**CIF Sector Update Report (Spring 2014)**

**Sector:** Financials  
**Analyst:** Gruber, Colleen

**Presentation Date:** March 24, 2014

**Review Period**
- **Start Date:** February 24, 2014
- **End Date:** March 17, 2014

**Section (A) Sector Performance Review**

(A-1) Sector Performance Relative to SP500

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Current Price</th>
<th>Bg. Price</th>
<th>Stop-loss Price</th>
<th>Target Price</th>
<th>% Capital Gain</th>
<th># Shares</th>
<th>Current Value vs. Sector</th>
<th>vs. S&amp;P 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>$1,858.53</td>
<td>$1,736.25</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Sector ETF</td>
<td>XLF</td>
<td>$22.03</td>
<td>$21.48</td>
<td></td>
<td>2.56%</td>
<td>15,310</td>
<td>$337,279.30</td>
<td>1.33%</td>
</tr>
</tbody>
</table>

**Current Holdings**

NONE

During the review period of February 24, 2014 to March 17, 2014 the sector and the broad market (S&P500) performed very similarly. Since the beginning of the review period, XLF’s share price has grown $0.55 showing a positive outlook for the month ahead, and providing a 2.56% capital gain. The current value of our shares outstanding sits at $337,279.30. The S&P500 was outperforming XLF in late February, however in the beginning of March, XLF crossed over the S&P500 and has continued to outperform the market since then. The dip in the prices in early March is attributable to the conflict in Ukraine and Russia. XLF was able to recover quicker than the S&P500, which is expected. The financial sector ETF has been one of the two top stock performers in the month of March dating back to 1999 (the other being XLY: Consumer Discretionary). This is because the US financial sector is in the middle of its period of seasonal power, which spans from January 19th to April 13th. This year, the financial sector is expected to profit from completion of financial stress tests that are successful, which will in turn allow increases in dividends for the sector. Over the past month, the two largest stakeholders in the financial sector, Wells Fargo (WFC) and Berkshire Hathaway (BRK.b) have had very positive returns, which could have played a part in keeping the sector ETF above the S&P500 for the majority of this review period.

**Noteworthy News/Events During Review Period**

2/25/14: JPMorgan announced they were cutting 8,000 jobs in their consumer and community banking division this year, as well as slimming their branches. In order to replace these jobs, the bank plans to utilize advances in technology and automation to help perform routine banking transactions. The company also lowered their 2014 target profit.

2/25/14: The Sustainability Accounting Standards Board (SASB) issued provisional standards for seven industries in the financial sector.

3/2/14: Reported that Vladimir Putin declared war on Ukraine. Crisis affected all sectors and the broad market, some more than others.

3/11/14: Financial sector deaths. First recorded in late January 2014, another recorded March 11, 2014, making nine suicides and deaths in the last three months. Some are speculating that they could be connected; others argue that within such a large industry, nine deaths is a small percentage of the workforce that the financial sector holds.

3/14/14: Reported that Russia began taking over $100 billion out of the US central bank in one week.

3/15/14: The Federal Reserve is expected to give banks such as Bank of America (BAC) and Citigroup (C) permission to raise their dividend’s at the end of March. Analysts are
recommending buys of XLF because of this news. Each of the banks that are expected to raise their dividend’s hold stake in the sector ETF and will have an effect on raising its price.

3/17/14: Banks all around the country are saving millions in order to pay Microsoft to keep cash machines running after the expiration of the OS in April.

(A-2) Big Sector Movers

1-Month Price Chart of Leucadia National Corp (LUK) -6.4%

source: http://finance.yahoo.com/

1-Month Price Chart of State Street Corp (STT) -5.93%

source: http://finance.yahoo.com/
Leucadia National Corp (LUK) was the largest ‘loser’ during this 1-month period (down 6.4%) because of its ties to Jefferies LLC. The large dip the stock experiences in mid March is due to the news that Jefferies is paying $25 million in order to settle and resolve criminal and civil investigations regarding mortgage bond trading charges. Previous traders were found guilty for defrauding clients and the announcement of the settlement came out March 12, 2014. This caused a large dip in their stock price around this time.
State Street Corp (STT) is another large ‘loser’ of the 1-month period (down 5.93%) likely because of manipulation regarding a foreign exchange benchmark that is compiled by Reuters and calculated by a unit of the STT, known as WM. The benchmark includes the euro, sterling, Swiss franc and yen. On the 12th of March the Fed found the manipulation and announced they were going to take action against STT, which caused the large decline in their stock around the same time as the decline Leucadia experienced.

E*Trade Financial Corp (ETFC) performed very well in both its 1- and 3-month price charts. During the 1-month period, ETFC had a positive return of 7.7% likely due to the announcement of two industry rewards (No. 1 smartphone app and No. 1 client dashboard) and 5 best-in-class ratings (customer service, investor education, research, mobile trading, new investors) the company received on the 4th of March. This explains the large jump in stock price around that time.

Host Hotels & Resorts Inc (HST) reported a positive 7.37% return for the 1-month period. The company announced its results of operations for 2013 right before the review period on February 19th. The review was very positive, and the company expects positive growth across the board for 2014. There were no significant price fluctuations during the 1-month period.

3-Month Price Chart of Progressive Corp (PGR) -9.68%

source: http://finance.yahoo.com/
3-Month Price Chart of Citigroup Inc (C) -8.02%

source: http://finance.yahoo.com/

3-Month Price Chart of E*Trade Financial Corp (ETFC) +26.77%

source: http://finance.yahoo.com/
Progressive Corp (PGR) is down 9.68% for the 3-month period. There is an observable drop in their price chart on January 27, 2014. This drop is likely attributable to the fact that PGR began trading ex-dividends on that date. A cash dividend payment to shareholders who purchased the stock prior to the ex-date are eligible for a payment of $1.4929 per share, and were paid this amount on February 7, 2014, which is when the stock began rising again.

Citigroup Inc (C) is down 8.02% for the 3-month period. The large drop at the beginning of February is linked to a lawsuit the company was going through at the time. On February 6, 2014, Reuters announced Citigroup was to pay $110 million in a lawsuit over force-placed insurance. This means the bank was attempting to protect their interests in homeowner’s properties in case the homeowner’s insurance lapsed. As a result, homeowners were charged expensive insurance premiums, which is against the law. The other sizable drop on March 12, 2014 that appears on Citigroup’s price chart is due to issues the company was having with its Mexico unit. There were problems with an executive who was overseeing a Mexican subsidiary regarding money laundering; as a result, Citigroup reduced the executive’s pay and the stock shot down for the time.

E*Trade Financial Corp (ETFC) was the 3-month period leader with a positive growth of 26.77%. There is a 4.9% dip in the stock price in early February, however there were no particularly negative headlines in the news. Some analysts attribute the drop to complaints about the company’s SuperBowl commercial, and how the infamous “E*Trade Baby” was not featured in the commercial. On February 14, 2014 Yahoo! Finance reported the stock hitting a new 52-
week high of $21.80 in the last hour of trading on February 13. This increase in the stock price was attributable to impressive 4\textsuperscript{th} quarter results and analysts giving the stock strong estimate revisions over the previous month. The stock is expected to have plenty of upside left throughout this quarter and year.

Apartment and Investment Mgmt (AIV) also known as “AIMCO” had a positive 3-month period with an 18.5% return overall. There is a consistent rise in the company’s stock price over the last three months with no big drops or rises in price that are noticeable. Throughout the period, the company was not in any headlining news either. The strong return and positive rise in the price chart is likely due to the company reporting higher-than-expected 4\textsuperscript{th} quarter results for 2013. These results were higher than expected due to improved property operating performance and lower offsite costs.

(A-3) Two Largest Stocks in the Sector

Wells Fargo (WFC): 8.52%

Berkshire Hathaway (BRK.b): 8.20%

1-Month Price Chart Comparing XLF, WFC, BRK.b, & S&P500

![Price Chart](http://finance.yahoo.com/)

source: http://finance.yahoo.com/

Wells Fargo (WFC) holds the highest index weight of 8.52% within the financial sector. The stock performed similarly with XLF, BRK.b and the S&P500 towards the beginning of the period, however towards the beginning of March 2014, the 4 stocks broke away from each other, and WFC began outperforming the sector ETF as well as the S&P500. Headlines for mega-banks like WFC recently have surrounded the recent trend in banks slimming down their operations and
workforces. Regulators are encouraging these large banks to simplify their operations and turn to technology to aid in automated banking transactions. The reason for the stress to simplify is due to the Dodd-Frank law, which was passed in 2010; the law pressures large banks and firms that, if they failed, could turn financial markets upside down. In mid March 2014 WFC was involved in a force-placed insurance lawsuit and settled on an undisclosed amount along with insurance company HSBC to be paid out to settle the lawsuit. The company filed their 10K report on February 26, 2014 and has shown growth since the release of the report.

Berkshire Hathaway (BRK.b) holds the second highest index weight of 8.20% within the financial sector. The stock performed similarly to the sector ETF, WFC and the S&P500 at the beginning of the 1-month price chart, and broke away similarly to WFC in the beginning of March 2014. BRK.b outperformed WFC, XLF and the S&P500 for the remainder of the period. BRK.b reported a strong 4th quarter 2013, which started the new quarter off in the right direction. On March 4, 2014 analysts at Zacks Investment Research upped BRK.b to a Strong Buy because of average positive earnings surprises over the previous 3 periods of 20.4%. This report may explain the strong breakaway BRK.b had over the other three stocks during this 1-month period as BRK.b outperformed the others by over 4%. Berkshire Hathaway’s 2013 Annual report was posted online for the public to view on March 1, 2014, causing a large spike in its stock price because of the positive reportings for 2013. The company and Warren Buffett have not been in the headlines for any major lawsuits or events over the review period.

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

My short-term outlook for the sector is very positive. As stated earlier in this report, the sector is currently in the midst of its period of seasonal strength, which spans from mid January to mid April. Looking at the sector heat map for the companies that make up the financial sector, most companies are in the positive with only smaller companies in the negative. According to analysts, the sector ETF: XLF has a very positive outlook for 2014 and will likely be the largest contributor to the S&P500’s dividend growth.

Section (B)  Sector Holding Updates

| NO SECTOR HOLDINGS |
Works Cited


ukraine-sanctions


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