	2.06	2.03	2.09	2.06

*Source: Disney Stock Presentation (March 5th, 2014)

Re-Evaluation Analysis

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	9	10	11	10
(2) OUTPERFORM	9	10	10	9
(3) HOLD	12	12	11	13
(4) UNDERPERFORM	0	0	0	0
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	2.10	2.06	2.00	2.09

*Source: Reuters.com

Comment on the changes

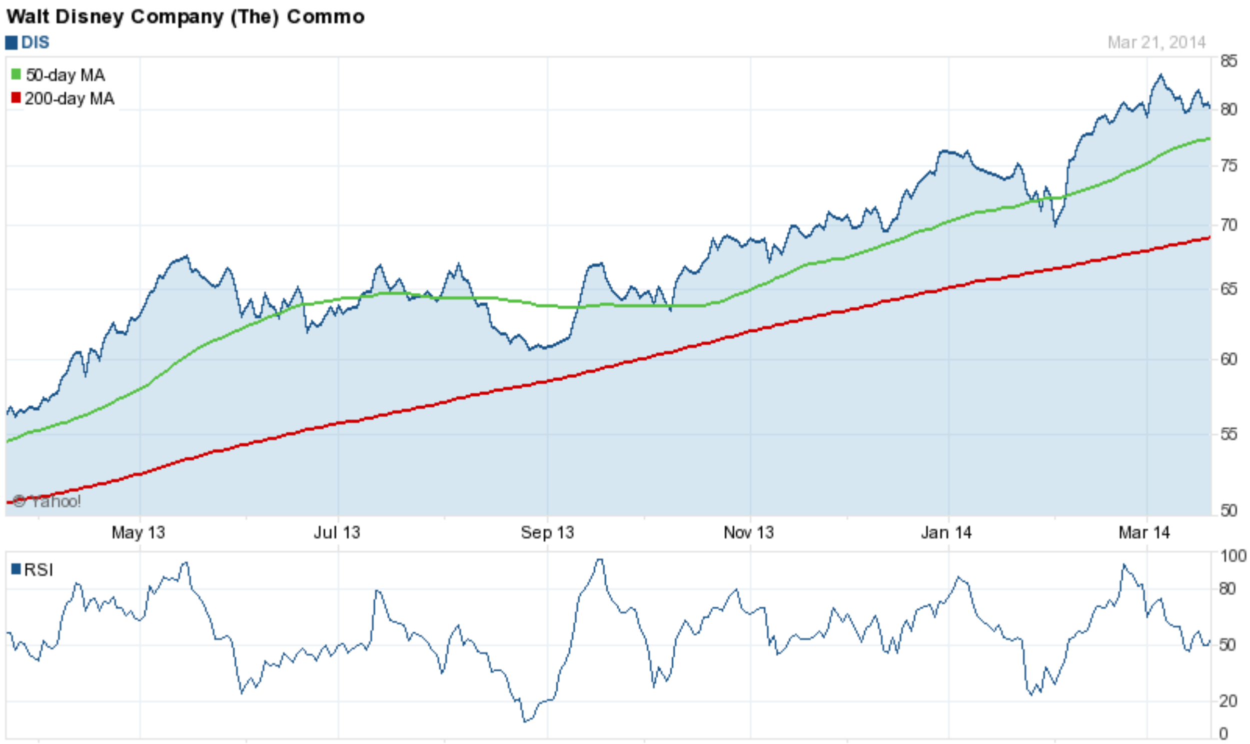
Generally analysts have maintained their recommendations for Disney. The current average analyst recommendation level is at 2.1 indicating a bullish sentiment towards the company. This number has slightly decreased since the original recommendation date. The most common recommendation is a hold indicating that Disney is expected to maintain its good performance in the near future, with the expectation that the stock price will continue to grow.

(B-3) Technical Indicators ("Moving Average" and "Relative Strength Index")

6-Month Moving Average

*Source: Yahoo! Finance

2-Year Moving Average



*Source: Yahoo! Finance

How have the two sets of technical charts changed from the ones in the original report? Are findings from technical analysis supportive of your other findings?

The technical charts have not changed from the original report. Both the 6-month and 2 year moving average graphs indicate a bullish sentiment towards the company. One thing that has changed however was the RSI indicator. During the original recommendation, the RSI level was up around 80 indicating that the company may be overbought. However, that number has declined down to just over 50 meaning that it is right in the middle of the buy/sell spectrum indicating a hold recommendation. This is consistent with the majority of the estimates, recommendations, and valuations indicating the belief that company is in a stage of fairly constant and stable situation.

Section (C) Sector Holding Recommendations

Based on your sector update research, recommend and provide justifications what CIF should do for each individual stock it holds in the sector:

1. Continue to hold and keep "target price" & "stop-loss price" as is;

2. **Adjust "target price". If you recommend an adjustment, you must suggest a new "target price";**
3. **Adjust "stop-loss price". If you recommend an adjustment, you must suggest a new "stop-loss price";**
4. **Sell the stock;**

I recommend that the Cougar Investment Fund class maintain its holdings in the Walt Disney Company without making any adjustment to its 'target price' or 'stop-loss price'. Only a short period of time has passed since the original stock recommendation and the stock price for Disney has not changed by any serious amount. In addition, it appears that Disney's valuation ratios have improved without much change in stock price. This means that the values of equity, book value, sales, and cash flow level all have increased demonstrating increasing value. Finally, the analyst's expectation for the future performance of Disney seems consistent at a hold recommendation. This means that these analysts believe that steady growth of Disney is likely to be continued over upcoming business cycles.

Provide your recommendations in the following table

Company Name	**Ticker Symbol**	**Date Recommended**	**Date Re-evaluated**	**Recommendation**		
				Sell	**Adjust "Target Price"**	**Adjust "Stop-loss Price"**
Disney	DIS	March 5th, 2014	March 24th, 2014	N/A	$91.43 (Unchanged)	$68.58 (Unchanged)

Work Cited

"Amazon to Ship Video-Streaming Device in April" *Wall Street Journal Online*. Wall Street Journal, 17 Mar 2014. Web. 22 Mar 2014. http://online.wsj.com/news/articles/SB10001424052702303287804579445721946202990

"Consumer Confidence Survey." *The Conference Board*. Consumer Confidence Board Inc., 25 Feb 2014. Web. 23 Mar 2014. https://www.conference-board.org/data/consumerconfidence.cfm

"Janet Yellen Continues Tapering in Fed Chair Debut. *"US News*. US News and World Report, 19 Mar 2014. Web. 23 Mar 2014. http://www.usnews.com/news/articles/2014/03/19/janet-yellen-continues-tapering-in-fed-chair-debut

Reuters (DIS, XLY, ^GSPC, etc.) *Reuters Inc.* Web. 22 Mar. 2014. http://www.reuters.com/finance/stocks/overview?symbol=DIS

"Sector Tracker." *SectorSPDR.* Interactive Data Managed Solutions. Web. 22 Mar. 2014 http://www.sectorspdr.com/sectorspdr/tools/sector-tracker/components

"Shareholders Elect All 10 Directors at The Walt Disney Company Annual Meeting." *Market Watch: WSJ*. Business Wire, 18 Mar 2014. Web. 23 Mar 2014. http://www.marketwatch.com/story/shareholders-elect-all-10-directors-at-the-walt-disney-company-annual-meeting-2014-03-18?reflink=MW_news_stmp

"The Walt Disney Company and DISH Network Sign Groundbreaking Long-Term, Wide-Ranging Agreement." *Google Finance*. Business Wire, 3 Mar 2014. Web. 23 Mar 2014. http://finance.yahoo.com/news/walt-disney-company-dish-network-013600585.html

Yahoo! Finance "Disney, XLY, Various other Stock in Top Movers" Web. 22 Mar. 2014 http://finance.yahoo.com/q?s=DIS