

Date: 2/4/13

Analyst Name: Matthew Landen

CIF Stock Recommendation Report (Spring 2013)

Company Name and Ticker: State Street Corporation (STT)

Section (A) Summary

Recommendation Buy: No		Target Price:	Stop-Loss Price:
Sector: Financial Services	Industry: Asset Management	Market Cap (in Billions): \$26.19659	# of Shrs. O/S (in Millions): 464.81
Current Price: \$56.36	52 WK Hi: \$56.61	52 WK Low: \$38.95	EBO Valuation: \$34.35
Morningstar (MS) Fair Value Est.: \$50.00	MS FV Uncertainty: High	MS Consider Buying: \$30.00	MS Consider Selling: \$77.50
EPS (TTM): 4.19	EPS (FY1): 4.40	EPS (FY2): 4.99	MS Star Rating: 3
Next Fiscal Yr. End "Year": 2013 "Month": December	Last Fiscal Qtr. End: 12/31/12 Less Than 8 WK: Yes	If Less Than 8 WK, next Earnings Ann. Date: N/A	Analyst Consensus Recommendation: Outperform
Forward P/E: 11.29	Mean LT Growth: 8.37%	PEG: 1.35	Beta: 1.47
% Inst. Ownership: 88.68%	Inst. Ownership- Net Buy: Yes	Short Interest Ratio: 1.531176	Short as % of Float: 1.40%
<u>Ratio Analysis</u>	<u>Company</u>	<u>Industry</u>	<u>Sector</u>
P/E (TTM)	13.46	53.91	32.73
P/S (TTM)	2.71	2.16	7.80
P/B (MRQ)	1.27	0.61	1.51
P/CF (TTM)	8.20 (from MS)	16.05	16.42
Dividend Yield	1.70	1.89	1.73
Total Debt/Equity (MRQ)	97.25	78.92	167.07
Net Profit Margin (TTM)	21.36	10.91	16.70
ROA (TTM)	0.94	0.54	1.02
ROE (TTM)	10.28	1.32	6.69

<p><u>Investment Thesis</u></p> <p>Pros:</p> <ul style="list-style-type: none"> • STT operates in an industry that should see significant growth as the economy recovers • The large inflow of cash into equities will benefit both their servicing and their management businesses • They will avoid much of the major regulation posed to affect the financial sector • The implementation of cost cutting measures could prove beneficial, especially in such a margin driven business • Relative valuation is favorable for STT, implying prices significantly above the current stock price • Most recent earnings beat analyst estimates and showed promise for increased earnings in the near future • The short interest is lower than both of STT's closest competitors <p>Cons:</p> <ul style="list-style-type: none"> • Upcoming drama in Washington could derail the economy and hurt the stock • The flow into equities will hurt their fixed income business • Upcoming regulations, while they will largely avoid much of it, could see a relatively larger decline in revenue compared to their competitors as their business focuses solely institutional investors • Legal battles involving their FOREX trading could continue to negatively affect earnings • EBO valuation suggests an implied price well below current levels 	<p><u>Summary</u></p> <p>Provide brief summary of your analysis in each section that follows</p> <p><u>Company Profile:</u> STT is a financial holding company headquartered in Boston. They provide solutions for institutional investors looking for someone to help service or manage their assets. They operate as one of the largest custodian banks in the world and the third largest investment manager overall.</p> <p><u>Fundamental Valuation:</u> The valuation, assuming a seven-year abnormal growth period, is \$34.35. This is significantly lower than the current stock price of about \$56.36. The sensitivity analysis failed to even reach the current price.</p> <p><u>Relative Valuation:</u> The relative valuations implied STT was undervalued based on 5 of the 6 valuation metrics. Each suggesting the stock was worth well above its 52-week high.</p> <p><u>Revenue and Earnings Estimates:</u> Revenues have been fairly consistent with analyst estimates with minor negative and positive surprises. Earnings have significantly beat estimates in the recent quarters after disappointing in earlier quarters.</p> <p><u>Analyst Recommendations:</u> There has been little change in analyst recommendations. The mean rating is 2.08, with the majority rating it an outperform and one analyst rating it an underperform.</p> <p><u>Institutional Ownership:</u> There is significant institutional ownership at about 88%, with only one institution holding more than 5% of outstanding shares. Most recently, net buying has occurred, despite more sellers than buyers.</p> <p><u>Short Interest:</u> The short interest has been minimal, with the days-to-cover never really moving out of the 1 to 2 range. Its competitors have relatively higher short interest and have experienced increases in their days-to-cover since about June of last year.</p>
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<ul style="list-style-type: none"> • After beating estimates, the stock jumped to 52-week highs and could now be overpriced • The stock reached about \$83 during the peak of the bubble and dropped to \$23 soon after. It could be awhile before we see a valuation worthy of the one like we saw during the bubble. This would imply that there is little room for the stock price to appreciate • Technical analysis charts show that STT has a relative strength index of about 80, suggesting it is overbought <p>Conclusion:</p> <p>While the stock may not decline much in price, I don't see it appreciating significantly either. We may have missed the boat on this stock as much of the upbeat news is already priced in. The improving economy will certainly help STT, but it will also help everyone else in the industry too. Overall, I don't think the pros can outweigh the cons enough to justify a continued increase much above current stock price levels.</p>	<p><u>Stock Price Chart:</u> STT has significantly outperformed over the past year, primarily because of its earnings beat earlier this year. Over a 5-year time period however, the stock has underperformed. The technical indicators suggest that stock is overbought.</p>
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Section (B) Company Profile (two pages maximum)

Company Summary

State Street Corporation (STT) is a financial holding company headquartered in Boston, Massachusetts. They aim to provide financial services and products for institutional investors worldwide, including mutual funds, collective investment funds and other investment pools, corporate and public retirement plans, insurance companies, foundations, endowments, and investment managers. As of their most recent quarterly report, STT has about \$23.44 trillion of assets under custody (AUC) and about \$2.07 trillion of assets under management (AUM).

They further breakdown their AUC into financial instruments, geographic location, and type of institutional client. The mix of financial instruments works out to be 51% equities, 36% fixed-income, and 12% short-term and other investments. The geographic breakdown is primarily concentrated in the U.S., with about 73% of all AUC. Their clients are more evenly sorted, with about 25% coming from mutual funds, 21% coming from collective funds, 22% coming from pension products, and 32% coming from insurance and other products.

The AUM are broken down by passive and active and then into geographic location. Their passive AUM represent about 75%, with 47% coming from equities, 19% coming from fixed-income, 22% coming from ETFs, and 13% coming from other. Their actively managed AUM represents only about 6%, with 41% invested in equities, 14% invested in fixed-income, and 45% in other. Similarly to their AUC, the AUM are predominantly located in the U.S, with only about 23% coming internationally.

STT divides their business into two segments, Investment Servicing and Investment Management. Investment Servicing is primarily operated through their subsidiary State Street Bank and Trust Company, in which they provide services for institutional clients such as custody, foreign exchange trading, and brokerage. They are the largest provider of mutual fund custody and accounting services in the U.S. Their most recent 10-K stated that they calculated about 40.6% of U.S. mutual fund prices with an accuracy of 99.87%. They also provide servicing in Germany, Italy, France, and the U.K. This business segment represents about 88% of total revenue.

STT's Investment Management business is offered through their State Street Global Advisors (SSgA) subsidiary. SSgA provides a broad range of investment management services for all types of institutional investors. They offer both passive and active strategies, such as enhanced indexing and hedge funds. They utilize quantitative and fundamental methods to invest in both U.S. and non-U.S. equity and fixed-income securities. SSgA also operates their

exchange-traded funds (ETFs). They are the largest manager of institutional assets worldwide, largest manager of assets for tax-exempt organizations (primarily pension plans) in the U.S., and the third largest investment manager overall in the world. This business segment represents about 12% of total revenue.

STT has two sources of revenue, fee revenue and net interest revenue. Fee revenue consists mostly of servicing fees and management fees, representing 79% of all fee revenue during their last quarter. Their net interest revenue is dependent on a more traditional lending model and is thus more sensitive to interest rates and the net interest margin.

Business Model, Competition, Environment and Strategy

STT's primary competition comes from other asset managers and custodian banks, including companies like BNY Mellon, Blackrock, Northern Trust, and Franklin Resources. Their Investment Services business segment competes with the likes of BNY Mellon and Northern Trust, while their Investment Management segment competes with Blackrock and Franklin Resources. A more complete analysis can be found under the Relative Valuation section.

Much like the rest of the financial sector, STT is very cyclical. It performs well in times of economic prosperity and performs relatively poorly during slowdowns. When the economy is growing and people are more willing to invest, STT's businesses expand. This means more revenue from their servicing business because more institutions are investing and need someone like STT to provide those services. It also means more revenue from their management side because an appreciation of investments increases AUM, which increases fees. However, some of this is mitigated from a loss in business from the fixed income side. Generally, as the economy slows investors pour money into bonds and out of equity, and the reverse happens during times of expansion. STT operates both fixed income and equity portfolios, so as the economy starts to recover, they could see an adverse effect on their fixed income portfolio as money starts flowing out of it. However, there will likely be a net benefit because management has stated that a 10% increase in equities results in a 2% increase in revenues, whereas a 10% decrease in fixed income only results in a 1% decrease in revenues.

STT has a number of risks associated with its operations. The crisis in Europe leaves STT exposed as they have a lot of operations within the Eurozone. A further decline in Europe's economy could adversely affect their revenues. Similarly, a decline in the U.S. economy leaves them open to market and counterparty risks. Their investment management business is open to liquidity risk as a lackluster performance could increase redemptions that may force them into liquidity problems. STT also acquires a number of other firms in order to expand some of their businesses, with their most recent acquisition being that of Bank of Ireland Asset Management. These acquisitions could prove to be more costly than originally anticipated, which could affect

revenues in the future. Perhaps the most relevant risk currently is the risk of further government regulation. After the fallout from the recent crisis, governments around the world are looking to crack down on many in the financial sector. While STT does face increased regulation, as does nearly everyone in the sector, the focus has been more on large investment banks than on companies like STT. However, this could hurt STT more than it does its direct competitors because unlike its competitors, STT serves only institutional investors. These institutional investors are the very ones that could face some of the harshest government regulations, which would negatively affect STT's earnings.

Some recent news includes STT's acquisition of Goldman Sachs Administration Services (GSAS) for \$550 million in cash. GSAS is a global hedge fund administrator with about \$200 billion of hedge fund assets under administration. In an effort to reduce expenses, STT has been cutting jobs and withdrawing from certain aspects of their fixed-income trading portfolio. In November of 2010, when they announced this plan, STT laid off approximately 5% of its workforce. Just recently they announced that they would be cutting another 640 jobs across the company. STT also benefited from a legal settlement during Q3 of last year in which they recovered \$362 million in the bankruptcy proceedings of Lehman Brothers. In other legal battles, STT, along with BNY Mellon, continues to face scrutiny over alleged fraudulent foreign exchange profits.

Revenue and Earnings History

Discuss any pattern in revenue and earnings (e.g., increasing year over year; seasonal; etc.)

Revenues

Periods	2011	2012
March	2,361	2,421
June	2,491	2,423
September	2,427	2,356
December	2,474	2,450
Total	9,753	9,650

Earnings Per Share

Periods	2011	2012
March	0.93018	0.85023
June	1.00191	0.98256
September	1.09746	1.36247
December	0.75664	1.00114
Total	3.78619	4.1964

Revenues have remained relatively similar from last year to this year, with only a slight decline. Earnings, however, have increased from 2011 to 2012. They started lower in the first two quarters of this year but then recovered strongly in Q3 and Q4. This is most likely because they were dealing with fallout from their foreign exchange trading during the first two quarters, in which it declined by 44%. The last two quarters were bolstered by a large sum recovered from the Lehman Brother's bankruptcy in Q3 and increased management fees from appreciating equity prices in Q4.

STT beat analyst estimates for their most recent earnings report. They cited a strengthening in global markets and more efficient operating margins, but partially offset by continued decline in foreign exchange trading profits. They are hopeful that the early signs of a global recovery will continue into 2013 and help boost their revenues and earnings. They remain set on continuing with expense cutting in order to help operating margins and increase profitability. In response to the earnings report, STT's shares rose by 6 percent.

Section (C) Fundamental Valuation (EBO)

Include the following here:

Copy/paste completed Fundamental Valuation (EBO) Spreadsheet

STT	PARAMETERS	FY 1	FY 2	Ltg											
	EPS Forecasts	4.40	4.99	8.37%	Model 1: 12-year forecasting horizon (T =12). and a 7-year growth period										
	Book value/share (last fye)	44.43													
	Discount Rate	12.70%													
	Dividend Payout Ratio (POR)	22.54%	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 "Guidelines_for_FundamentalValuation_ProfLee_Spreadsheet" file carefully												
	Next Fisc Year end	2013													
	Current Fisc Mth (1 to 12)	2													
	Target ROE (industry avg.)	8.17%													
	Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024		
	Long-term EPS Growth Rate (Ltg)			0.0837	0.0837	0.0837	0.0837	0.0837							
	Forecasted EPS	4.40	4.99	5.41	5.86	6.35	6.88	7.46							
	Beg of year BV/Shr	44.43	47.83	51.70	55.89	60.43	65.35	70.68							
	Implied ROE		0.104	0.105	0.105	0.105	0.105	0.106							
ROE	(Beg ROE, from EPS forecasts)	0.099	0.104	0.105	0.105	0.105	0.105	0.106	0.101	0.096	0.091	0.086	0.081		
Abnormal ROE	(ROE-k)	-0.028	-0.023	-0.022	-0.022	-0.022	-0.022	-0.021	-0.026	-0.031	-0.036	-0.041	-0.046		
growth rate for B	(1-POR)*(ROE-1)	0.000	0.077	0.081	0.081	0.081	0.081	0.082	0.082	0.078	0.074	0.071	0.067		
Compounded growth		1.000	1.077	1.164	1.258	1.360	1.471	1.591	1.721	1.855	1.993	2.134	2.280		
growth* AROE		-0.028	-0.024	-0.026	-0.028	-0.030	-0.032	-0.034	-0.045	-0.058	-0.071	-0.087	-0.104		
required rate (k)	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127		
Compound discount rate		1.127	1.270	1.431	1.613	1.818	2.049	2.309	2.603	2.933	3.306	3.725	4.191		
div. payout rate (k)	0.225														
Add to P/B	PV(growth* AROE)	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	-0.01	-0.02	-0.02	-0.02	-0.02	-0.03		
Cum P/B		0.98	0.96	0.94	0.92	0.90	0.89	0.87	0.86	0.84	0.82	0.79	0.76		
Add Perpetuity															
beyond current yr	(Assume this yr's AROE forever)	-0.20	-0.15	-0.14	-0.14	-0.13	-0.12	-0.12	-0.14	-0.15	-0.17	-0.18	-0.19		
Total P/B	(P/B if we stop est. this period)	0.78	0.80	0.79	0.78	0.78	0.77	0.76	0.72	0.68	0.65	0.61	0.58		
Implied price		35.38	36.50	36.04	35.59	35.16	34.75	34.35	32.65	30.96	29.28	27.64	26.04		

Inputs (provide below input values used in your analysis)

EPS forecasts (FY1 & FY2): 4.40 and 4.99

Long-term growth rate: 8.37%

Book value /share (along with book value and number of shares outstanding):

Book value: 20,380,000,000

of shares outstanding: 458,660,000

Book value / share: 44.43

Dividend payout ratio: 22.54%

Next fiscal year end: 2013

Current fiscal month: 2

Target ROE: 8.17%

Discount rate inputs: Risk Free Rate = .0275, Beta = 1.47, Market Risk Premium = 9.5%

Output

Above normal growth period chosen: 7 years

EBO valuation (Implied price from the spreadsheet): \$34.35

Sensitivity Analysis

EBO valuation would be (you can include more than one scenario in each of the following):

\$36.50 if changing above normal growth period to 2 years

\$44.99 if changing growth rate from mean (consensus) to the highest estimate of 15%

\$28.72 if changing growth rate from mean (consensus) to the lowest estimate of 4.1%

\$26.80 if changing discount rate to 15%

\$34.35 if changing target ROE to 11.39% (current ROE 5-year average)

Rationale

I chose an abnormal growth period of 7 years, out to 2019, for two reasons. The first reason is because government regulation that could adversely affect STT will likely take that long to be implemented (Basel III was pushed back until 2019). The second reason is because we are likely entering into a phase of economic expansion that could last for the foreseeable future. Companies that are highly cyclical, like STT, will benefit from this and be able to sustain higher growth levels.

Analysis

The price of \$34.35 is roughly \$20 per share lower than what STT is trading at currently. The implied price is also lower than the 52-week low of \$38.95. The implied prices are not very different despite the growth rate chosen, as they all hover around the mid \$30 range.

Section (D) Relative Valuation

Copy/paste your completed relative valuation spreadsheet here

STT												
Mean FY2												
Earnings Estimate Forward												
Ticker	Name	Mkt Cap	Current Price	(next fiscal year)	P/E	Mean LT	PEG	P/B	ROE	Value	P/S	P/CF
						Growth Rate		(MRQ)	5 yr ave	Ratio	TTM	TTM
1 BK	The Bank of New York	\$ 31,600.39	\$ 27.35	\$ 2.58	10.60	12.45%	0.85	0.89	5.08%	0.18	2.17	7.81
2 BLK	Blackrock Inc.	\$ 40,058.25	\$ 236.89	\$ 17.45	13.58	11.95%	1.14	1.60	8.89%	0.18	4.29	14.84
3 NTRS	Northern Trust Corpora	\$ 12,344.85	\$ 52.05	\$ 3.61	14.42	12.50%	1.15	1.63	11.11%	0.15	3.17	5.74
4 BEN	Franklin Resources Inc.	\$ 29,716.13	\$ 139.77	\$ 11.05	12.65	12.72%	0.99	3.32	19.74%	0.17	4.07	13.89
STT	State Street Corp.	\$ 25,866.57	\$ 56.36	\$ 4.99	11.29	8.37%	1.35	1.25	11.39%	0.11	2.68	10
Implied Price based on:												
					P/E		PEG	P/B		Value	P/S	P/CF
1 BK	The Bank of New York Mellon				\$52.90		\$35.56	\$40.13		\$89.97	\$45.63	\$44.02
2 BLK	Blackrock Inc.				\$67.74		\$47.45	\$72.14		\$92.43	\$90.22	\$83.64
3 NTRS	Northern Trust Corporation				\$71.95		\$48.18	\$73.49		\$75.35	\$66.66	\$32.35
4 BEN	Franklin Resources Inc.				\$63.12		\$41.53	\$149.69		\$86.37	\$85.59	\$78.28
	High				\$71.95		\$48.18	\$149.69		\$92.43	\$90.22	\$83.64
	Low				\$52.90		\$35.56	\$40.13		\$75.35	\$45.63	\$32.35
	Median				\$65.43		\$44.49	\$72.82		\$88.17	\$76.13	\$61.15

Competitors:

The Bank of New York Mellon – BNY Mellon, which is the largest custody bank (STT is number two), is probably STT's closest competitor. Similar to STT, it divides its business segments into Investment Services and Investment Management. They provide products and services that directly compete with STT, including their custody services, foreign exchange trading, and performance analysis. While STT only deals with institutional clients, BNY Mellon provides services for high net worth individuals and families.

Blackrock Inc. – STT competes most directly with Blackrock with its investment management business. Blackrock is an investment manager that provides services for many institutional, intermediary, and individual investors. Currently, Blackrock is competing with STT in the ETF and index fund business. Both manage numerous ETFs and index funds, which could see growth as the economy recovers.

Northern Trust Corporation – Similar to BNY Mellon, Northern Trust Corporation competes with STT on a number of different businesses. They offer similar products and services, such as custody services, fund administration, performance analytics, and investment outsourcing. They also offer investment management services through active and passive equity and fixed-income portfolios.

Franklin Resources Inc. – Franklin Resources competes most directly with STT on the investment management side. They provide individuals, institutions, pension plans, trusts, and partnerships services that include, equity, fixed income, and balanced mutual fund solutions.

From the top panel

Discuss whether your stock and its competitors have very different multiples. Point out if any of the five stocks have multiple that is far off from the others. Make an attempt to explain why (you would want to read analyst research report in *Morningstar Direct*; you should also look for comments from other financial sites). **The discussions should address all of the following valuation metrics: forward P/E, PEG, P/B (MRQ), P/S (TTM), and P/CF (TTM).**

Compare the implied prices derived from various valuation metrics. Also compare those implied price to the stock's current price, and 52-week high and low.

In general, many of the valuation metrics are similar across the five companies. The forward P/E ratios are all fairly close, between about 10 and 15. The PEG is similar in that the four competitors are all right around one; however, STT is a bit higher at 1.35. The lower mean LT growth rate is the cause for this. This isn't too much of a worry because there were only three analysts that gave a LT growth rate, each pretty different from the other. If we used the 15% LT growth rate cited by one of the analysts, we would get a PEG of about 0.75, lower than any of the competitors. The P/B ratios have a larger range, with STT sitting with the second lowest ratio. Franklin Resources is a bit of an outlier with a P/B of 3.32, which could be because it is only an asset manager, and not a custody bank. The P/S ratios are all pretty close to each other ranging from about 2 to about 4. The P/CF ratios were difficult to come by and have the largest range of the different valuation metrics. STT's P/CF is right about in the middle, with BK and NTRS each with lower ratios. BLK and BEN have higher ratios, which could be because of their emphasis in the asset management side rather than custodian banking and services.

Each metric gives a fairly similar median valuation of STT. Every ratio except PEG, which we said is probably a little unreliable because of the LT growth rate, is above STT's current stock price of \$56.36. The P/B ratio, value ratio, and P/S ratio all give implied prices that are well above \$70, while the forward P/E and P/CF give prices marginally above its current stock price. They are all above STT's 52-week high (with the exception of PEG), as STT is trading only 30 cents off the high. None of the ratios give a median implied price that is below the 52-week low of \$38.95, and only two (PEG and P/CF) give implied prices below the 52-week low when using their lowest estimates.

From the bottom panel

Discuss the various implied prices of your stock derived from competitors' ("comparables") multiples. How different are the prices derived from the various valuation metrics? Note any valuation metrics that seem to yield outlier prices and explain why (**HINT**: is that because that particular valuation metrics is not very relevant for the industry? Do you best to provide convincing arguments).

For each valuation metrics, Compare the current price and 52-week high /low of your stock to the High-low range derived from multiples of its competitors.

Among the valuation metrics analyzed, **which ones do you think are most relevant as a valuation tool for your stock?**

As mentioned above, all of the valuation metrics except for PEG have median implied prices that are above STT's current stock price. The prices are all in the same range, from about \$60 to a high of about \$88. PEG gives an implied price of about \$44, but this can be partly explained by the lower LT growth rate that was used for STT compared to its competitors. If we were to change the LT growth rate to 15% as we discussed earlier, the PEG ratio would then have a median implied price of \$79.73.

The forward P/E ratio gives us both a low implied price that is above STT's 52-week low and a high implied price that is above STT's 52-week high. This is the same case for the P/B ratio, value ratio, and P/S ratio. The P/CF ratio's lowest implied price of \$32.35, is below STT's 52-week low, but the ratio's highest implied price of \$83.64 is above STT's 52-week high. The PEG ratio gives a lowest implied price that is about \$3 below the 52-week low and the highest implied price is about \$8 below the 52-week high.

I think the most relevant valuation metrics for STT are the forward P/E, P/B, and value ratio. A forward P/E ratio is great to compare companies that are very similar. BNY Mellon and Northern Trust are very similar in their business activities to STT. This is reflected in implied prices that are close to STT's current stock price. The P/B is also a good measure because, like most financial stocks, STT is an asset based firm. The value ratio is related to the P/B ratio because it tells us how much value they are extracting from their book equity value, which we can then compare to STT's competitors.

Section (E) Revenue and Earnings Estimates

Copy/Paste the “Historical Surprises” Table from *Reuters.com*, “Analysts” tab (include both revenue and earnings; make note that revenues might be in “millions”)

Review recent trends in company’s reported revenue and earnings, and discuss whether (1) the company has a pattern of “surprising” the market with numbers different from analysts’ estimates; (2) Were they positive(actual greater than estimate) or negative (actual less than estimate) surprises? (3) Were surprises more notable for revenue or earnings? (4) Look up the stock chart to see how the stock price reacted to the “surprises. **NOTE:** Reuters does not put the sign on the surprise. **You need to put a “negative” sign when it is a negative surprise.**

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
SALES (in millions)				
Quarter Ending Dec-12	2,361.79	2,463.00	101.21	4.29
Quarter Ending Sep-12	2,368.11	2,348.00	20.11	-0.85
Quarter Ending Jun-12	2,426.65	2,426.00	0.65	-0.03
Quarter Ending Mar-12	2,333.48	2,403.00	69.52	2.98
Quarter Ending Dec-11	2,400.03	2,286.00	114.03	-4.75
Earnings (per share)				
Quarter Ending Dec-12	1.00	1.11	0.11	10.86
Quarter Ending Sep-12	0.96	0.99	0.03	3.20
Quarter Ending Jun-12	0.97	1.01	0.04	3.61
Quarter Ending Mar-12	0.86	0.84	0.02	-2.68
Quarter Ending Dec-11	0.94	0.93	0.01	-0.79

Revenues have remained relatively similar from last year to this year, with only a slight decline. Earnings, however, have increased from 2011 to 2012. They started lower in the first two quarters of this year but then recovered strongly in Q3 and Q4. This is most likely because they were dealing with fallout from their foreign exchange trading during the first two quarters, in which it declined by 44%. The last two quarters were bolstered by a large sum recovered from the Lehman Brother’s bankruptcy in Q3 and increased management fees from appreciating equity prices in Q4.

There isn’t much of a pattern for STT surprising the market with their revenues, as the surprises seem to jump from positive to negative a lot. The earnings started off negatively surprising but have recovered and have had positive surprises the past three quarters. The stock has been somewhat affected by the surprises. The first two earnings misses followed up

with a small dip in the stock price and the next three positive earnings surprises resulted in significant appreciation in the stock price.

Copy/paste the “Consensus Estimates Analysis” Table from *Reuters.com*, “Analysts” tab (include both revenue and earnings)

Review the range and the consensus of analysts’ estimates. (1) Calculate the % difference of the “high” estimate from the consensus (mean); (2) Calculate the % (negative) difference of the “low” estimate from the consensus; (3) Are the divergent more notable for the current or out-quarter, FY1 or FY2, revenue or earnings? (4) Note the number of analysts providing LT growth rate estimate. Is that roughly the same as the number of analysts providing revenue and earnings estimates?

	# of Estimate s	Mean	High	% dif.	Low	% dif.	1 Year Ago
SALES (in millions)							
Quarter Ending Mar-13	12	2,430.88	2,476.00	1.85%	2,378.00	-2.18%	2,498.28
Quarter Ending Jun-13	12	2,503.33	2,557.00	2.14%	2,460.00	-1.73%	2,578.14
Year Ending Dec-13	17	9,989.04	10,731.00	7.43%	9,727.00	-2.62%	10,214.80
Year Ending Dec-14	14	10,347.90	10,861.00	4.96%	9,936.60	-3.97%	10,767.00
Earnings (per share)							
Quarter Ending Mar-13	21	0.91	1.07	17.58%	0.80	-12.09%	1.07
Quarter Ending Jun-13	20	1.13	1.18	4.42%	1.09	-3.54%	1.16
Year Ending Dec-13	25	4.40	4.65	5.68%	4.20	-4.55%	4.49
Year Ending Dec-14	21	4.99	5.50	10.22%	4.65	-6.81%	5.15
LT Growth Rate (%)	3	8.37	15.00	79.21%	4.10	-51.02%	12.58

The ranges are relatively similar for each quarter’s sales but expand a bit for the fiscal years, with FY1 having a wider range than FY2. The range for earnings varies a lot more than revenues, especially in Q1 of 2013. The LT growth rate varies a lot more than both revenue and earnings estimates primarily because there are only 3 analysts reporting. This is far less than the 10+ analysts reporting for revenue and 20+ for earnings.

Copy/paste the “Consensus Estimates Trend” Table from *Reuters.com*, “Analysts” tab (include both revenue and earnings)

Review recent trend of analysts' consensus (mean) estimates on revenue and earnings. (1) Are the consensus estimates trending up, down, or stay the same? (2) Is the trend more notable for the near- or out- quarter, FY1 or FY2, revenue or earnings?

	Current	1 Week Ago	1 Month Ago	2 Month Ago	1 Year Ago
SALES (in millions)					
Quarter Ending Mar-13	2,430.88	2,430.88	2,394.75	2,408.23	2,498.28
Quarter Ending Jun-13	2,503.33	2,503.33	2,468.93	2,482.26	2,578.14
Year Ending Dec-13	9,989.04	9,989.04	9,791.74	9,824.39	10,214.80
Year Ending Dec-14	10,347.90	10,329.10	10,182.10	10,186.70	10,767.00
Earnings (per share)					
Quarter Ending Mar-13	0.91	0.91	0.93	0.92	1.07
Quarter Ending Jun-13	1.13	1.13	1.12	1.12	1.16
Quarter Ending Dec-13	4.40	4.38	4.31	4.30	4.49
Quarter Ending Dec-14	4.99	4.98	4.91	4.91	5.15

The trend for both revenue and earnings consensus estimates is that it starts out high a year ago and then drops to a low around one month ago where it then recovers a little bit and starts trending upwards again. This is uniform across both the revenue and earnings estimates during all quarters and FY1 and FY2.

Copy/paste the “Estimates Revisions Summary” Table from *Reuters.com*, “Analysts” tab (include both revenue and earnings)

Review the number of analysts revising up or down their estimates (both revenue and earnings) **in the last and last four weeks**. (1) Note whether there are more up or down revisions; (2) are the revisions predominantly one directional? (3) Any notable difference last week versus last four weeks, revenue versus earnings?

Number Of Revisions:	Last Week		Last 4 Weeks	
	Up	Down	Up	Down
Revenue				
Quarter Ending Mar-13	0	0	6	1
Quarter Ending Jun-13	0	0	7	0
Year Ending Dec-13	0	0	8	2
Year Ending Dec-14	1	0	6	2
Earnings				
Quarter Ending Mar-13	0	0	3	12
Quarter Ending Jun-13	0	0	9	5
Year Ending Dec-13	1	0	14	4
Year Ending Dec-14	0	0	10	3

While there were only two revisions in the last week, they were both in the upward direction. The last four weeks showed significantly more upward revisions for revenue and a bit mixed for earnings, where Q1 of this year showed significant downward revisions while Q2, FY1, and FY2 each showed more upward revisions. It is hard to compare the last four weeks with last week because last week only had two revisions, but they both did have a predominantly upward trend.

You will need to incorporate what you see here with Morningstar's analyst research report (you can access ***Morningstar Direct at the Financial Markets Lab.***) and other readings/analysis you found from various on-line financial sites. Discuss whether you think the company has a good chance of making or beating analyst consensus estimate, and why. Based on how the stock has been trading lately, do you think market has already anticipated strong or lackluster financial outlook from the company?

I think they have a good chance to make or beat analyst estimates in the shorter term as investors rush into equities, which increases both their AUC and AUM. The recovering economy also boosts their bottom line as many of their assets increase in value. However, as some economic uncertainty in regards to the upcoming debt ceiling debates and spending cuts could cause volatile returns in the markets, which could negatively affect revenues and earnings.

I don't think there is any question that the market has already priced in a lot of the anticipated strong earnings as the stock price is trading right near its 52-week high. However, it should be noted that 52 weeks is a relatively short time period to look at a financial stock that is coming out of a huge recession. I think it would be better to look at the stock from a longer time horizon to see how it performed pre and post crisis. STT's peak stock price was about \$83 right before the crisis hit, and then soon after dropped to a low of about \$23. If we assume that it will take many years before we see a similar valuation to the one seen during the height of the bubble, it is likely that much of the anticipated growth is already priced into the stock.

Section (F) Analysts' Recommendations

Copy/paste the "Analyst Recommendations and Revisions" Table from *Reuters.com*, "Analysts" tab. NOTE: Make sure you copy the entire table including the "Mean Rating" at the bottom of the table.

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	7	7	7	7
(2) OUTPERFORM	9	10	10	9
(3) HOLD	7	5	6	7
(4) UNDERPERFORM	1	2	2	2
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	2.08	2.08	2.12	2.16

Review the trend of analyst recommendations over the last three months. Is there a notable change of analyst opinions, turning more bullish or bearish? How many different ratings out of the five possible ones did the company receive currently, one, two, and three months ago? Is there a notable trend of opinion convergence or divergence? Is what you see here consistent to comments in Morningstar analyst's research report as well as various online financial sites you had researched on?

NOTE: On a Five-point scale, Reuters assigns "1" to "Buy", the most bullish recommendation, and "5" to "Sell", the most bearish recommendation. **Some other online sites have opposite scale**, with their "1" being the most bearish and "5" being the most bullish recommendations.

There is very little change in analyst opinion with it just being slightly more bullish now than it was three months ago. Each time period they received at least one analyst recommending underperform, hold, outperform, or buy, with no analysts recommending sell during the time frame. It is worth noting that two analyst recommended sell each of the last three months (minus the current period), which is unusually bearish for many analysts. The results here are fairly consistent with other resources I have looked at, as most sites are rating it a hold or outperform.

CNBC EARNINGS CALENDAR – NO ANALYST UPGRADES OR DOWNGRADES IN THE LAST TWO MONTHS

Section (G) Institutional Ownership

Copy/paste the completed *"CIF Institutional Ownership" spreadsheet* here.

STT				
Ownership Activity	# of Holders	% Beg. Holders	Shares	% Shares
Shares Outstanding			464,833,526	100.00%
# of Holders/Tot Shares Held	835	101.71%	412,214,371	88.68%
# New Positions	20	2.44%		
# Closed Positions	6	0.73%		
# Increased Positions	74	9.01%		
# Decreased Positions	107	13.03%		
Beg. Total Inst. Positions	821	100.00%	409,152,059	88.02%
# Net Buyers/3 Mo. Net Chg	-33	40.88%	3,062,312	0.66%
Ownership Information	% Outstanding			
Top 10 Institutions % Ownership	31.20%			
Mutual Fund % Ownership	0.78%			
Float %	99.65%			
> 5% Ownership				
Holder Name	% Outstanding	Report Date		
MFS Investment Management	5.2	9/30/2012		

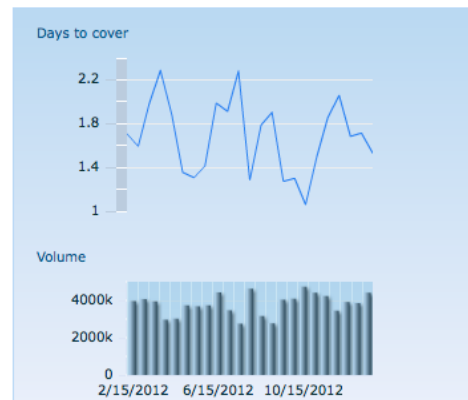
Combine information provided in all three sections to discuss whether (1) institutions, on net basis, have been increasing or decreasing ownership and how significant, (2) the stock has sizable institution interests and support, (3) the extent of the (> 5%) owners, and (4) this could be a bullish or bearish indication of future stock price movement.

A larger number of smaller institutions have decreased their positions, however those institutions that did buy, bought more shares than the seller sold. This translates into a net increase in institutional ownership. The stock does have sizable institution support with over 88% being owned by institutions. There is only one company that owns over 5% of shares outstanding. While the institution that does own over 5%, MFS Investment management, is an active asset manager rather than something like a passive mutual fund, I don't think it is much of a problem because they only own 5.2%. It could become a larger problem if the total institutional ownership declines, but until that point I don't think it is much to worry about. Overall, the 88% ownership is a good sign for the stock.

Section (H) Short Interest (two pages)

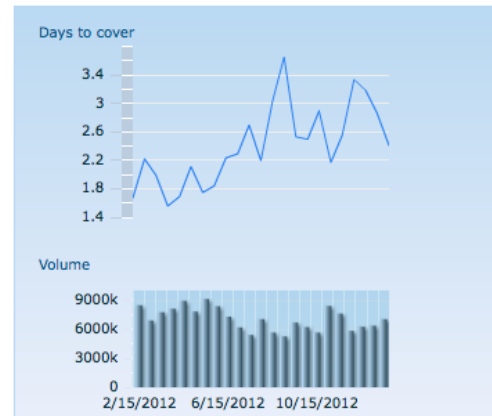
STT Short Interest

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
1/15/2013	6,753,791	4,410,852	1.531176
12/31/2012	6,602,978	3,848,622	1.715673
12/14/2012	6,591,247	3,915,640	1.683313
11/30/2012	7,098,373	3,449,816	2.057609
11/15/2012	7,853,838	4,227,441	1.857823
10/31/2012	6,628,731	4,412,816	1.502154
10/15/2012	5,016,094	4,731,296	1.060195
9/28/2012	5,331,007	4,093,051	1.302453
9/14/2012	5,143,184	4,034,879	1.274681
8/31/2012	5,272,033	2,768,311	1.904422
8/15/2012	5,659,757	3,164,156	1.788710
7/31/2012	5,931,975	4,621,977	1.283428
7/13/2012	6,269,678	2,749,483	2.280312
6/29/2012	6,616,851	3,459,175	1.912841
6/15/2012	8,781,532	4,418,114	1.987620
5/31/2012	5,270,980	3,729,637	1.413269
5/15/2012	4,815,637	3,681,092	1.308209
4/30/2012	5,061,239	3,731,584	1.356325
4/13/2012	5,690,539	3,019,582	1.884545
3/30/2012	6,771,035	2,961,918	2.286031
3/15/2012	7,819,756	3,948,795	1.980289
2/29/2012	6,484,524	4,068,824	1.593710
2/15/2012	6,761,579	3,956,091	1.709157



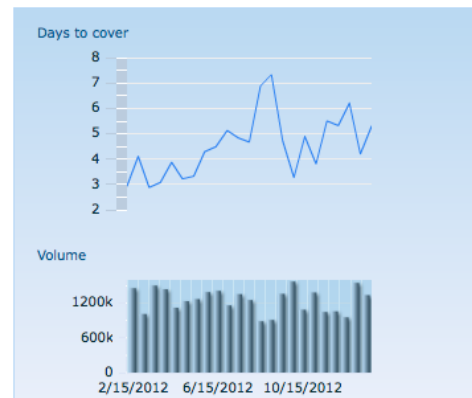
BK Short Interest

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
1/15/2013	16,993,018	7,047,287	2.411285
12/31/2012	18,153,853	6,356,545	2.855931
12/14/2012	19,834,180	6,232,809	3.182222
11/30/2012	19,446,579	5,824,016	3.339033
11/15/2012	19,467,704	7,613,230	2.557089
10/31/2012	18,241,315	8,392,446	2.173540
10/15/2012	16,313,720	5,630,351	2.897461
9/28/2012	15,498,739	6,205,605	2.497539
9/14/2012	16,874,500	6,659,965	2.533722
8/31/2012	19,117,681	5,233,538	3.652917
8/15/2012	17,201,020	5,653,292	3.042656
7/31/2012	15,484,342	7,046,366	2.197493
7/13/2012	14,548,264	5,393,944	2.697148
6/29/2012	14,156,546	6,174,136	2.292879
6/15/2012	16,285,455	7,285,266	2.235396
5/31/2012	15,355,093	8,339,333	1.841286
5/15/2012	15,921,045	9,092,609	1.750988
4/30/2012	16,530,458	7,827,484	2.111848
4/13/2012	15,095,827	8,936,409	1.689250
3/30/2012	12,628,069	8,091,606	1.560638
3/15/2012	15,409,567	7,737,637	1.991508
2/29/2012	15,279,187	6,885,439	2.219058
2/15/2012	14,171,248	8,469,816	1.673147



NTRS Short Interest

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
1/15/2013	7,076,498	1,336,324	5.295496
12/31/2012	6,514,742	1,548,662	4.206691
12/14/2012	5,914,216	951,947	6.212758
11/30/2012	5,617,642	1,055,252	5.323508
11/15/2012	5,755,921	1,045,490	5.505477
10/31/2012	5,261,725	1,380,220	3.812236
10/15/2012	5,297,300	1,082,574	4.893245
9/28/2012	5,146,163	1,569,138	3.279611
9/14/2012	6,404,186	1,356,936	4.719593
8/31/2012	6,657,150	908,106	7.330807
8/15/2012	6,116,680	887,396	6.892842
7/31/2012	5,854,337	1,251,065	4.679483
7/13/2012	6,563,992	1,354,247	4.846968
6/29/2012	5,929,878	1,156,744	5.126353
6/15/2012	6,330,895	1,408,367	4.495203
5/31/2012	5,969,888	1,388,431	4.299737
5/15/2012	4,230,533	1,269,067	3.333577
4/30/2012	3,988,304	1,236,157	3.226373
4/13/2012	4,329,972	1,117,635	3.874227
3/30/2012	4,449,205	1,440,668	3.088293
3/15/2012	4,334,983	1,502,296	2.885572
2/29/2012	4,152,345	1,009,379	4.113762
2/15/2012	4,274,104	1,456,051	2.935408



From <http://finance.yahoo.com/>

Complete the following table with information from the *“share statistics” table*.

Avg Vol (3 month)	Avg Vol (10 day)	Shares Outstanding	Float
4,429,260	5,127,310	458,660,000	454,450,000
Shares Short (Most recent date)	Short Ratio (Most recent date)	Short % of Float (Most recent date)	Shares Short (2 weeks prior)
6,750,000	1.60	1.40%	6,600,000

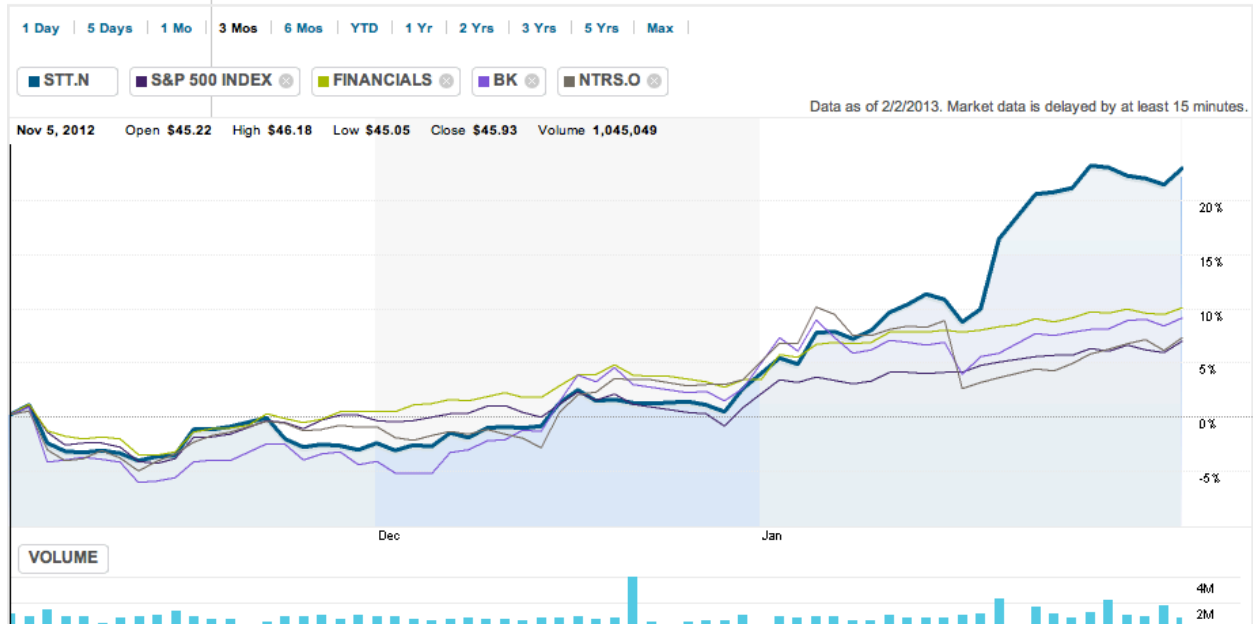
Based on the short interest statistics and its recent trend, how is the market sentiment on the stock? Has the sentiment turned more bullish or bearish over the last year? How about in more recent month and why?

STT and the two competitors I compared it to, BK and NTRS, had short interest that stayed relatively the same over the last year. STT was the lowest of the three with a days-to-cover ratio hovering within a range of about one to two. BK started out around the same short ratio as STT but from about June of last year it has stayed within a range of about two to three. NTRS also started out lower, but has been between four and five since May of last year. The pattern between BK and NTRS is very similar in that their short interest increased in the middle of last year and has stayed that way. While this is somewhat bearish for STT’s competitors, STT remains bullish, as the short interest has stayed fairly low.

Section (I) Stock Charts

A three months price chart

Copy/paste the “3 Mos.” stock chart here



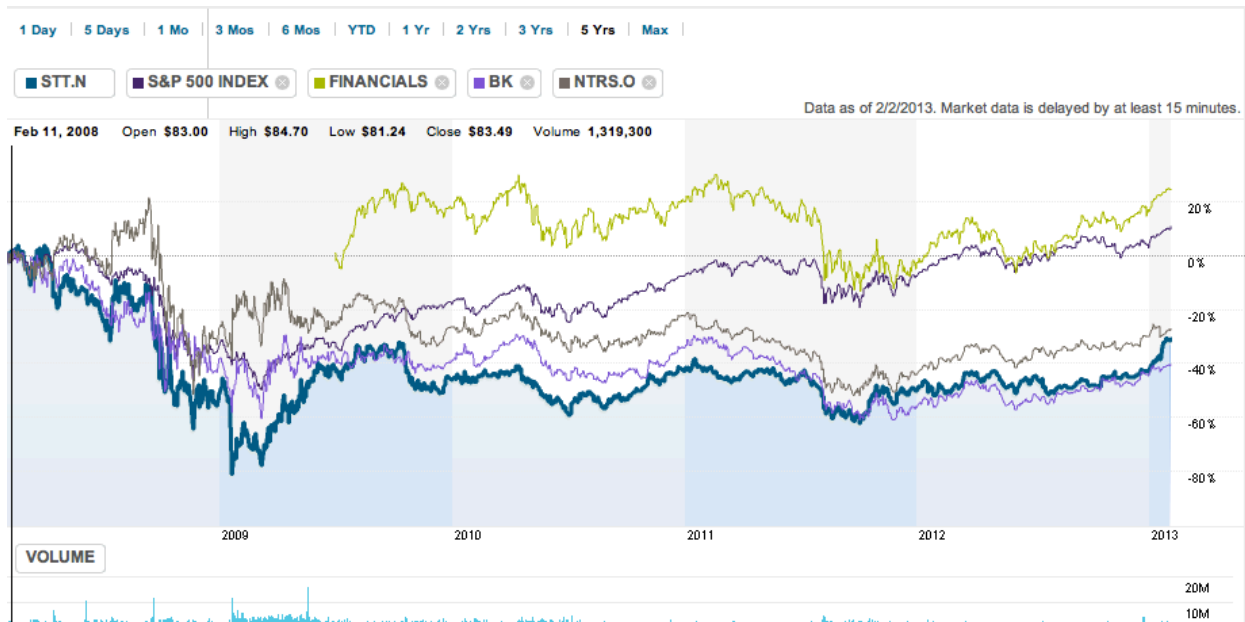
A one year price chart

Copy/paste the “1 Yr” stock chart here



A five year price chart

Copy/paste the "5 Yrs." stock chart here



Additional price chart

If you have other stock charts, feel free to copy/paste here

6-month technical analysis chart



2-year technical analysis chart



Discuss what you observe from the stock charts. This should include comparing your stock to competitors, sector, and SP500 over the three different time horizons.

We can see from the stock charts that STT has outperformed the market, the sector, and the two competitors (BK and NTRS) by a significant margin for both the 3-month price chart and the 1-year price chart. The stock performed almost right in line with the others in the most recent price charts but then raced ahead after it beat earnings estimates in January. However, when we look at the 5-year price chart we can see it underperforms everything except BK. It was hit hard during the crisis and hasn't been able to fully recover since, moving sideways for the better part of four years, and only making up ground very recently.

The two technical charts suggest that the stock may be overbought and due for a correction. This supports my conclusion that much of the recovery and potential growth for the stock is already priced in.

References

<http://www.reuters.com/article/2013/01/18/us-statestreet-results-idUSBRE90H0MI20130118?type=companyNews>

http://www.nbcnews.com/id/49429829/ns/business-us_business/

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www.nasdaq.com

Morningstar

SEC Filings