Date:_10/26/2012__

Analyst Name:_Kristen Hecht_

CIF Stock Recommendation Report (Fall 2012)

Company Name and Ticker:_Capital One Financial Corporation (COF)__

Section (A) Summary

Recommendation Buy: Yes No		Target Price: $75	Stop-Loss Price: $51
Sector: Financials	Industry: Credit Services	Market Cap (in Billions): $34.859	# of Shrs. O/S (in Millions): 581
Current Price: $60.00	52 WK Hi: $61.33	52 WK Low: $39.30	EBO Valuation: $47.13
Morningstar (MS) Fair Value Est.: $70.0	MS FV Uncertainty: High	MS Consider Buying: $42.00	MS Consider Selling: $108.50
EPS (TTM): 6.11	EPS (FY1): 6.36	EPS (FY2): 7.05	MS Star Rating: 3 Stars
Next Fiscal Yr. End "Year": "Month": 2012 Dec	Last Fiscal Qtr. End: Less Than 8 WK: Y N	If Less Than 8 WK, next Earnings Ann. Date:	Analyst Consensus Recommendation: Outperform
Forward P/E: 8.51	Mean LT Growth: 9.07%	PEG: .88	Beta: 1.75
% Inst. Ownership: 88.63	Inst. Ownership- Net Buy: Y N	Short Interest Ratio: 1.17	Short as % of Float: 2.00%
Ratio Analysis	**Company**	**Industry**	**Sector**
P/E (TTM)	9.82	20.99	33.02
P/S (TTM)	1.76	4.78	5.41
P/B (MRQ)	.90	1.62	1.51
P/CF (TTM)	9.3	5.84	12.37
Dividend Yield	.33	2.26	1.98
Total Debt/Equity (MRQ)	96.74	158.01	175.65
Net Profit Margin (TTM)	16.63	19.02	17.10
ROA (TTM)	1.31	.58	1.03
ROE (TTM)	9.55	7.14	6.27

<table>
<tr><td rowspan="9"><u>Investment Thesis</u>
-Capital One Financial Corporation would be a good buy for the CIF.
-The relative valuation shows they are undervalued using all the metrics.
- They have recently acquired ING Direct and HSBC domestic’ credit portfolio, and these both showed to increase profit for Capital One in the third quarter
-Third quarter earnings were just released, and they beat analysts estimates and increased net income and earnings per share.
-They have strategic leadership under Richard Fairbank, who was a co-founder and is still president, CEO and Chairman of the Board. He is willing lead with an aggressive growth strategy.
- Reuters and Morningstar and other online financial sites agree that Capital One is a buy.
-They have significant ownership by institutions, which tend to know more than the public.
-The short interest has dramatically decreased within the last year, and they have a small short % of float as well as short interest ratio.</td><td><u>Summary</u>
Provide brief summary of your analysis in each section that follows</td></tr>
<tr><td><u>Company Profile:</u> Capital One is a financial services company with three branches, credit card service, consumer banking, and commercial banking. They operate in the U.S, UK and Canada.</td></tr>
<tr><td><u>Fundamental Valuation:</u> The fundamental value for a 20-year super growth period is $47.13, which is below the current price. This is concerning but may be skewed by the high beta typical of the credit service industry.</td></tr>
<tr><td><u>Relative Valuation:</u> Using the value metrics of it’s competitors, the implied price of Capital One shows that it is considerably undervalued.</td></tr>
<tr><td><u>Revenue and Earnings Estimates:</u> Except for the second quarter of 2012, Capital One has continued to beat Revenue and Earnings estimates.</td></tr>
<tr><td><u>Analyst Recommendations:</u> With a mean rating of 1.89 from Reuters there is a buy recommendation from the analysts.</td></tr>
<tr><td><u>Institutional Ownership:</u> There has not been a significant amount of change in institutional ownership recently. A large amount of Capital One’s stocks are held by institutions.</td></tr>
<tr><td><u>Short Interest:</u> Short interest has decreased significantly over the last year, and Capital One has small short percent of float and short interest ratios, which are bullish signals.</td></tr>
<tr><td><u>Stock Price Chart:</u> The stock price charts show Capital One generally following the S&P 500, outperforming American Express, and being outperformed by Visa.</td></tr>
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Section (B)   Company Profile (two pages maximum)

Company Summary

Capital One Financial Company is a diversified financial services holding company. Originally founded in 1988 by Richard Fairbank and Nigel Morris as consumer lending company, Capital One has since grown to be a Fortune 500 company. They are one of the nations top-ten largest banks based off of deposits. It's 1,000 branch locations are located mainly in New York, New Jersey, Texas, Louisiana, Maryland, Virginia and the District of Columbia (CapitalOne.com). They offer an array of financial services to consumers, small businesses and commercial clients. They operate both domestically and internationally and have three main segments. The first segment is the credit card division, which consists of consumer and small business card lending in the United States, Canada and the U.K. This segment generated $2.3 billion of net income in 2011 (Capital One 10K Report 2011). The second segment is consumer banking, which consists of branch based lending and depository services for consumers and small businesses as well as auto lending and consumer home loan lending. This segment generated $890 million in net income in 2011 (Capital One 10K Report 2011). The final segment is commercial banking, where they offer lending and deposit gathering to middle market customers, as well as treasury management services. This segment generated $532 million in net income in 2011 (Capital One 10k Report 2011).

Business Model, Competition, Environment and Strategy

Capital One was originally a monoline business that offered credit cards to domestic consumers, but has grown and expanded drastically since it was originally founded. Now they offer a diverse range of financial services. The Co-founder of Capital One, Richard Fairbank is currently still the Chairman of the Board, CEO, and President of the company. He pursues an aggressive strategy that includes major acquisitions. In January of 2011 Capital One acquitted the credit card loan portfolio of Hudson Bay Company, in February of 2012 Capital One acquired ING Direct and it's subsidiaries, and in April 2012 Capital One acquired HSBC's billion dollar credit portfolio (CapitalOne.com). These acquisitions have proved to be beneficial to the company, providing solid contributions to the third quarter earnings. Richard Fairbank commented that "Capital One posted solid results across all of our businesses in the third quarter, including strong contributions from ING Direct and the HSBC U.S. credit card business" (Capital One Press Release October 18 2012).

It is somewhat difficult to place Capital One Financial Corporation in a specific industry. Although Reuters and Morningstar both classify Capital One Financial Corporation as being in the credit services industry, it has a more diversified business model than Visa, Mastercard, and

American Express. Credit card services is only one part of Capital One's revenue model, they also have consumer and commercial banking, treasury management, and home and automobile financing. However, since the credit card segment remains the largest segment of Capital One, that is the industry that are classified in. Clearly Visa and MasterCard hold the largest share of the credit card market and have considerable market capitalization and are always a significant threat to Capital One. However, as Capital One is one of the largest issuers of Visa and MasterCard in the United States, their businesses are somewhat intertwined. Capital One has a significant amount of competition in all areas of their business, but as they continue to pursue a growth strategy through acquisitions and innovations they will be able to set themselves apart.

Revenue and Earnings History

REVENUE - QUARTERLY RESULTS (IN MILLIONS)

	FY (12/12)	FY (12/11)	FY (12/10)
1st Qtr	4,935	4,082	4,289
2nd Qtr	5,055	3,993	3,904
3rd Qtr	5,782	4,154	4,016
4th Qtr	NA	4,050	3,962
Total	$15,772	$16,279	$16,171

Financial Data in US Dollar

EARNINGS PER SHARE - QUARTERLY RESULTS

	FY (12/12)	FY (12/11)	FY (12/10)
1st Qtr	$2.74	$2.24	$1.41
2nd Qtr	$0.16	$2.00	$1.34
3rd Qtr	$2.03	$1.78	$1.77

4th Qtr	NA	$0.84	$1.54
Total	$4.93	$6.86	$6.06

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

Capital One has seen revenues increase over the last four quarters, and annual revenue grow over the last three years (assuming that the fourth quarter of 2012 meets reasonable expectations). Each quarter has increased from a year-to-year basis with the exception of the second quarter in 2011. I see this as a positive sign that the last four quarters have shown growth, and comparing quarters year-to-year they have been growing as well. If the fourth quarter has any sort of reasonable revenue we will see 2012 as having a very large revenue growth from 2011.

The earnings per share has had relatively steady growth year-to-year with the obvious exception of the second quarter of 2012. During the second quarter Capital One finished it's somewhat messy acquisition of HSBC's 27.6 billion dollar credit portfolio as well as settling $210 million dollars in civil penalties and consumer refunds. However in the following quarter the company's EPS was up to $2.03 and if the final quarter produces a reasonable EPS, Capital One could still show annual EPS growth in 2012.

Section (C) Fundamental Valuation (EBO)

Include the following here:

Copy/paste completed Fundamental Valuation (EBO) Spreadsheet

COF	PARAMETERS	FY1	FY2	Ltg
	EPS Forecasts	6.36	7.05	9.70%
	Book value/share (last fye)	64.50		
	Discount Rate	14.70%		
	Dividend Payout Ratio (POR)	3.08%		
	Next Fsc Year end	2012		
	Current Fsc Mth (1 to 12)	10		
	Target ROE(industry avg.)	11.86%		

Model 1: 12-year forecasting horizon (T=12).
and a 7-year growth period.

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

	Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Long-term EPS Growth Rate (Ltg)			0.0970	0.0970	0.0970	0.0970	0.0970					
	Forecasted EPS	6.36	7.05	7.73	8.48	9.31	10.21	11.20					
	Beg. of year BV/Shr	64.498	70.662	77.495	84.991	93.213	102.234	112.129					
	Implied ROE		0.100	0.100	0.100	0.100	0.100	0.100					
ROE	(Beg. ROE, from EPS forecasts)	0.099	0.100	0.100	0.100	0.100	0.100	0.100	0.104	0.107	0.111	0.115	0.119
Abnormal ROE	(ROE-k)	-0.048	-0.047	-0.047	-0.047	-0.047	-0.047	-0.047	-0.043	-0.040	-0.036	-0.032	-0.028
growth rate for B	(1-POR)*(ROEt-1)	0.000	0.096	0.097	0.097	0.097	0.097	0.097	0.097	0.100	0.104	0.108	0.111
Compounded growth		1.000	1.096	1.202	1.318	1.445	1.585	1.738	1.907	2.098	2.317	2.566	2.852
growth*AROE		**-0.048**	**-0.052**	**-0.057**	**-0.062**	**-0.068**	**-0.075**	**-0.082**	**-0.083**	**-0.083**	**-0.083**	**-0.082**	**-0.081**
required rate (k)	0.147	0.147	0.147	0.147	0.147	0.147	0.147	0.147	0.147	0.147	0.147	0.147	0.147
Compound discount rate		1.147	1.316	1.509	1.731	1.985	2.277	2.611	2.995	3.435	3.940	4.520	5.184
div. payout rate (k)	0.031												
Add to P/B	PV(growth*AROE)	-0.04	-0.04	-0.04	-0.04	-0.03	-0.03	-0.03	-0.03	-0.02	-0.02	-0.02	-0.02
Cum P/B		0.96	0.92	0.88	0.85	0.81	0.78	0.75	0.72	0.69	0.67	0.66	0.64
Add: Perpetuity													
beyond current yr	(Assume this yr's AROE forever)	-0.29	-0.27	-0.26	-0.24	-0.23	-0.22	-0.21	-0.19	-0.16	-0.14	-0.12	-0.11
Total P/B	(P/B if we stop est. this period)	0.67	0.65	0.63	0.60	0.58	0.55	0.53	0.53	0.53	0.53	0.53	0.53
Implied price		**48.57**	**47.13**	**45.27**	**43.50**	**41.79**	**40.17**	**38.61**	**38.46**	**38.39**	**38.39**	**38.47**	**38.64**
Check:													
Beg. BV/Shr		64.50	70.66	77.49	84.99	93.21	102.23	112.13	122.98	135.34	149.42	165.51	183.94
Implied EPS		6.36	7.05	7.73	8.48	9.31	10.21	11.20	12.74	14.53	16.60	19.01	21.81
Implied EPS growth			0.108	0.097	0.097	0.097	0.097	0.097	0.138	0.140	0.143	0.145	0.148

Inputs (provide below input values used in your analysis)

EPS forecasts (FY1 & FY2): 6.36% (FY1) and 7.05% (FY2)

Long-term growth rate: 9.7%

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

- Book value: $29,666 Million
- # of shares outstanding: 459.95
- Book value / share: $64.948

Dividend payout ratio: 3.08%

Next fiscal year end: December 2012

Current fiscal month: 10

Target ROE: 11.86%

Output

Above normal growth period chosen: 2 years

EBO valuation (Implied price from the spreadsheet): $47.13

Sensitivity Analysis

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

$43.5	if changing above normal growth period to 4 years
$47.13	if changing growth rate from mean (consensus) to the highest estimate 12%
$47.13	if changing growth rate from mean (consensus) to the lowest estimate 8%
$69.62	if changing discount rate to 10%
$47.13	changing target ROE to 7.14% (ROE TTM)

While I was initially very concerned upon examination of the fundamental valuation worksheet that Capital One is actually an overvalued stock with little room for growth, some inputs seemed to be skewing the numbers downward. Capital One's beta is 1.75 which while seemingly very high is consistent with the industry and sector it is in. This beta drives the discount rate up and that brought the value down substantially. However the beta used is reported from reuters.com, and when I looked into other financial sites such as Yahoo Finance, they reported the beta as low as 1.2, which would lead a discount rate of about 10%. In the sensitivity analysis I used this discount rate, and found that for a 2-year super normal growth period, the fundamental value would be $69.62, which above the current price of the stock. However overall, the EBO valuation is still a bearish signal.

Section (D) Relative Valuation

COF

Ticker	Name	Mkt Cap	Current Price	Mean FY2 Earnings Estimate (next fiscal year)	Forward P/E	Mean LT Growth Rate	PEG	P/B (MRQ)	ROE 5 yr ave	Value Ratio	P/S TTM	P/CF TTM
V.N	Visa Inc.	$ 111,575.80	$ 138.69	$ 7.16	19.37	19.64%	0.99	4.23	10.42%	0.41	11.00	66.01
MA.N	Mastercard Inc	$ 56,079.34	$ 454.70	$ 25.66	17.72	18.84%	0.94	9.17	33.89%	0.27	8.06	24.65
AXP.N	American Express Compan	$ 62,203.68	$ 55.99	$ 4.73	11.84	10.32%	1.15	3.27	25.84%	0.13	1.86	10.7
DFS.N	Discover Financial Services	$ 20,115.32	$ 40.25	$ 4.29	9.38	10.67%	0.88	2.20	18.87%	0.12	2.68	8.33
COF	Capital One Financial Com	$ 34,842.54	$ 60.00	$ 7.05	8.51	9.70%	0.88	0.90	7.28%	0.12	1.76	9.3

	Implied Price based on:	P/E	PEG	P/B	Value	P/S	P/CF
V.N	Visa Inc.	$136.56	$67.45	$282.00	$197.02	$375.00	$425.87
MA.N	Mastercard Inc	$124.93	$64.32	$611.33	$131.32	$274.77	$159.03
AXP.N	American Express Company	$83.45	$78.44	$218.00	$61.42	$63.41	$69.03
DFS.N	Discover Financial Services	$66.15	$60.13	$146.67	$56.58	$91.36	$53.74
	High	$136.56	$78.44	$611.33	$197.02	$375.00	$425.87
	Low	$66.15	$60.13	$146.67	$56.58	$63.41	$53.74
	Median	$104.19	$65.88	$250.00	$96.37	$183.07	$114.03

From the top panel

When looking at the forward P/E of all five stocks, it is clear that Visa and MasterCard have much higher P/E than American Express, Discover, and Capital One. This is because they are larger companies that are trusted in the marketplace, while the other three are smaller and still pursuing growth. Capital One has the smallest P/E, which I believe is because they are still actively pursuing growth, and they are a much newer company than the others. The PEG ratios for all five companies are relatively similar, the largest being 1.15 (American Express) and the smallest is .88 (Discover and Capital One). The P/B (MRQ) ratios vary greatly from .9 to 9.17. Capital One has the smallest P/B ratio by quite a bit, it is even under 1. Traditionally this means the company is undervalued or there are serious issues with the company. I think that in this case it could mean the Capital One is undervalued. When looking at both P/S and P/CF Visa and MasterCard have much larger ratios than the other three stocks. (Please note that Reuters was unable to provide P/CF for all 5 five stocks, so all five stock's P/CF value came from msnmoney.com). Once again I think they have larger ratios because they are larger, older, companies that are experiencing less growth than the smaller companies. Capital One tends to have the lowest metrics of all it's competitors, except for P/CF. This could be either concerning, that Capital One is experiencing serious issues, or be a bullish signal that they are a very undervalued company.

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.

The implied prices derived from the various valuation metrics range from \$53.74 to \$611.13. The largest implied price derives from comparing MasterCard's P/B value to that of Capital One, and the lowest implied price comes from comparing Discover's P/CF ratio. If we threw out the few top and bottom outliers, the majority of the implied prices suggest Capital One is currently undervalued. The current price of Capital One is \$60.00 (October 25th), it's 52 week high is \$61.33 and the 52 week low is \$39.30. The 52-week low is lower than even the lowest implied value. All but three of the 24 implied prices (high, low, and median for all value metrics) are greater than the current price. When deciding whether these implied prices might be accurate, we need to look at the history of Capital One. It is a company that has experienced considerable growth in the last decade, and shows signs that this growth will continue. They have made some large acquisitions, and I believe that the market has not quite caught up with what their current value might be. The lowest median implied price is \$65.88, which is higher than the 52-week high. There could be an opportunity for profit.

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).

The lowest implied prices from Capital One come from the PEG, and the highest come from P/B. The reason why the implied price from P/B is so high can be easily explained by the huge difference in Capital One and it's competitor's ratios. Price to book is the current price divided by book value. So having a P/B under one means that investors are currently paying less than the book value of the company. This could be an opportunity for Capital One. The lowest implied prices come from the PEG ratios. The PEG ratio is the P/E ratio divided by annual EPS growth, so essentially it is what investors are willing to pay for each dollar earned taking into account the future growth of earnings. One reason why the PEG ratio and forward P/E implied prices may be lower than the other metrics is that in the financial sector, the P/E ratio is not used as much as a accurate indicator of value as it is in other industries.

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.

With the exception of the low value derived from the value ratio and the P/CF multiples of it's competitors, all the low's are higher than the 52-week low and the current price of Capital One. All of the median prices, and the high values for each valuation metric are higher that the current price, the 52-week low and the 52-week high, some by huge amounts. This suggests that Capital One may be significantly undervalued at this time.

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

Traditionally the financial sector uses Price to Book as the most useful valuation metric, which in this case would be a very good sign for Capital One. The median implied price derived from P/B for Capital One is $250.00, which is far above what they are currently traded at and the 52-week high.

Section (E) Revenue and Earnings Estimates

HISTORICAL SURPRISES

Sales and Profit Figures in US Dollar (USD)
Earnings and Dividend Figures in US Dollar (USD)

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
SALES (in millions)				
Quarter Ending Sep-12	5,641.84	5,782.00	140.16	2.48
Quarter Ending Jun-12	5,157.08	5,055.00	-102.08	-1.98
Quarter Ending Mar-12	4,331.61	4,935.00	603.39	13.93
Quarter Ending Dec-11	4,048.12	4,050.00	1.88	0.05
Quarter Ending Sep-11	3,937.64	4,154.00	216.36	5.49
Earnings (per share)				
Quarter Ending Sep-12	1.66	2.01	0.35	21.14
Quarter Ending Jun-12	1.13	0.82	-0.31	-27.35
Quarter Ending Mar-12	1.40	1.56	0.16	11.11
Quarter Ending Dec-11	1.54	0.88	-0.66	-42.67
Quarter Ending Sep-11	1.68	1.77	0.09	5.26

The company does have a history of surprising the market, more so with the earnings per share than the revenues. In the last five quarters, the smallest surprise to the market concerning EPS was 55.26, while on the revenue side the largest surprise to the market in the last five quarters was 13.93, with 3 being below 3%. All of the surprises to the market have been positive with the exception of revenue in the second quarter of 2012 and the EPS in the second quarter of 2012 and last quarter of 2011. One reason that both revenue and EPS had a negative surprise in the second quarter of 2012 was the complicated and messy acquisition of HSBC. The surprises were more notable for EPS, with the largest surprise being -42.67%. However there were no notable drops in the stock price in June or July of 2012, in fact the stock continued a steady climb. The same holds true for December 2011 and January 2012, there were only small drops in what was in large a climb in the stock prices.

CONSENSUS ESTIMATES ANALYSIS

Sales and Profit Figures in US Dollar (USD)
Earnings and Dividend Figures in US Dollar (USD)

	# of Estimates	Mean	High	Low	1 Year Ago
SALES (in millions)					
Quarter Ending Dec-12	16	5,843.63	6,954.00	5,204.05	4,731.95
Quarter Ending Mar-13	9	5,768.60	6,790.00	5,113.60	4,136.97
Year Ending Dec-12	15	21,416.60	22,726.00	20,366.90	17,924.10
Year Ending Dec-13	18	22,917.20	25,063.00	20,772.10	18,591.90
Earnings (per share)					
Quarter Ending Dec-12	24	1.64	2.04	1.37	1.52
Quarter Ending Mar-13	17	1.80	2.38	1.41	1.67
Year Ending Dec-12	19	6.36	6.86	4.93	6.04
Year Ending Dec-13	28	7.05	8.24	5.93	6.63
LT Growth Rate (%)	5	9.70	12.00	8.00	9.50

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. It that roughly the same as the number of analysts providing revenue and earnings estimates?

	% difference high and mean	% difference low and mean
Sales		
Q Dec-12	19%	-10.94%
Q March 13	15.04%	-11.35
Year Dec- 12	5.76%	-4.9%
Year Dec 13	8.56%	-9.36%
EPS		
Q Dec- 12	19.61%	-16.46%
Q March 13	24.37%	-21.67%
Year Dec 12	7.29%	-22.48%
Year Dec 13	14.44%	-15.89%
LT Growth Rate	19.17%	-17.53%

The divergent is more notable for earnings than revenue, which seems to be a trend for Capital One that EPS has had larger surprises than revenue. The divergent is also more notable for the out-quarter than current, and for FY2 than FY1. This makes sense as the estimates are farther out. There are significantly less analysts providing estimate for LT growth rate

CONSENSUS ESTIMATES TREND

Sales and Profit Figures in US Dollar (USD)
Earnings and Dividend Figures in US Dollar (USD)

	Current	1 Week Ago	1 Month Ago	2 Month Ago	1 Year Ago
SALES (in millions)					
Quarter Ending Dec-12	5,843.63	5,698.42	5,752.15	5,766.14	4,731.95

Quarter Ending Mar-13	5,768.60	5,760.39	5,843.72	5,891.36	4,136.97
Year Ending Dec-12	21,416.60	20,898.20	20,990.40	20,996.70	17,924.10
Year Ending Dec-13	22,917.20	23,028.40	23,259.00	23,246.00	18,591.90
Earnings (per share)					
Quarter Ending Dec-12	1.64	1.60	1.64	1.63	1.52
Quarter Ending Mar-13	1.80	1.76	1.78	1.78	1.67
Quarter Ending Dec-12	6.36	6.06	6.07	6.17	6.04
Quarter Ending Dec-13	7.05	6.95	6.92	6.92	6.63

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?

The consensus estimates are trending up in both revenues and EPS, with the exception of one week ago when in general the estimates went down for EPS and revenue. However they went back up considerably in the current column. I assume this is because QE3 was released during that time fram. There is no significant difference in near or out quarter, but there is a slightly higher trend up in FY1 than FY2 for EPS.

ESTIMATES REVISIONS SUMMARY

	Last Week		Last 4 Weeks	
Number Of Revisions:	**Up**	**Down**	**Up**	**Down**

Revenue

Quarter Ending Dec-12	12	1	10	2
Quarter Ending Mar-13	2	5	3	4
Year Ending Dec-12	12	1	10	2
Year Ending Dec-13	7	6	5	8

Earnings

Quarter Ending Dec-12	12	7	12	8
Quarter Ending Mar-13	6	6	5	7
Year Ending Dec-12	12	2	10	3
Year Ending Dec-13	11	7	12	5

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?

Overall there are more up revisions than down revisions. Especially for the quarter ending December 2012 and the year ending December 2012. The revisions tend to be more upward trending than downward trending. Although the analysts did trend more downward than upward for the Quarter ending in March 13 for both revenue and earnings in the last week as well as in the last four weeks. There are more upward revisions in the last week than in the last four weeks, most likely due to Capital One releasing their third quarter earnings which were higher than expected. Also the revisions for earnings are more notable than for revenues.

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 that Capital One Financial Corporation does have a good chance of beating analyst's estimates. They have quickly become one of the nations largest lenders and this year have acquired both ING Direct and HSBC's domestic card business. I think that they are in a good financial position, their total debt to equity ratio is much less than the industry and the sector. The acquisitions both started showing they were worth it in the third quarter and should continue in this upward trajectory. They have strong leadership under Richard Fairbank, who is willing to pursue an aggressive growth strategy. They beat analyst's estimates in the third quarter and showed increased numbers in net income and earnings per share and are prepared to do this again in the fourth quarter. The largest concern is that the lending industry is suffering as a whole under the prolonged interest rate environment in the United States. The stock has been increasing fairly steadily for the last 3 months, and I think the market is anticipating growth but that it has not topped out yet. The current price is approaching the 52-week high, which is always worrisome to see if it can climb through that ceiling.

Section (F) Analysts' Recommendations

ANALYST RECOMMENDATIONS AND REVISIONS

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	12	11	11	11
(2) OUTPERFORM	9	8	8	8
(3) HOLD	8	8	8	8
(4) UNDERPERFORM	0	0	0	0
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	1.86	1.89	1.89	1.89

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?

Over the past three months analysts have been consistent in their opinions, with the only change being one more analysts recommends buy, and outperform in the current section. Capital One has only received buy, outperform, or hold ratings from the analysts. Capital One has a mean rating of 1.86 which is a bullish rating. This is consistent with what I have seen on other sites, including Morningstar which gives a rating of 4.1 out of 5 (in this case that is a bullish rating). Almost all the financial sites have Capital One receiving the largest number of buy and outperform, with some suggesting hold.

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.

Section (G) Institutional Ownership

Cougar Investment Fund Institutional Ownership Template

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 "Stock Recommendation Guidelines" document carefully

COF

Ownership Activity	# of Holders	% Beg. Holders	Shares	% Shares
Shares Outstanding			581,000,796	100.00%
# of Holders/Tot Shares Held	791	100.64%	518,775,611	89.29%
# New Positions	10	1.27%		
# Closed Positions	5	0.64%		
# Increased Positions	58	7.38%		
# Decreased Positions	60	7.63%		
Beg. Total Inst. Positions	786	100.00%	519,491,453	89.41%
# Net Buyers/3 Mo. Net Chg	-2	49.15%	-715,842	-0.12%

Ownership Information	% Outstanding
Top 10 Institutions % Ownership	42.40%
Mutual Fund % Ownership	1.24%
Float %	98.86%

> 5% Ownership

Holder Name	% Outstanding	Report Date
ING Investment Managment (Natherlands)	9.3	6/30/12
Dodge and Cox	9	6/30/12
Dodge and Cox Stock Fund	5.20%	06/30/12

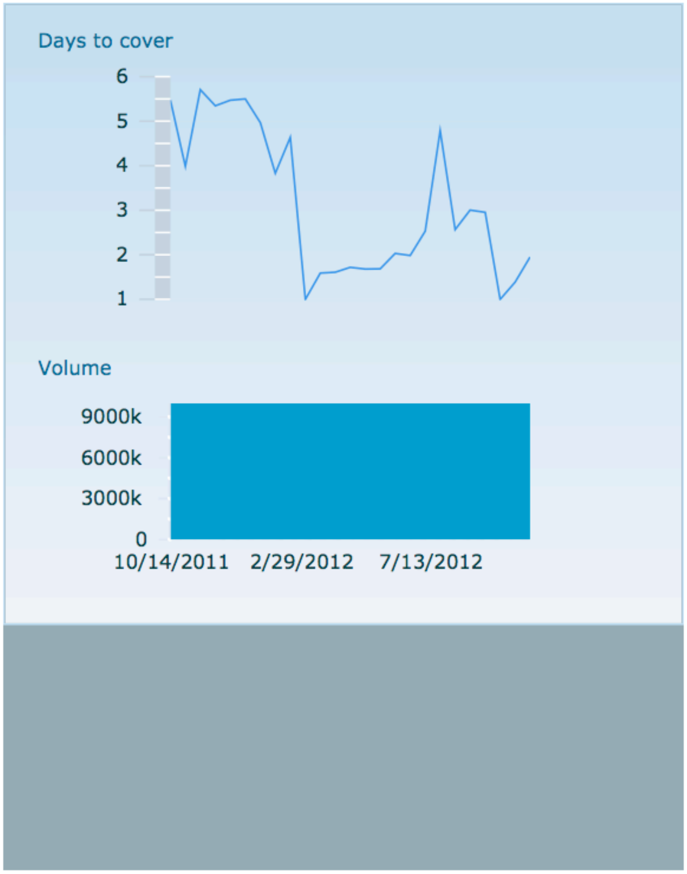
Combine information provided in all three sections to discuss whether (1) institutions, on net basis, have been increasing or decreasing ownership and how significant, (2) the stock has sizable institution interests and support, (3) the extent of the (> 5%) owners, and (4) this could be a bullish or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

On a net basis institutions have decreased ownership at a very insignificant amount of -.12%. The stock does have institutional support on a fairly significant basis with 89.12% of shares being owned by institutional investors. There are 3 institutions that have a greater than 5% interest in the company. It is a bullish signal that so many institutions own the stock, but slightly bearish that there has been a slight decrease (by .12%) in the amount of institutional ownership.

Section (H) Short Interest (two pages)

NOTE: You are encouraged to look at the short interest information for two of the companies' closest competitors. This will help gauge whether the sentiment indicated in the short interest statistics is company specific or industry-wide.

Settlement Date	Short Interest	Average Daily Shares Volume	# of Days to cover
10/15/2012	7,010,635	3,595,378	1.949902
9/28/2012	6,377,445	4,603,299	1.385408
9/14/2012	6,064,622	9,341,025	1.000000
8/31/2012	8,626,341	2,920,421	2.953800
8/15/2012	9,711,745	3,233,334	3.003632
7/31/2012	10,606,837	4,133,081	2.566327
7/13/2012	10,231,910	2,136,436	4.789242
6/29/2012	10,249,104	4,050,357	2.530420
6/15/2012	11,002,795	5,543,414	1.984841
5/31/2012	9,041,201	4,453,132	2.030302
5/15/2012	7,574,442	4,495,959	1.684722
4/30/2012	7,659,062	4,557,990	1.680360
4/13/2012	7,883,955	4,588,406	1.718234
3/30/2012	10,239,684	6,364,014	1.608998
3/15/2012	9,894,481	6,228,695	1.588532
2/29/2012	7,617,515	7,841,150	1.000000
2/15/2012	27,095,825	5,845,023	4.635709
1/31/2012	27,421,420	7,161,980	3.828748
1/13/2012	28,239,543	5,685,820	4.966661
12/30/2011	26,094,592	4,743,845	5.500726
12/15/2011	28,440,590	5,197,294	5.472192
11/30/2011	28,391,242	5,310,995	5.345748
11/15/2011	28,719,700	5,031,240	5.708275
10/31/2011	28,469,152	7,145,588	3.984158
10/14/2011	30,692,251	5,609,902	5.471085



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**
4.537,680	5,435,320	578.3 Million	572.21 Million
Shares Short (Most recent date)	**Short Ratio (Most recent date)**	**Short % of Float (Most recent date)**	**Shares Short (2 weeks prior)**
7.01 Million	1.7	2.00%	6.38 Million

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?

The most notable thing concerning short interest over the last year, is how large the decline in short interest has been overall, from 30,692,251 to 7,010, 350. This shows that sentiment has turned bullish over the last year. However it did increase from 9/28/2012 to 10/15/2012. I would be interested to see what it is next week when it is reported, since QE3 was released on October 18th. With a short interest ratio of 1.7, this indicates bullish tendencies in the market for Capital One. Also the short % of float is only 2%. This indicates that only 2% of all shares being traded are being shorted, which indicates the market does not largely predict this stock to decrease in price and is a bullish signal.

Section (I) Stock Charts

Key

COF= Dark blue and shaded

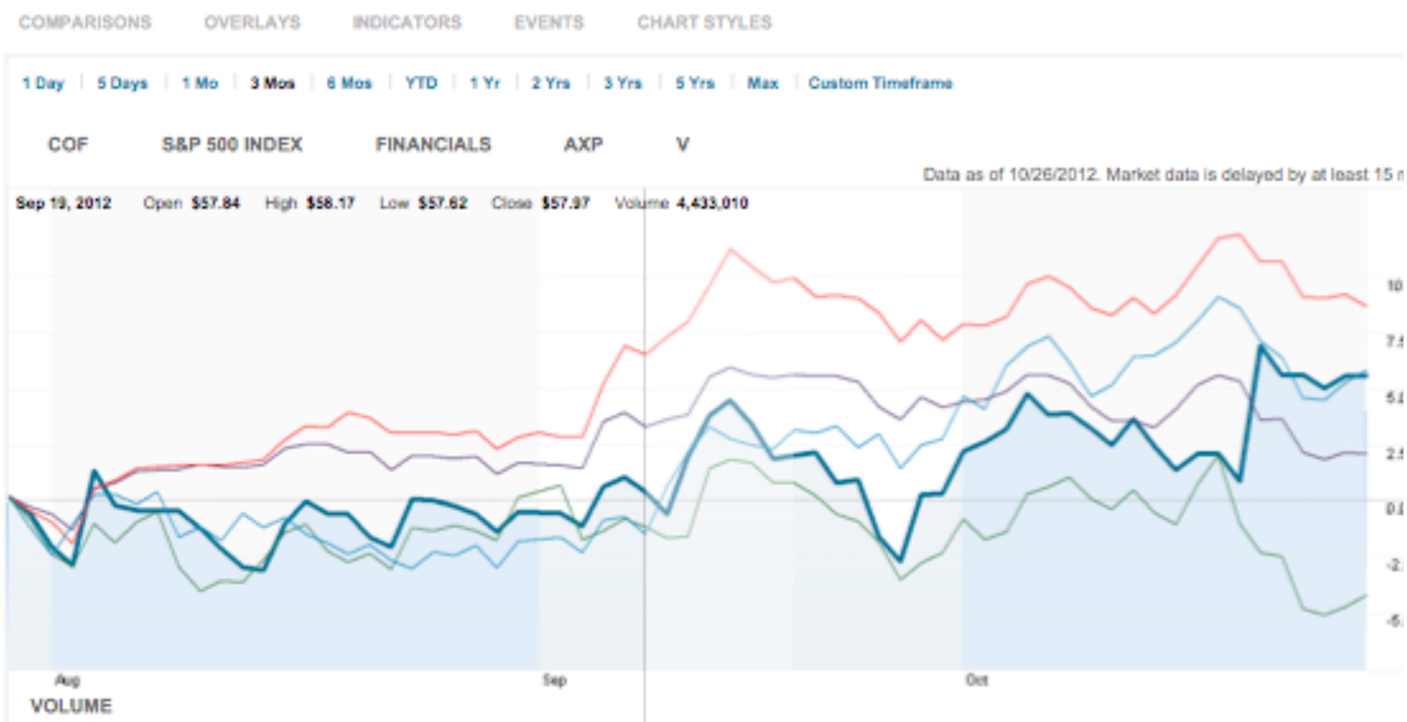
S&P 500= Purple

Financials= Red

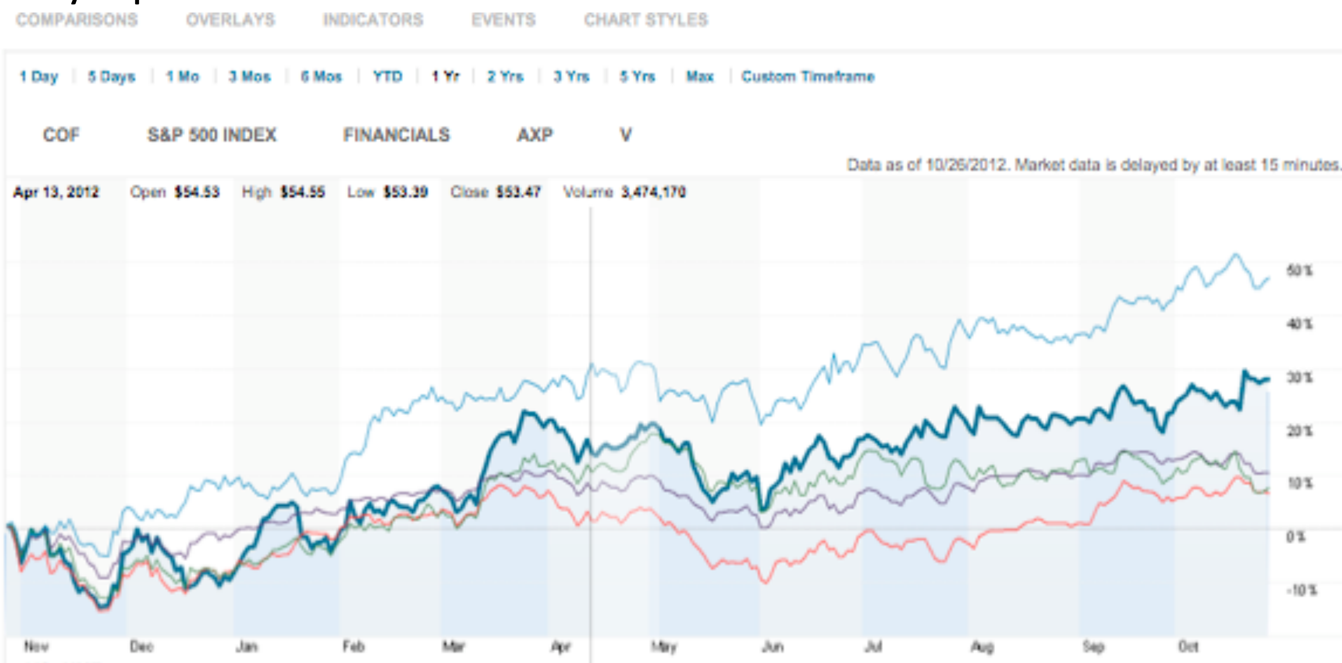
AXP= Green

V= Light blue

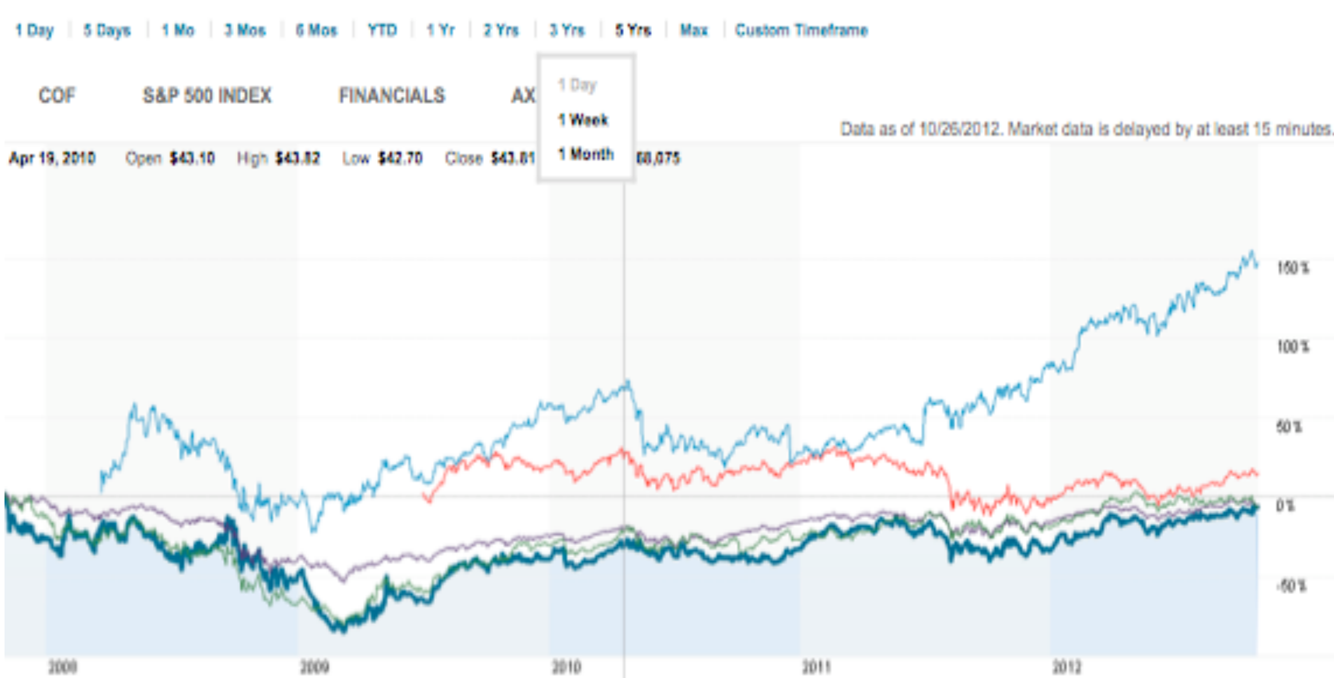
A three months price chart



A one year price chart



A five year price 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.

The stock charts are somewhat disconcerting. On the five-year price chart we see that Capital One generally stays with American Express and the Market but is largely outperformed by the financial sector as well as Visa. The three-year price chart is more promising with Capital One outperforming the S&P 500, the XLF, and American Express. The three-month price chart shows that Capital One is closely following Visa and American Express, but being outperformed by the S&P 500 and the XLF. However we see that in the last few days Capital One has been outperforming all the but the XLF.

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