

CIF Sector Update Report (Spring 2014)

Sector: Financial

Analyst: Harry Bowman

Presentation Date: 4/9/2014

Review Period: Start Date: 3/20/2014

End Date: 4/3/2014

Section (A) Sector Performance Review

(A-1) Sector Performance Relative to SP500

Cougar Investment Fund Sector Performance Review Spreadsheet Template

FIN

	Ticker	Current Price	Beg. Price	Stop-loss Price	Target Price	% Capital Gain	# Shares	Current Value	vs. Sector	vs. S&P 500
S&P 500	\$INX	1888.77	1860.77			1.50%				
Sector ETF	XLF	\$22.39	\$22.13			1.17%	14510	\$324,878.90		-0.33%
Current Holdings										
The Blackstone Group	BX	\$33.77	\$33.56			0.63%	570	\$19,248.90	-0.55%	-0.88%



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As you can see from the 1 month price chart, the financial sector performed right along with the SP 500 except for about a week from March 20th to March 27th. From the beginning of the period, XLF has fluctuated quite a bit. From the start of the review period, XLF was at \$22.13 and at the end of the review period, the price was at \$22.39. This is an increase of 1.175%. The SP 500 had a return of 1.504% during the review period. As I stated earlier, XLF generally mirrored the SP 500 return during the review period except when it slightly outperformed during late March. Possible reasons for this slight outperformance is due to the trend that the financial sector generally performs well around this time of the year. Another possible reason is on March 20th, right around the time XLF started to outperform the SP500, news came out about the Federal Reserve releasing their annual stress tests that reviews capital stability at each firm. After this news came out, investors viewed it as a positive which resulted in a quick 1.58% increase in XLF. Some of the big stocks in the sector such as J.P. Morgan Chase were up 3.1%. Bank of America Corp. was up 2.75% and Citigroup Inc. was up 2.62%. Wells Fargo was also up 2.55% after these stress test results were released. As you can see, these test results were a big reason why XLF outperformed the SP500 for a short time around March 20th to March 27th.

3/20/2014 Federal Reserve released its annual stress tests that reviews capital stability at each firm. Results caused an increase in XLF.

3/21/2014 Most TBTF firms pass stress tests, however, they do not receive an “A”. Firms such as Citigroup Inc., Bank of America, J.P. Morgan, and Morgan Stanley missed on expected return.

3/26/2014 The Federal Reserve decides whether or not banks are allowed to issue dividends or repurchase stock.

3/27/2014 Citigroup Inc. downgraded by two analysts. This is due to their capital returns being below expectations.

3/27/2014 Citigroup Inc. fails Fed stress test. Bank of America received approval for its first dividend increase since the financial crisis.

4/3/2014 There are more bank downgrades ahead of Q1 results. Banks are being downgraded in wake of conservative capital returns. Q1 earnings are expected to be sluggish.

(A-2) Big Sector Movers

Winners:



HCP Inc. (HCP) +6.71%



Boston Properties Inc. (BXP) +5.07%

Losers:



CME Group Inc. (CME) -12.19%



E Trade Financial Corporation (ETFC) -15.02%

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

HCP Inc. – In an article by Bloomberg, it states that HCP is at its cheapest price since 2009 due to it losing its title as the largest health care REIT this year. However, because it is at such a cheap price relative to its earlier prices, now is a good time to purchase the stock because of the possibility of positive returns. Many investors agreed which is why the stock has risen over 6% in the last month. On April 1st, HCP also disclosed the enhancement of its credit facility by \$500 million to \$2 billion. This allowed HCP more financial flexibility which showed in its increase in stock price.

Boston Properties Inc. grew 5.07% over the past month. As you can see from their 1 month price chart, they have had steady growth over the past month. This can be attributed to their recent announcement of quarterly dividends. Also, shareholders were looking to boost their income beyond the 2.3% return from dividends by selling the stock at the \$120 strike price that was set in October 2013. This led to an 8.5% return for investors which led to the steady increase of stock price over the past month.

CME Group Inc. decreased 12.19% over the past month. This steep loss towards the end of March and the beginning of April can be attributed to the news that a British court ruling has “created an unexpected windfall” for CME weeks before it launches a challenge to the world’s largest aluminum contract. CME has also been facing litigation over grain settlement rules. This lawsuit has caused a steep decrease in the stock price that can be seen on their one month price chart.

E Trade Financial Corp. has decreased 15.02% over the past month. ETFC did benefit early on in the month due to publicity from Michael Lewis's new book Flash Boys. However, in a 60 minute episode, Lewis claimed the stock market to be rigged. His "claims sparked outrage" which allowed E Trade stock to increase. Although, as the allure faded, the stock fell 6.5% quickly. It has continued to fall as E Trade stock movement has been twice the normal size. This large range foreshadows a continuation of a decreasing stock price.

3 Month Winners:



Public Storage (PSA) **+13.29%**



Equity Residential (EQR) +12.81%

3 Month Losers:



Citigroup Inc. (C) -14.08%



IntercontinentalExchange Group, Inc. (ICE) -15.6%

Citi Group (C) had a -14.08% return during the 3 months due to two downgrades after capital plan rejection. The stock was trading at just under \$55 and is now trading at under \$47. Also, it was announced that Citigroup had failed the stress tests conducted by the Fed. It was among 5 others whose capital plan was rejected. This was a big reason for the decrease in stock price.

IntercontinentalExchange Group, Inc. (ICE) was the biggest loser in the financial sector for the 3 month heat map. The stock price had a steady decrease throughout the 3 months which totaled -15.6%

Equity Residential (EQR) was a big winner for the sector with an increase of 12.81% during the 3 month time period. This is due to analysts believing that now is a good time to get into REIT's. This is also due to the release of their Q1 dividend release of .50 cents a share that was distributed April 1st.

Public Storage (PSA) was also a big winner for the sector with an increase 13.29% during the 3 month period. There has not been any recent news for PSA during the review period, however, they did announce a pricing of 6.375% cumulative preferred shares of beneficial interest. This might have caused momentum for the 3 month increase of stock price.

(A-3) Two Largest Stocks in the Sector



According to the heat map, Wells Fargo (WFC) has the largest weight of the sector at 8.65%. JP Morgan Chase and Co. is the second largest with a weight of 8.29%.

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

My short term outlook of the sector is slightly positive. As I stated earlier, the financial sector generally performs well in the first few months of the year. Also, analysts have been extremely positive in their 2014 expectations for the financial sector. As you can see in the 1 month price chart comparing XLF to the SP500, XLF has generally performed right along the SP with slightly better returns. I expect the sector to continue this trend of performing slightly better than the SP500 due to analyst expectations of XLF being the largest contributor to SP500 dividend growth.

Section (B) Sector Holding Updates

Company #1: The Blackstone Group (BX)

Date Recommended: 4/2/2014

Date Re-evaluated: 4/9/2014

(B-1) Company Updates and Stock Performance

Company Update

4/4/2014 The Blackstone Group agreed to acquire industrial products maker Gates Global Inc. (GGI) from Onex Corp (OCX) for \$5.4 Billion

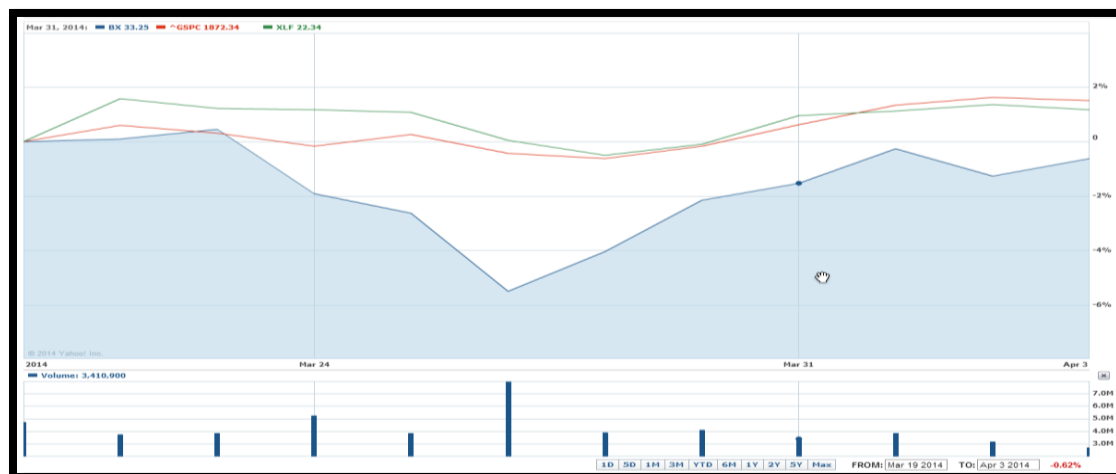
3/28/2014 The Blackstone Group closed its fourth European Real Estate Fund at \$7 Billion making it the largest ever dedicated European Real Estate fund.

3/27/2014 The Blackstone backed La Quinta is seeking to raise up to \$781 million in IPO. They plan to sell 37.2 million shares at \$19 to \$21.

Relative Performance

During the review period between 3/20/2014 and 4/3/2014, both the SP500 and XLF consistently outperformed BX. BX has seen negative returns while the SP500 and XLF have seen small positive returns

Price Chart during review period:



1 Year Price Chart:



(B-2) Valuations, Estimates and Recommendation Original Analysis

Original Presentation Date 4/2/2014

Ratio Analysis	Company
P/E (TTM)	16.83
P/S (TTM)	5.80
P/B (MRQ)	3.02
P/CF (TTM)	12.65

Re-evaluation Analysis

Ratio Analysis	Company
P/E (TTM)	15.78
P/S (TTM)	5.44
P/B (MRQ)	2.83
P/CF (TTM)	11.86

As you can see from the changes, each one of the ratios had a slight decrease. This is reflected in the stock price as it has also gone down.

Historical Surprises

Original Analysis

HISTORICAL SURPRISES

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
SALES (in millions)				
Quarter Ending Dec-13	1,736.15	2,693.21	957.06	55.13
Quarter Ending Sep-13	1,252.48	1,225.79	26.7	-2.13
Quarter Ending Jun-13	1,125.90	1,432.85	306.95	27.26
Quarter Ending Mar-13	1,136.10	1,259.65	123.55	10.88
Quarter Ending Dec-12	1,106.32	1,228.75	122.42	11.07
Earnings (per share)				
Quarter Ending Dec-13	0.82	1.35	0.53	63.72
Quarter Ending Sep-13	0.55	0.56	0.01	1.67
Quarter Ending Jun-13	0.49	0.62	0.13	26.76
Quarter Ending Mar-13	0.54	0.55	0.01	2.12
Quarter Ending Dec-12	0.47	0.59	0.12	25.53

*Sales and Profit Figures in US Dollar (USD)

Source: www.reuters.com

*Earnings and Dividend Figures in US Dollar (USD)

Re-evaluation Analysis

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Quarter Ending Dec-12	0.47	0.59	0.12	25.53

There have not been any changes to the historical surprises for BX.

Consensus Estimates

Original Analysis

CONSENSUS ESTIMATES ANALYSIS

	# of Estimates	Mean	High	Low	1 Year Ago
SALES (in millions)					
Quarter Ending Mar-14	8	1355.26	1540.84	1076	1295.96
Quarter Ending Jun-14	8	1624.89	2573.11	1401.2	1332.77
Year Ending Dec-14	14	6690.76	7581.36	5905	6134.43
Year Ending Dec-15	12	7633.94	9225.91	6735	6459.93
Earnings (per share)					
Quarter Ending Mar-14	15	0.62	0.74	0.44	0.57
Quarter Ending Jun-14	15	0.74	1.35	0.61	0.61
Year Ending Dec-14	18	3.07	3.69	2.6	2.68
Year Ending Dec-15	16	3.57	4.98	3	3.08
LT Growth Rate (%)	1	22.35	22.35	22.35	13.6

*Sales and Profit Figures in US Dollar (USD)

Source: www.reuters.com

*Earnings and Dividend Figures in US Dollar (USD)

Re-Evaluation Analysis

	# of Estimates	Mean	High	Low	1 Year Ago
SALES (in millions)					
Quarter Ending Jun-14	9	1,642.27	2,573.11	1,401.20	1,333.37
Quarter Ending Sep-14	9	1,729.70	2,199.80	1,455.00	1,682.66
Year Ending Dec-14	15	6,702.80	7,581.36	5,905.00	6,200.78
Year Ending Dec-15	13	7,637.86	9,019.09	6,735.00	6,512.94
Earnings (per share)					

Quarter Ending Jun-14	16	0.75	1.35	0.61	0.60
Quarter Ending Sep-14	16	0.79	1.09	0.63	0.76
Year Ending Dec-14	19	3.08	3.69	2.60	2.70
Year Ending Dec-15	17	3.58	4.85	3.00	3.05
LT Growth Rate (%)	1	22.35	22.35	22.35	13.60

There has been an addition of one more estimate. The numbers are very similar to the previous consensus estimate analysis. There has not been much change since the original report 1 week ago.

Estimate Revision Analysis

Original Analysis (MM/DD/YYYY)

ESTIMATES REVISIONS SUMMARY				
	Last Week		Last 4 Weeks	
Number Of Revisions:	Up	Down	Up	Down
Revenue				
Quarter Ending Mar-14	0	0	0	0
Quarter Ending Jun-14	0	0	0	0
Year Ending Dec-14	0	0	1	0
Year Ending Dec-15	0	0	1	0
Earnings				
Quarter Ending Mar-14	0	0	1	0
Quarter Ending Jun-14	0	0	1	0
Year Ending Dec-14	0	0	1	0
Year Ending Dec-15	0	0	1	0

*Sales and Profit Figures in US Dollar (USD)

*Earnings and Dividend Figures in US Dollar (USD)

Source: www.reuters.com

Re-Evaluation Analysis
ESTIMATES REVISIONS SUMMARY

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

There are a few changes for the estimates revisions summary from the original report to now. For the quarter ending Jun 14, there has been one upward revision. For the year ending Dec 14 and Dec 15, both have 2 downward revisions for revenue. Earning also has the same revisions, 1 upward revision for the quarter ending Jun 14 and 2 downward revisions for Year Ending Dec 14 and Dec 15.

Analysts' Recommendations

Original Analysis

ANALYST RECOMMENDATIONS AND REVISIONS				
1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	5	5	4	4
(2) OUTPERFORM	10	9	11	11
(3) HOLD	2	2	2	2
(4) UNDERPERFORM	0	0	0	0
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	1.82	1.81	1.88	1.88

Re-Evaluation Analysis

ANALYST RECOMMENDATIONS AND REVISIONS				
1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	6	5	5	4
(2) OUTPERFORM	10	9	11	11
(3) HOLD	2	2	2	2
(4) UNDERPERFORM	0	0	0	0
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	1.78	1.81	1.83	1.88

There has not been much change for the analyst recommendations and revisions chart. However, the mean rating has gone down from 1.82 to 1.78. There is also another analyst recommending a buy. The number of analysts recommending a hold and outperform have stayed the same at 2 and 10 respectively.

(B-3) Technical Indicators (“Moving Average” and “Relative Strength Index” from <http://finance.yahoo.com/>)



The 50 and 200 day MA has not change much relative to the original report. However, the 10 and 50 day MA is continuing the trend towards a death cross that was visible in the original report. These changes are very slight due to the report only being a week ago.

Section (C)

After my research on the stock, I recommend a hold. This is due to our holdings in this stock being very young. There has not been enough time to make any changes to the original report. I do believe that this stock will perform better than it has the past week due to recent news about acquisitions and analysts overall positive outlook for the sector and companies within the sector.

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