

Date: 4/10/13

Analyst: Corey Malone

CIF Sector Recommendation Report (Spring 2013)

Sector: XLF

Review Period: 3/21/13-4/4/13

Section (A) Sector Performance Review

Sector Review Spreadsheet

	Ticker	Current Price	Beg. Price	Stop-loss Price	Target Price	% Cap Gain	# Shares	Current Value	vs. Sector	vs. S&P 500
XLF										
S&P 500	\$INX	1559.98	1558.71			0.08%				
Sector ETF	XLF	\$18.09	\$18.29			-1.09%	12660	\$229,019.40		-1.17%
Current Holdings										
	AFL	\$51.50	\$50.72	\$45.99	\$58.77	1.54%	400	\$20,600.00	2.63%	1.46%
	AMT	78.58	75.32	69.23	84.61	4.33%	350	\$27,503.00	5.42%	4.25%

One-Month Stock Chart



Over the last several weeks, the financial sector (XLF) has been underperforming the S&P 500. During the review period, the XLF underperformed the S&P 500 by 1.20%. There have been a few notable news stories that have taken place to explain for this.

The weak jobs report on April 5th hurt the financial sector. The sector was down 1.2% at one point with Citigroup, Bank of America, Goldman Sachs and Morgan Stanley all seeing drops in their stock price by more than 1.5%. So far this year, defensive stocks have seen substantial gains where we typically see cyclical stocks doing well.

The biggest movers over the review period were Genworth Financial (GNW) with +11.85% and Discover Financial Services (DFS) with +11.57%. Genworth gained +11.85% on news that it will sell its wealth management private equity firm for more than \$400 million. This will have a positive impact on earnings (expected to be around \$160 million in the first quarter). The buyers of this firm are Aquiline Capital Partners and Genstar Capital. Discover Financial Services saw a very large increase in their share price following the announcement of their Q4 2012 EPS announcement where they beat earnings by 12 cents and net income by \$38 million. They have also repurchased more than 10 million shares at more than \$400 million so far this year. As a result of this news, some analysts claim that DFS is trading at an astronomically low value. Its P/E ratio is currently much lower than Visa or MasterCard.

The biggest losers were Morgan Stanley (MS) -3.99% and Aflac (AFL) -2.24%, one of our holdings. I could not find any special news that explains why Morgan Stanley was down nearly 4% over the review period. Aflac was down partly due to an IT failure in Japan that cost the company "1.8 billion yen in insurance deals"

The two largest holdings in the XLF are Berkshire Hathaway B (BRK.B) with 8.62% and JPMorgan Chase & Co with 8.32%.

The short-term outlook of the sector is unknown right now because of where the market is. A week ago the S&P 500 hit a historic high. In the last week, the S&P 500 saw its worst week of the year. Bulls argue that this is a market rally that can survive and that most stocks are still undervalued. Bears argue that this market rally has to correct itself soon and that most stocks are overvalued. My personal belief is bearish on the market as a whole. With a beta of 1.50, the XLF is likely to fall dramatically worse than the market in the coming months in the case of a market decline. Even in the short-run most bulls argue that we will likely see a correction in the market followed by a continued market rally. Overall, I am neutral and believe that picking good financial stocks is necessary to keep the cougar investment fund returning more than the S&P 500.

Section (B) Sector Holding Updates

Company #1: <u>Aflac (AFL)</u>

Date Recommended: 03/08/2013

Date Re-evaluated: 4/10/2013

Company Update

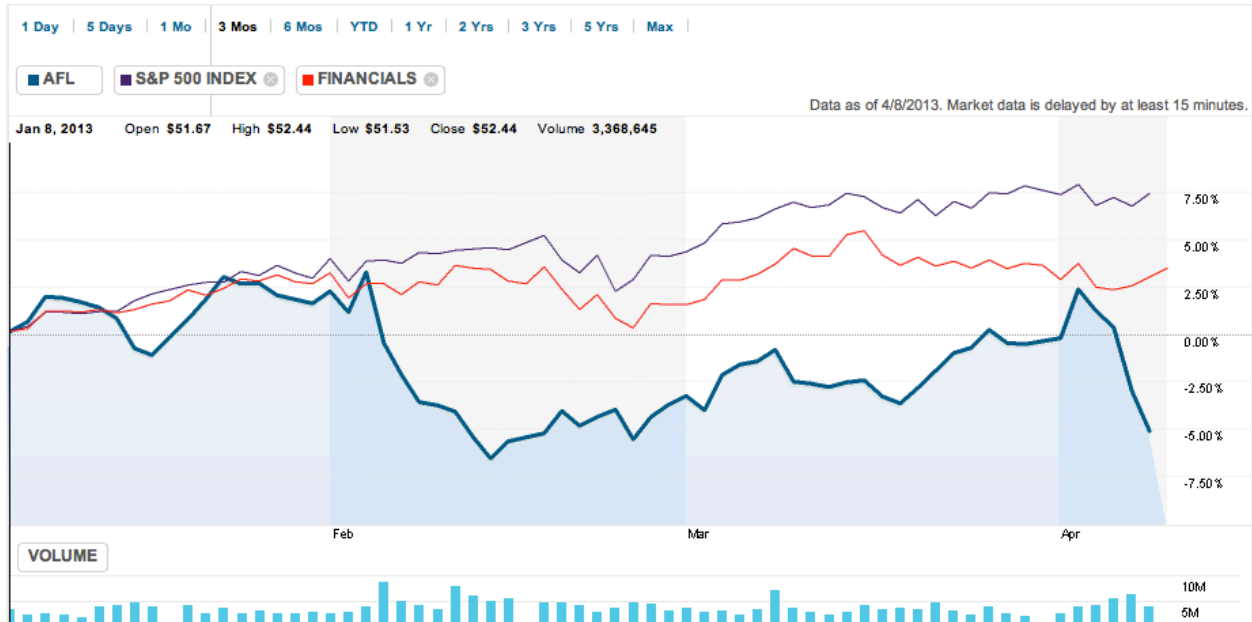
Over the review period, Aflac is beating the sector and the S&P 500. This can be attributed to many different variables. TheStreet restated its “Buy” rating on Aflac based on “The company’s strengths [that] can be seen in multiple areas, such as its revenue growth, largely solid financial position with reasonable debt levels by most measures, notable return on equity, attractive valuation levels and solid stock price performance. We feel these strengths outweigh the fact that the company shows low profit margins.” Additionally, Seeking Alpha recently wrote an article stating that they believe that Aflac is a cheap stock right now due to a few factors: A very low earnings multiple, a large amount of cash on hand (\$2.07 billion), a very high dividend yield (2.70%) with increases consistently and S&P’s “strong buy” recommendation on Aflac. Aflac is also expected to announce earnings on April 24, 2013.

Relative Performance

Over the review period, Aflac has outperformed both the S&P 500 and the sector. However, since the review period has ended, Aflac has experienced a sudden drop in its stock price. Compared to the sector, it has performed at 2.63% and 1.46% compared to the S&P 500. The stock price has dropped in the last week due partly to a computer problem that Aflac experienced in Japan where it “affect[ed] around 1.8 billion yen in insurance deals.” The problem was fixed two days later and Aflac made a “profound apology” for the error.

Price Charts

3-Month Stock Chart



1-Year Stock Chart



The stock charts indicate that Aflac has done well but has a history of sudden, downward volatility. Over the last 3 months, Aflac has mostly underperformed the market and the S&P 500. Over the last year, Aflac has beaten the S&P 500 but due to its recent drop in stock price has underperformed the sector.

Valuations Analysis

Original Ratio Analysis

<u>Ratio Analysis</u>	<u>Company</u>	<u>Industry</u>	<u>Sector</u>
P/E (TTM)	8.22	31.96	35.89
P/S (TTM)	0.93	4.63	5.73
P/B (MRQ)	1.47	1.10	1.42
P/CF (TTM)	1.60 (Morningstar)	29.65 (Reuters) 2.70 (Morningstar)	18.16
Dividend Yield	2.79	1.52	1.71
Total Debt/Equity (MRQ)	27.24	39.27	168.47
Net Profit Margin (TTM)	11.30	6.89	16.73
ROA (TTM)	2.32	0.28	0.94
ROE (TTM)	19.82	5.81	6.43

Re-evaluated Ratio Analysis

<u>Ratio Analysis</u>	<u>Company</u>	<u>Industry</u>	<u>Sector</u>
P/E (TTM)	8.11	30.97	39.98
P/S (TTM)	0.91	4.37	5.56
P/B (MRQ)	1.45	1.01	1.55
P/CF (TTM)	-	27.19	17.28
Dividend Yield	2.83	1.65	1.82
Total Debt/Equity (MRQ)	27.24	46.01	178.92
Net Profit Margin (TTM)	11.30	6.26	17.62
ROA (TTM)	2.32	0.39	0.98
ROE (TTM)	19.81	6.69	9.51

Over the review period, Aflac is a stock that appears to have gotten cheaper. Its valuation ratios have all decreased combined with an increase in the dividend yield. It is also worth noting that the same trend holds for the industry as a whole.

Historical Surprises

Original Analysis

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
SALES (in millions)				
Quarter Ending Dec-12	6,502.65	6,375.00	127.65	-1.96
Quarter Ending Sep-12	6,521.70	6,847.00	325.30	4.99
Quarter Ending Jun-12	6,276.06	5,902.00	374.06	-5.96
Quarter Ending Mar-12	6,201.13	6,240.00	38.87	0.63
Quarter Ending Dec-11	6,053.36	5,979.00	74.36	-1.23
Earnings (per share)				
Quarter Ending Dec-12	1.48	1.48	0.00	0.24
Quarter Ending Sep-12	1.66	1.77	0.11	6.56
Quarter Ending Jun-12	1.61	1.61	0.00	0.16
Quarter Ending Mar-12	1.65	1.65	0.00	0.08
Quarter Ending Dec-11	1.51	1.48	0.03	-1.86

Re-evaluation Analysis

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
SALES (in millions)				
Quarter Ending Dec-12	6,502.65	6,375.00	127.65	1.96
Quarter Ending Sep-12	6,521.70	6,847.00	325.30	4.99
Quarter Ending Jun-12	6,276.06	5,902.00	374.06	5.96
Quarter Ending Mar-12	6,201.13	6,240.00	38.87	0.63
Quarter Ending Dec-11	6,053.36	5,979.00	74.36	1.23
Earnings (per share)				
Quarter Ending Dec-12	1.48	1.48	0.00	0.24
Quarter Ending Sep-12	1.66	1.77	0.11	6.56
Quarter Ending Jun-12	1.61	1.61	0.00	0.16
Quarter Ending Mar-12	1.65	1.65	0.00	0.08
Quarter Ending Dec-11	1.51	1.48	0.03	1.86

There have been no changes since the stock was recommended.

Consensus Estimates

Original Analysis

	# of Estimates	Mean	High	Low		1 Year Ago	
SALES (in millions)							
Quarter Ending Mar-13	11	6,184.20	6,524.00	5.49%	5,956.00	-3.69%	6,423.22
Quarter Ending Jun-13	11	6,226.82	6,627.00	6.43%	6,029.00	-3.18%	6,438.98
Year Ending Dec-13	13	25,072.20	26,740.00	6.65%	24,360.00	-2.84%	26,459.20
Year Ending Dec-14	11	26,671.00	28,475.00	6.76%	25,657.90	-3.80%	27,761.00
Earnings (per share)							
Quarter Ending Mar-13	21	1.63	1.72	5.52%	1.55	-4.91%	1.75
Quarter Ending Jun-13	21	1.60	1.66	3.75%	1.52	-5.00%	1.75
Year Ending Dec-13	22	6.38	6.50	1.88%	6.20	-2.82%	7.06
Year Ending Dec-14	20	6.85	7.10	3.65%	6.55	-4.38%	7.59
LT Growth Rate (%)	4	8.64	15.00	73.61%	4.84	-43.98%	10.62

Re-evaluation Analysis

	# of Estimates	Mean	High	Low	1 Year Ago
SALES (in millions)					
Quarter Ending Jun-13	10	6,134.60	6,263.00	5,948.70	6,328.80
Quarter Ending Sep-13	10	6,209.75	6,357.00	6,038.10	6,389.26
Year Ending Dec-13	12	24,777.80	25,236.00	24,201.00	26,176.50
Year Ending Dec-14	11	26,277.40	28,475.00	24,155.00	27,761.00
Earnings (per share)					
Quarter Ending Jun-13	22	1.59	1.66	1.52	1.74
Quarter Ending Sep-13	22	1.62	1.68	1.56	1.77
Year Ending Dec-13	22	6.35	6.47	6.20	6.97
Year Ending Dec-14	20	6.80	7.10	6.55	7.57
LT Growth Rate (%)	3	9.61	15.00	4.84	10.70

Over the review period, estimates for Q2 2013 have changed slightly lower for both sales and EPS. This is a bearish indicator for Aflac because it means that analysts are more bearish about

Aflac over the next few months. It is worth noting that one more analyst has estimated sales and EPS numbers over the review period.

Estimate Revision Analysis

Original Analysis (03/08/2013)

Number Of Revisions:	Last Week		Last 4 Weeks	
	Up	Down	Up	Down
Revenue				
Quarter Ending Mar-13	0	0	1	8
Quarter Ending Jun-13	0	0	1	8
Year Ending Dec-13	0	0	1	10
Year Ending Dec-14	0	0	1	6
Earnings				
Quarter Ending Mar-13	0	0	2	17
Quarter Ending Jun-13	0	1	0	18
Year Ending Dec-13	0	1	0	21
Year Ending Dec-14	0	2	0	15

Re-Evaluation Analysis

Number Of Revisions:	Last Week		Last 4 Weeks	
	Up	Down	Up	Down
Revenue				
Quarter Ending Jun-13	0	1	0	3
Quarter Ending Sep-13	0	1	0	3
Year Ending Dec-13	0	1	0	3
Year Ending Dec-14	0	0	0	3
Earnings				
Quarter Ending Jun-13	1	1	1	3
Quarter Ending Sep-13	0	1	0	3
Year Ending Dec-13	0	3	0	5
Year Ending Dec-14	0	2	0	4

Since the stock was recommended, analysts are revising their estimates downward much less. With only 1-5 downward revisions today compared to 1-21 when the stock was recommended, this is a bullish indicator.

Analysts' Recommendations

Original Analysis

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	3	3	2	2
(2) OUTPERFORM	7	5	8	9
(3) HOLD	12	14	10	9
(4) UNDERPERFORM	0	0	0	0
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	2.41	2.50	2.40	2.35

Re-Evaluation Analysis

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	3	3	3	2
(2) OUTPERFORM	7	7	5	7
(3) HOLD	12	12	14	11
(4) UNDERPERFORM	0	0	0	0
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	2.41	2.41	2.50	2.45

Since the stock was recommended, analysts' mean outlook has not changed from a mean recommendation of 2.41 ("Outperform").

Company #1: American Tower Corp (AMT)

Date Recommended: 04/03/2013

Date Re-evaluated: 4/10/2013

Company Update

Since the stock was presented two days before the end of the review period, there has been no news. The Cougar Investment Fund has only owned this stock for less than a week. However it is worth noting that AMT announced on April 5th that it would be paying out dividends on April 25th of 26 cents per share. This dividend payment will be more than an 8% increase in the dividend payment it paid last quarter.

Relative Performance

Over the review period, American Tower Corp (AMT) has performed very well. It performed 5.42% better than the sector and 4.25% better than the S&P 500. This is a stock that has done very well over the past few months.

Price Charts





These stock charts indicate that AMT has outperformed the sector and S&P 500 over the least year, but not the last 3 months. This can be attributed to the troughs the stock price experienced in February and March this year.

Valuations Analysis

Original Analysis

P/E (TTM)	48.15	58.22	39.36
P/S (TTM)	10.56	13.04	5.37
P/B (MRQ)	8.50	1.79	1.47
P/CF (TTM)	24.52	24.42	18.04
Dividend Yield	1.35	1.78	1.69
Total Debt/Equity (MRQ)	244.98	98.32	174.56
Net Profit Margin (TTM)	20.65	28.26	16.77
ROA (TTM)	4.51	2.07	0.98
ROE (TTM)	18.58	4.36	6.55

Re-evaluation Analysis

<u>Ratio Analysis</u>	<u>Company</u>	<u>Industry</u>	<u>Sector</u>
P/E (TTM)	48.76	62.36	39.98
P/S (TTM)	10.69	12.90	5.56
P/B (MRQ)	8.60	1.79	1.55
P/CF (TTM)	24.83	24.35	17.28
Dividend Yield	1.34	1.80	1.82
Total Debt/Equity (MRQ)	244.98	98.87	178.92
Net Profit Margin (TTM)	20.65	28.09	17.62
ROA (TTM)	4.51	2.05	0.98
ROE (TTM)	18.58	4.33	6.99

Over the review period, AMT's valuation ratios have trended upwards indicating that the company may be slightly overvalued. The dividend yield also decreased slightly.

Historical Surprises

Original Analysis

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
SALES (in millions)				
Quarter Ending Dec-12	741.60	768.37	26.78	3.61
Quarter Ending Sep-12	716.03	713.34	2.70	-0.38
Quarter Ending Jun-12	698.49	697.73	0.76	-0.11
Quarter Ending Mar-12	671.21	696.52	25.31	3.77
Quarter Ending Dec-11	652.29	653.20	0.90	0.14
Earnings (per share)				
Quarter Ending Dec-12	0.42	0.34	0.08	-19.64
Quarter Ending Sep-12	0.38	0.58	0.20	51.83
Quarter Ending Jun-12	0.40	0.12	0.28	-70.30
Quarter Ending Mar-12	0.40	0.56	0.16	40.74
Quarter Ending Dec-11	0.30	0.51	0.21	69.44

Re-evaluation Analysis

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
SALES (in millions)				
Quarter Ending Dec-12	741.60	768.37	26.78	3.61
Quarter Ending Sep-12	716.03	713.34	2.70	0.38
Quarter Ending Jun-12	698.49	697.73	0.76	0.11
Quarter Ending Mar-12	671.21	696.52	25.31	3.77
Quarter Ending Dec-11	652.29	653.20	0.90	0.14
Earnings (per share)				
Quarter Ending Dec-12	0.42	0.34	0.08	19.64
Quarter Ending Sep-12	0.38	0.58	0.20	51.83
Quarter Ending Jun-12	0.40	0.12	0.28	70.30
Quarter Ending Mar-12	0.40	0.56	0.16	40.74
Quarter Ending Dec-11	0.30	0.51	0.21	69.44

There have been no changes in historical surprises over the review period.

Consensus Estimates**Original Analysis**

SALES (in millions)

Quarter Ending Mar-13	18	794.84	860.00	779.76	737.71
Quarter Ending Jun-13	18	814.98	842.00	797.70	759.41
Year Ending Dec-13	21	3,288.07	3,397.00	3,139.05	3,054.49
Year Ending Dec-14	20	3,595.23	3,766.00	3,443.99	3,316.96

Earnings (per share)

9

Quarter Ending Mar-13	18	0.48	0.59	0.43	0.44
Quarter Ending Jun-13	18	0.51	0.56	0.46	0.47
Year Ending Dec-13	20	2.12	2.30	1.93	1.99
Year Ending Dec-14	19	2.56	2.90	2.19	2.29
LT Growth Rate (%)	3	19.77	26.70	10.00	18.87

Re-Evaluation Analysis

	# of Estimates	Mean	High	Low	1 Year Ago
SALES (in millions)					
Quarter Ending Jun-13	18	814.98	842.00	797.70	759.41
Quarter Ending Sep-13	18	833.64	855.92	810.50	781.61
Year Ending Dec-13	21	3,288.07	3,397.00	3,139.05	3,056.95
Year Ending Dec-14	20	3,595.23	3,766.00	3,443.99	3,316.96
Earnings (per share)					
Quarter Ending Jun-13	18	0.51	0.56	0.46	0.47
Quarter Ending Sep-13	17	0.54	0.58	0.49	0.50
Year Ending Dec-13	21	2.12	2.30	1.93	1.99
Year Ending Dec-14	20	2.57	2.90	2.19	2.29
LT Growth Rate (%)	3	19.77	26.70	10.00	18.87

Over the review period, AMT has had a no mean change in sales estimates or EPS.

Estimate Revision Analysis

Original Analysis (04/03/2013)

Number Of Revisions:	Last Week		Last 4 Weeks	
	Up	Down	Up	Down
Revenue				
Quarter Ending Mar-13	0	0	8	1
Quarter Ending Jun-13	0	0	9	0
Year Ending Dec-13	0	0	11	2
Year Ending Dec-14	0	0	12	0
Earnings				
Quarter Ending Mar-13	0	0	3	7
Quarter Ending Jun-13	0	0	2	6
Year Ending Dec-13	0	0	3	9
Year Ending Dec-14	0	0	4	6

Re-Evaluation Analysis

Number Of Revisions:	Last Week		Last 4 Weeks	
	Up	Down	Up	Down
Revenue				
Quarter Ending Jun-13	0	0	1	0
Quarter Ending Sep-13	0	0	1	0
Year Ending Dec-13	0	0	3	0
Year Ending Dec-14	0	0	4	1
Earnings				
Quarter Ending Jun-13	0	0	3	1
Quarter Ending Sep-13	0	0	2	1
Year Ending Dec-13	0	0	4	2
Year Ending Dec-14	0	0	3	1

Since the review period, fewer analysts have made revisions of any sort but the overall sentiment appears to still be bullish.

Original Analysis

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	9	9	9	9
(2) OUTPERFORM	8	8	8	7
(3) HOLD	4	4	5	6
(4) UNDERPERFORM	0	0	0	0
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	1.76	1.76	1.82	1.86

Re-Evaluation Analysis

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	9	9	9	9
(2) OUTPERFORM	9	8	8	6
(3) HOLD	4	4	5	7
(4) UNDERPERFORM	0	0	0	0
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	1.77	1.76	1.82	1.91

Since the stock was recommended, AMT has had its mean rating increase from 1.76 to 1.77, a very minor change. This is due to one additional analyst making a recommendation of outperform.

Section (C) Sector Recommendations

I am feeling bullish on the financial sector and bearish on the market as a whole. I am bullish on the financial sector because over the last few months, defensive stocks have performed very well and I expect that cyclical sectors will outperform over the near future. Some financial stocks have performed very well and it's only a matter time before other stocks follow suit. However I bearish on the market as a whole because the DOW Jones Industrial, S&P 500 and NASDAQ have seen record levels in the past few weeks and the market is due for a large correction. I do not foresee a "bear market", but as an economist I believe bullish investors are far too optimistic concerning the market's current rally. Last week, the S&P 500 saw the worst week of the current year. I believe this trend will continue; at least for a few weeks.

Due to these positions, I am overall neutral about the financial sector. As a very cyclical sector with a high beta, a downward market will hurt the financial sector proportionately more. Albeit my current position, I believe the CIF would be best to stay put with the current sector holdings.

Section (D) Sector Holding Recommendations

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

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

Provide your recommendations in the following table

Company Name	Ticker Symbol	Date Recommended	Date Re-evaluated	Recommendation (Explain Why)		
				Sell	Adjust "Target Price"	Adjust "Stop-loss Price"
Aflac	AFL	3/08/2013	4/10/2013	No	No	No
American Tower Corp	AMT	4/10/2013	4/10/2013	No	No	No

References:

Morningstar Direct

Yahoo Finance

CNBC

Reuters

S&P Sector SPDR

Cougar Investment Fund Website

<http://www.marketwatch.com/story/financial-stocks-fall-after-weak-jobs-report-2013-04-05>

<http://www.reuters.com/article/2013/03/27/us-genworth-sale-idUSBRE92Q18K20130327?type=companyNews>

<http://utahpeoplespost.com/2013/04/aflac-receives-buy-rating-from-thestreet-afl/>

<http://www.nasdaq.com/article/american-tower-corporation-reit-amt-exdividend-date-scheduled-for-april-08-2013-cm234034#.UWNqz796NAQ>

<http://www.japantimes.co.jp/news/2013/04/06/business/aflacs-computer-glitch-affects-1-8-billion-in-insurance-deals/#.UWNsZb96NAQ>