

Date: 04/10/2014
Analyst Name: Colleen Gruber

CIF Stock Recommendation Report (Spring 2014)

Company Name and Ticker: State Street Corporation (STT)

Section (A) Investment Summary

Recommendation Buy: No		Target Price: N/A	Stop-Loss Price: N/A
Sector: Financial Services	Industry: Asset Management	Market Cap (in Billions): \$28,655.63	# of Shrs. O/S (in Millions): 430.78
Current Price: \$67.07	52 WK Hi: \$76.24	52 WK Low: \$54.57	EBO Valuation: \$40.36
Morningstar (MS) Fair Value Est.: \$70.00	MS FV Uncertainty: Medium	MS Consider Buying: \$49.00	MS Consider Selling: \$94.50
EPS (TTM): 4.62	EPS (FY1): 4.98	EPS (FY2): 5.86	MS Star Rating: ★★★
Next Fiscal Yr. End "Year": 2014 "Month": December	Last Fiscal Qtr. End: Less Than 8 WK: Y N	If Less Than 8 WK, next Earnings Ann. Date: April 25, 2014	Analyst Consensus Recommendation: 2.38 Hold
Forward P/E: 11.43	Mean LT Growth: 10.50	PEG: 1.05	Beta: 1.64
% Inst. Ownership: 88.60%	Inst. Ownership- Net Buy: Y N	Short Interest Ratio: 1.3	Short as % of Float: N/A
<u>Ratio Analysis</u>	<u>Company</u>	<u>Industry</u>	<u>Sector</u>
P/E (TTM)	14.27	83.87	15.97
P/S (TTM)	2.87	3.70	53.08
P/B (MRQ)	1.44	1.29	3.04
P/CF (TTM)	-15.20 From MorningStar	25.80	13.16
Dividend Yield	1.58	2.85	2.11
Total Debt/Equity (MRQ)	105.27	875.95	41.13
Net Profit Margin (TTM)	21.56%	20.52%	37.24%
ROA (TTM)	0.90%	1.30%	3.23%
ROE (TTM)	10.4%	10.4%	23.60%

<u>Investment Thesis</u>	<u>Summary</u>
<p>State Street Corporation (STT) is a financial holding company that provides financial services and products to institutional investors all over the world. They offer two different lines of business: investment servicing and investment management. The financial services market is very competitive, meaning STT is performing in a highly competitive market and faces global competition in every aspect of their business.</p>	<p><u>Company Profile:</u> STT provides financial services through two lines of business: investment services and investment management. The company had \$27.43 trillion of assets under custody with \$2.35 trillion under management as of December 31, 2013.</p>
<p>Pros:</p> <ul style="list-style-type: none"> - Few competitors can compete with STT's profit margins or product offerings - Regulation is increasing demand for security, STT's outsourcing custody can provide that security and anonymity - STT has been very effective at cutting costs, out-performing close competitor BNY Mellon by a landslide. 	<p><u>Fundamental Valuation:</u> The Fundamental Valuation valued the company below its current trading price. The "soft spot" of the valuation was Target ROE, which was adjusted to match competitors. Using a 3 year abnormal growth rate the price was \$40.36. Implied prices increased until 2020 than tapered off.</p>
<p>Cons:</p> <ul style="list-style-type: none"> - STT is and will always be exposed to risk factors that are uncontrollable and could hinder revenue growth (exchange rate changes etc) - STT Management has historically over-paid for acquisitions - Foreign exchange trading fees 	<p><u>Relative Valuation:</u> The valuation matrixes only produced 4 values in total that were within the 52-week price range. Most matrixes indicated STT is undervalued. The -15.2 P/CF (TTM) of STT skewed results for implied price in that matrix.</p>
	<p><u>Revenue and Earnings Estimates:</u> Both revenue and earnings have increased in the past year, some negative surprises caused fluctuations in the stock price, however. The next earnings release date is April 25, 2014. Estimates are trending down for both earnings and revenue.</p>
	<p><u>Analyst Recommendations:</u> Recommendations from Reuters put STT at 2.38 on a 5-point scale, with analysts trending away from buy and outperform, more towards hold. Bulls think STT's competitors cannot match its profit margins or products. Bears say STT faces too many uncontrollable risks.</p>
	<p><u>Institutional Ownership:</u> Current institutional ownership is at 99.22%, with the top 10 institutions owning 37% of STT. 26 have recently decreased positions with a net 3-month change of -273,447.</p>
	<p><u>Short Interest:</u> Short interest is low compared to competitors. Only recent decrease was minor after earnings release date when days to cover decreased from 1.28 to 1.08, however it increased back to 1.4 two weeks later.</p>

	Stock Price Chart: All over the board for STT. Currently underperforming market, sector and competitors because of large fall in early February and failure to recover.
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Section (B) Company Profile
(B-1) Profile

State Street Corporation (STT) is a financial holding company that provides financial services and products to institutional investors all over the world. The company had \$27.43 trillion of assets under custody with \$2.35 trillion under management as of December 31, 2013. They serve clients from several different financial industries including mutual funds, investment funds, corporate and public retirement plans, insurance companies, foundations, endowments and investment managers. They offer two different lines of business: investment servicing and investment management. The financial services market is very competitive, meaning STT is performing in a highly competitive market and faces global competition in every aspect of their business.

There are many risk factors that are currently facing the company currently. The main risk factors that are hitting the company right now are the liquidity of the US and international securities markets, the current volatility of interest rates and how they affect the performance of securities, credit, currency and exchange rates both domestically and internationally, the financial performance of the company's counterparts with which it does business and the increase in volatility of their net interest revenue. These risk factors may have positive or negative affects on the future outcomes of the STT stock. Most analysts are recommending a hold for the company currently, however there are analysts recommending an outperform, a buy as well as an underperform. There has been a more bearish sentiment as of late compared to 3 months ago. The company's business activities expose it to interest-rate risk because they invest short-term deposits from clients into their investment portfolio that is full of longer-term assets.

State Street Corporation acquired Goldman Sachs Administration Services (GSAS) for \$550 million in October 2012. GSAS is a global hedge-fund services provider that had approximately \$200 billion of single manager hedge-fund assets under management worldwide. STT acquired this business because of its global presence in order to increase their international presence. STT currently has operations in over 100 geographic markets including the United State, Canada, Europe, the Middle East and Asia with headquarters in Massachusetts.

Conditions of the global economy and financial markets since 2007 have adversely affected STT. The poor economy has increased uncertainty and unpredictability the company deals with in managing all of its businesses. Eurozone instability has largely contributed to the instability and volatility in the financial markets since 2011 and STT predicts it could have an adverse affect on their consolidated results of operations or financial condition. Because of Eurozone volatility, the foreign exchange trading revenue of the company is expected to fluctuate following the degree of volatility in foreign exchange rates.

The Volcker Rule, which was implemented in July 2012, and December 2013 will “overtime prohibit banking entities from engaging in certain prohibited proprietary trading activities” (STT, 10-K). These entities, which includes STT and all its subsidiaries, have until July 2015 to conform all of their business activities and investments with the Rule. The final Rule may have an impact on the investment management and custody operations of STT.

Current news and headlines for the company surround the Fed tapering and rising US interest rates. The Federal Reserve is winding down the economic stimulus is leaving investors in Asian markets somewhat on edge. A subsidiary of State Street Corporation, State Street Global Advisors currently has around \$2.1 trillion in assets under management, and between \$5 and \$10 billion of that is managed out of Singapore. On April 8th, 2014 U.S. regulators announced the eight largest banks must boost capital levels to reach a total of around \$68 billion under new rules. These rules lessen banks’ dependence on debt, and force them to rely more heavily on equity. These new rules were set in place to avoid another financial crisis. Although this announcement will affect State Street to an extent, larger banks such as JPMorgan Chase, Wells Fargo and Goldman Sachs could reap heavier hits.

(B-2) Revenue and Earnings History

Revenue / EPS Summary *			
Fiscal Quarter	2013 (Fiscal Year)	2012 (Fiscal Year)	2011 (Fiscal Year)
March			
Revenue	\$2,546(m)	\$2,561(m)	\$2,518(m)
EPS	0.98 (3/31/2013)	0.85 (3/31/2012)	0.93 (3/31/2011)
Dividends	0.26	0.24	0.18
June			
Revenue	\$2,664(m)	\$2,537(m)	\$2,638(m)
EPS	1.24 (6/30/2013)	0.98 (6/30/2012)	1 (6/30/2011)
Dividends	0.26	0.24	0.18
September			
Revenue	\$2,522(m)	\$2,467(m)	\$2,577(m)
EPS	1.18 (9/30/2013)	1.36 (9/30/2012)	1.1 (9/30/2011)
Dividends	0.26	0.24	0.18
December (FYE)			
Revenue	\$2,563(m)	\$2,560(m)	\$2,474(m)
EPS	1.22 (12/31/2013)	1.01 (12/31/2012)	0.76 (12/31/2011)
Dividends	0.26	0.24	0.18
Totals			
Revenue	\$10,295(m)	\$10,125(m)	\$10,207(m)
EPS	4.62	4.2	3.79
Dividends	1.04	0.96	0.72

source:www.nasdaq.com

REVENUE			EARNINGS PER SHARE		
Periods	2012	2013	Periods	2012	2013
March			March	0.85023	0.98325
June			June	0.98256	1.2385
September			September	1.36247	1.17438
December			December	1.00198	1.2235

Note: Units in Millions of U.S. Dollars

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source:www.reuters.com

Both revenue and earnings have increased overall from 2012 to 2013. With total revenue in 2013 being \$10,295 million and \$10,125 million in 2012, and earnings per share for 2013 being 4.62 and 4.20 for 2012. Overall there was an overall up-trend for revenue specifically, besides in the fiscal quarter of March. Earnings consistently grew from 2012, except for in the fiscal quarter ending in September is the one exception to this growth.

(B-3) Most Recent Quarterly Earnings Release

The most recent earnings release was February 21, 2014. According to fourth quarter results, State Street beat analyst estimates of sales by 0.94% while the company missed analyst estimates of earnings by -3.52%. Management attributes the large miss on earnings to a settlement the company entered into with U.K. Financial Conduct Authority over charging clients in excess of their contracts in January 2014. Although the settlement was entered into after fourth quarter results were published, STT agreed to and paid a fine of nearly \$38 million and accrued the expenses in December of 2013. Total revenue for 2013 increased 2% from 2012. February 21 was a Friday, and the Monday after the release date, trading volume decreased from 811,457 to 616,673. The stock decreased from trading at \$67.85 to \$64.94 less than a week later.

Section (C) Fundamental Valuation (EBO)

STT	PARAMETERS	FY1	FY2	Ltg											
	EPS Forecasts	4.98	5.66	10.50%											
	Total Equity	20378.00													
	Preferred Stock	491.00													
	Book Value (end of last fye)	19887.00													
	Common Equity Shr. O/S	434.13													
	Book value/share (last fye)	45.809													
	30-Year T-Bond Rate	3.60%													
	E(r _m)	9.50%													
	Beta	1.64													
	Discount Rate	13.28%													
	Dividend Payout Ratio (POR)	22.01%													
	Next Fisc Year end	2014													
	Current Fisc Mth (1 to 12)	4													
	Target ROE (industry avg.)	3.35%													
	Year	2014*	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025		
	Long-term EPS Growth Rate (Ltg)			0.1050	0.1050	0.1050	0.1050	0.1050							
	Forecasted EPS	4.98	5.66	6.25	6.91	7.64	8.44	9.32							
	Beg. of year BV/Shr	45.809	49.693	54.107	58.985	64.375	70.330	76.912							
	Implied ROE		0.114	0.116	0.117	0.119	0.120	0.121							
ROE	(Beg. ROE, from EPS forecasts)	0.109	0.114	0.116	0.117	0.119	0.120	0.121	0.104	0.086	0.069	0.051	0.034		
Abnormal ROE	(ROE-k)	-0.024	-0.019	-0.017	-0.016	-0.014	-0.013	-0.012	-0.029	-0.047	-0.064	-0.082	-0.099		
growth rate for B	(1-POR)*(ROE-1)	0.000	0.085	0.089	0.090	0.091	0.093	0.094	0.095	0.081	0.067	0.053	0.040		
Compounded growth		1.000	1.085	1.181	1.288	1.405	1.535	1.679	1.838	1.986	2.120	2.233	2.322		
growth*AROE		-0.024	-0.020	-0.020	-0.020	-0.020	-0.020	-0.019	-0.053	-0.093	-0.136	-0.182	-0.230		
required rate (k)		0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133		
Compound discount rate		1.133	1.283	1.453	1.646	1.865	2.113	2.393	2.711	3.071	3.478	3.940	4.463		
div. payout rate (k)		0.220													
Add to P/B	PV(growth*AROE)	-0.02	-0.02	-0.01	-0.01	-0.01	-0.01	-0.01	-0.02	-0.03	-0.04	-0.05	-0.05		
Cum P/B		0.98	0.96	0.95	0.94	0.93	0.92	0.91	0.89	0.86	0.82	0.77	0.72		
Add: Perpetuity															
beyond current yr	(Assume this yr's AROE forever)	-0.16	-0.12	-0.11	-0.09	-0.08	-0.07	-0.06	-0.15	-0.23	-0.29	-0.35	-0.39		
Total P/B	(P/B if we stop est. this period)	0.82	0.84	0.84	0.84	0.85	0.85	0.85	0.74	0.63	0.53	0.42	0.33		
Implied price		39.17	40.31	40.36	40.41	40.46	40.51	40.55	35.42	30.22	25.12	20.31	15.92		
Check:															
Beg. BV/Shr		45.809	49.693	54.107	58.985	64.375	70.330	76.912	84.184	90.992	97.105	102.299	106.372		
Implied EPS		4.980	5.660	6.254	6.911	7.637	8.439	9.325	8.729	7.838	6.661	5.222	3.563		
Implied EPS growth			0.137	0.105	0.105	0.105	0.105	0.105	-0.064	-0.102	-0.150	-0.216	-0.318		

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

EPS forecasts (FY1 & FY2):	<u>FY1: 4.98 FY2: 5.66</u>
Long-term growth rate:	<u>10.50%</u>
Book value/share (along with book value and # of shares outstanding):	
Book value:	<u>19,887.00</u>
# of shares outstanding:	<u>434.13</u>
Book value/share:	<u>45.809</u>
Dividend payout ratio:	<u>22.01%</u>
Next fiscal year end:	<u>2014</u>
Current fiscal month:	<u>4</u>
Target ROE:	<u>3.35% (adjusted)**</u>
Discount rate	<u>13.28%</u>
Input for discount rate	
Risk-free rate:	<u>3.60%</u>
Beta:	<u>1.64</u>
Market risk premium:	<u>9.50%</u>

Output

Above normal growth period chosen: 3

EBO valuation (implied price from the spreadsheet): \$40.36

** The Target ROE is adjusted because the industry average ROE was -1.22%. This ROE seemed extremely low, therefore I looked at the company's closest competitors and used the target ROE from them, which was 3.35%**

The EBO valuation indicates a stock price of \$39.17 at the end of the 2014 fiscal year. Currently, STT sells at \$65.92. This price is \$10.32 under the 52-week high and the EBO valuation is \$15.42 under the 52-week low. The main "soft spot" of the inputs would be the target ROE. Although I adjusted it to match some of State Street's closest competitors, the company's target ROE is 10.56% and the sector is 23.69%. Other close competitors have target ROE's ranging from 2-25%.

Sensitivity Analysis

EBO valuation would be

\$40.46	if changing above normal growth period to	5 years
\$41.92	if changing growth rate from mean (consensus) to the highest estimate	15.00%
\$38.80	if changing growth rate from mean (consensus) to the lowest estimate	6.00%
\$53.33	if changing discount rate to	10%
\$38.80	if changing target ROE to	23.69%

In the sensitivity analysis I changed the discount rate to 10%, which is 3.28% lower than the current discount rate of 13.28%. This was to counteract the somewhat high beta of 1.64. This drove the EBO valuation closer to \$53.33, which is a lot closer to the current trading price of STT. The other major number that warranted a sensitivity analysis was the target ROE. Since it was targeted earlier as a “soft spot” input, it was interesting to see how a larger target ROE would affect the EBO valuation. The 3-year forecast I chose to evaluate did not change, however the longer-term forecast changed to match closer to the current share price of the stock.

Section (D) Relative Valuation

Cougar Investment Fund Relative Valuation Template													
STT													
Ticker	Name	Mkt Cap	Current Price	Mean FY2		Forward P/E	Mean LT Growth Rate	PEG	P/B (MRQ)	ROE 5 yr ave	Value Ratio	P/S TTM	P/CF TTM
				Earnings Estimate (next fiscal year)									
1 BK	Bank of New York Mellon Corp	\$ 38,462.27	\$ 33.97	\$ 2.71	12.54	6.60%	1.90	1.08	5.20%	0.21	2.57	10.68	
2 BLK	Black Rock Inc.	\$ 50,654.63	\$ 308.32	\$ 20.93	14.73	14.57%	1.01	1.96	8.81%	0.22	4.98	21.28	
3 NTRS	Northern Trust Corporation	\$ 14,850.84	\$ 62.78	\$ 3.93	15.97	12.90%	1.24	1.88	9.96%	0.19	3.63	15.1	
4 BX	Blackstone Group LP	\$ 35,099.94	\$ 31.27	\$ 3.52	8.88	22.35%	0.40	2.76	0.60%	4.60	5.31	11.57	
STT	State Street Corporation	\$ 28,397.06	\$ 67.07	\$ 5.64	11.89	10.50%	1.13	1.44	10.56%	0.14	2.87	-15.2	
Implied Price based on:													
1 BK	Bank of New York Mellon Corp				\$70.70		\$112.47	\$50.30		\$102.15	\$60.06	-\$47.13	
2 BLK	Black Rock Inc.				\$83.08		\$59.87	\$91.29		\$109.42	\$116.38	-\$93.90	
3 NTRS	Northern Trust Corporation				\$90.10		\$73.33	\$87.56		\$92.84	\$84.83	-\$66.63	
4 BX	Blackstone Group LP				\$50.10		\$23.54	\$128.55		\$2,262.49	\$124.09	-\$51.05	
	High				\$90.10		\$112.47	\$128.55		\$2,262.49	\$124.09	-\$47.13	
	Low				\$50.10		\$23.54	\$50.30		\$92.84	\$60.06	-\$93.90	
	Median				\$76.89		\$66.60	\$89.43		\$105.79	\$100.61	-\$58.84	

Bank of New York Mellon Corp. (BK): BK is a global financial services company that has business in 35 different countries. As of December 31, 2013, BK had \$27.6 trillion in assets

under custody and \$1.6 trillion in assets under management. BK competes with State Street Corp in its investment management and investment services segments.

Black Rock Inc. (BLK): BLK is an investment management firm, which is the line of business that competes with State Street Corp. BLK primarily provides services to institutional, intermediary and individual investors with a range of clients in retail, high net worth etc.

Northern Trust Corporation (NTRS): NTRS is a financial holding company and competes with State Street in its asset management business. As of December 31, 2013 the company had \$5.6 trillion in assets under custody with \$884.5 billion in assets under management.

Blackstone Group LP (BX): BX is the largest alternative investment firm in the world. BX competes with State Street in its investment management segment. CIF currently owns shares in BX, so it is interesting to see the comparison between it and State Street Corp.

Relative Valuation Metrics

The forward P/E's of each company are relatively similar; the lowest being Blackstone Group at 8.88% and Northern Trust Corp has the highest at 15.97%. State Street has a forward P/E of 11.89%, which is slightly lower than its current P/E. Blackstone has such a low forward P/E because both its current price and mean FY2 estimates are the lowest of all five companies.

Of the five companies, Blackstone Group, again, has the lowest PEG ratio. A low PEG ratio means a stock may be undervalued given its earnings performance. All the other companies, including State Street Corp have PEG ratios above 1.0, with Bank of New York Mellon at the higher end with a ratio of 1.90 and State Street in the middle with a ratio 1.13.

Comparing the five P/S (TTM) valuation multiples, all five companies, again, seem to be within the same range. BYN Mellon has the smaller of 2.57, followed by State Street Corp and the largest is Blackstone with 5.31. While there are no extreme outliers, the industry average is 3.70, which STT only misses by 0.83. NTRS comes closest to the industry average at 3.63. A lower P/S may be an indicator of undervaluation, however STT is not too far below the industry average.

The P/CF (TTM) valuation multiples have the largest deviations from STT at -15.2 to BLK at 21.28. In this case, STT could possibly be considered the outlier since it is the only negative P/CF (TTM) metric and causes all the implied price P/CF metrics to be negative as well.

The implied prices of STT have a fairly wide range, excluding P/CF, the implied price derived from BX under the PEG ratio gave the lowest valuation of \$23.54, and the highest from BX as well under the P/B (MRQ) metric at \$128.55 (not considering the \$2,262.49 value derived from BX's value ratio, which is skewed). The majority of the valuations make it seem as if STT is currently undervalued, with only four of the valuations falling between the 52-week range for STT. Morningstar raised their valuation from \$67 to \$70 incorporating accrued income, leaving the fair value at 1.5 times the book value and 2.7 times the tangible book value.

Section (E) Revenue and Earnings Estimates

(E-1) Historical Surprises

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 Dec-13	2,504.47	2,528.00	23.53	0.94
Quarter Ending Sep-13	2,513.00	2,469.00	44.00	— 1.75
Quarter Ending Jun-13	2,535.50	2,580.00	44.50	1.75
Quarter Ending Mar-13	2,478.83	2,470.00	8.83	— 0.36
Quarter Ending Dec-12	2,361.79	2,463.00	101.21	4.29
Earnings (per share)				
Quarter Ending Dec-13	1.19	1.15	0.04	— 3.52
Quarter Ending Sep-13	1.18	1.19	0.01	0.52
Quarter Ending Jun-13	1.19	1.24	0.05	4.47
Quarter Ending Mar-13	0.93	0.96	0.03	2.81
Quarter Ending Dec-12	1.00	1.11	0.11	10.86

source: www.reuters.com

According to the Historical Surprises table from Reuters, there have been three negative surprises over the past five quarters in both sales and earnings per share. This shows that State Street Corp has more of a tendency to positively surprise analyst estimates than negatively surprise them. The most notable negative surprise came in during the last quarter of December 2013, which was a negative 3.52% surprise for earnings per share. The company attributes this negative surprise to the large settlement that cost them nearly \$38 million in January 2014, which they accrued in December 2013. Comparing 2012 surprises to 2013, the fourth quarter surprises of 2012 were much larger than those reported in 2013. Overall, the surprises State Street Corp faced were more notable for earnings than sales. Stock charts for the company did react negatively to the negative surprise in earnings for the quarter ending December 2013, with a drop in stock price at the end of February, after the earnings release date.

(E-2) Consensus Estimates Analysis

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 Jun-14	16	2,625.21	2,665.00	2,574.93	2,637.32
Quarter Ending Sep-14	16	2,584.29	2,644.54	2,522.00	2,623.18
Year Ending Dec-14	19	10,374.20	10,642.00	10,115.00	10,474.90
Year Ending Dec-15	18	10,942.60	11,314.00	10,619.00	11,026.00
Earnings (per share)					
Quarter Ending Jun-14	19	1.35	1.41	1.27	1.33
Quarter Ending Sep-14	19	1.30	1.41	1.17	1.32
Year Ending Dec-14	20	4.98	5.25	4.65	5.06
Year Ending Dec-15	20	5.66	6.00	5.20	5.87
LT Growth Rate (%)	2	10.50	15.00	6.00	10.50

source: www.reuters.com

Sales	High/Mean % Difference	Low/Mean % Difference
Quarter End Jun-14	1.49%	-1.92%
Quarter End Sep-14	2.28%	-2.41%
Year End Dec-14	2.52%	-2.50%
Year End Dec-15	3.28%	-2.96%
Earnings		
Quarter End Jun-14	4.26%	-5.93%
Quarter End Sep-14	7.80%	-10.00%
Year End Dec-14	5.14%	-6.63%
Year End Dec-15	5.67%	-8.13%

The divergent are greatly more notable for the earnings over the revenue, and are pretty equal when comparing the current and out-quarter FY1 and FY2. The largest difference appeared in the quarter ending September 2014 between the low and mean analyst estimates at -10.00%. The divergent for revenue fluctuated between 1.50% and 3.50%, with the highest divergent appearing for year end December 2015 at a high divergent of 3.28% and a low difference of -2.96%. The total number of analysts that are providing LT growth rate estimates is far less than the number who are providing estimates for revenue and earnings. The number of analysts reporting for revenue is between 16 and 19 while the number for earnings is between 19 and 20. The number of analysts reporting for LT growth rate is only two, this number of estimates helps to provide a sense for the concentration of coverage for State Street Corporation.

(E-3) Consensus Estimates Trend

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 Jun-14	2,625.21	2,625.35	2,625.35	2,622.44	2,637.32
Quarter Ending Sep-14	2,584.29	2,584.62	2,584.87	2,583.09	2,623.18
Year Ending Dec-14	10,374.20	10,377.80	10,386.00	10,407.10	10,474.90
Year Ending Dec-15	10,942.60	10,942.20	10,944.10	10,956.00	11,026.00
Earnings (per share)					
Quarter Ending Jun-14	1.35	1.35	1.35	1.37	1.33
Quarter Ending Sep-14	1.30	1.30	1.31	1.33	1.32
Quarter Ending Dec-14	4.98	4.99	5.03	5.11	5.06
Quarter Ending Dec-15	5.66	5.67	5.70	5.82	5.87

source: www.reuters.com

Consensus estimates for both revenue and earnings have trended down from one year ago, however they have only slightly trended down. For the most part, all figures are in a close range to where they were between the current figures, one week ago and one month ago figures. The largest negative trend is during the consensus estimate for quarter ending December 2015 at negative 3.58%. All the other negative trends are between -0.51% and -1.58%.

(E-4) Estimates Revisions Summary

ESTIMATES REVISIONS SUMMARY

Number Of Revisions:	Last Week		Last 4 Weeks	
	Up	Down	Up	Down
Revenue				
Quarter Ending Jun-14	1	1	1	1
Quarter Ending Sep-14	1	1	2	2
Year Ending Dec-14	1	3	2	8
Year Ending Dec-15	2	2	5	3
Earnings				
Quarter Ending Jun-14	1	2	1	7
Quarter Ending Sep-14	0	3	0	8
Year Ending Dec-14	0	1	0	8
Year Ending Dec-15	0	2	0	7

source: www.reuters.com

Analyst estimates in the four periods have overall trended down for both revenue and earnings. The most notable differences in revenue revisions between last week and the last four weeks are in year ending December 2014 where in the last 4 weeks there were eight revisions down and in the last week there were three, with only two and one up revisions for the same period, respectively. Earnings estimates have a very large number of down revisions compared to up revisions. In the last four weeks there were between seven and eight down revisions for each period, with only one revision up for quarter ending June 2014. The same is true for the last week, there were between two and three revisions down for all periods with only one revision up for quarter ending June 2014. These large movements within the last week and last four weeks show analysts are uncertain with their estimates, and creates a more bearish sentiment for State Street Corp.

(E-5) Consensus Earnings Revisions

Revision Date	Revision Type	Revision Up/Down	Current	Previous	% Change	# of Analysts Reporting
04/02/2014	Down	0/5	\$1.01	\$1.01	0.10	19
04/01/2014	Down	0/4	\$1.01	\$1.01	0.20	19
03/25/2014	Down	1/10	\$1.01	\$1.01	0.10	19
03/19/2014	Down	1/11	\$1.01	\$1.01	0.10	19
03/13/2014	Down	1/10	\$1.01	\$1.02	0.68	19

source: www.cnbc.com

The last earnings report date was February 21, 2014 and the next earnings date is April 25, 2014. The revisions do not seem incredibly clustered, they are all one week apart except for tow down revisions on April 1st and April 2nd. The largest percentage change was -0.68% on March 13, 2014. The stock has begun to perform poorly in the beginning of April, which may have something to do with the negative revisions that happened at the beginning of the month.

Section (F) Analysts' Recommendations

(F-1) Analyst Recommendations and Revisions

ANALYST RECOMMENDATIONS AND REVISIONS

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	5	6	6	6
(2) OUTPERFORM	5	5	7	8
(3) HOLD	9	8	7	7
(4) UNDERPERFORM	2	2	2	1
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	2.38	2.29	2.23	2.14

source: <http://www.reuters.com/>

The analyst recommendation trend has slowly become more bearish over the past three months beginning at a mean rating of 2.14 to 2.38 in the most recent month. More analysts have been trending their recommendations toward a hold and underperform that three months ago. The current mean rating of 2.38 is very mediocre, meaning it is almost right in the middle of a buy and a sell. State Street has received four out of the five ratings over the past three months being a buy, outperform, hold and underperform, the majority of which were holds.

Bulls from Morningstar believe that State Street's competitors cannot match its profit margins or product offerings and that STT has been an efficient cost-cutter, especially over competitor Bank of New York Mellon, which has helped to reduce pressure on their margins. They are also saying that recent news about regulations and scandals have been increasing the demand for security, which State Street's outsourcing custody can help to provide.

Bears from Morningstar believe there are too many factors facing STT that are beyond its control, which could eventually negatively impact their revenue. STT has also been known for over-paying for acquisitions of other companies, which in turn diminishes shareholder value.

Finally, bears are noting that there is increased pressure on the company due to the battle over foreign exchange trading fees, which could push margins lower for the company.

Section (G) Institutional Ownership

Cougar Investment Fund Institutional Ownership Template				
STT				
Ownership Activity	# of Holders	% Beg. Holders	Shares	% Shares
Shares Outstanding			430,797,707	100.00%
# of Holders/Total Shares Held/% Shares	921	100.00%	381,686,768	88.60%
# New Positions	3	0.33%		
# Closed Positions	3	0.33%		
# Increased Positions	15	1.63%		
# Decreased Positions	26	2.82%		
Beg. Total Inst. Positions	921	100.00%	381,960,215	88.66%
# Net Buyers/3 Mo. Net Chg	-11	36.59%	-273,447	-0.06%
Ownership Information	% Outstanding			
% Institutional Ownership	99.22			
Top 10 Institutions % Ownership	37.00%			
Mutual Fund % Ownership	44.48%			
5%/Insider Ownership	1.22%			
Float %	99.00%			

> 5% Ownership			
Holder Name	% Change	% Outstanding	Report Date
T. Rowe Price Associates, Inc.	8.94%	6.95%	12/31/13
MFS Investment Management K.K.	0.48%	6.00%	12/31/13
State Street Corp	0.42%	5.06%	12/31/13
BlackRock Advisors LLC	-21.14%	4.84%	2/28/14
Vanguard Group, Inc.	-0.56%	4.68%	12/31/13

Currently there are 921 holders of State Street Corp with 381,686,768 shares outstanding. Institutions, on a net basis have been decreasing positions, with 26 decreasing and 15 increasing. An equal amount of three institutions have opened new positions and closed positions as well. STT has a very sizable institution support with 99.22% institutional ownership, 37.00% coming from the top 10 institutions, and nearly 45% from mutual funds. 99% of shares are available for trading or “float”. Regarding companies with greater than 4% ownership, T. Row Price Associates, Inc has the highest percent outstanding at 6.95% and as of December 31, 2013 they had a positive 8.94% change in their ownership. The largest outlier in the group is BlackRock Advisors LLC who have 4.84% outstanding, just recently on February 28, 2014, had a -21.14% change. This change came three days after the last earnings report, meaning the institution may have seen something in the report that did not appeal to their institution. Total, the companies that have great than 4% ownership make up 27.53% of the total ownership of the State Street Corp.

Section (H) Short Interest

(H-1) Short Interest Data

State Street Corporation (STT)

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
3/14/14	3,679,189	2,628,774	1.399584
2/28/14	3,522,041	3,277,233	1.0747
2/14/14	3,912,893	3,068,470	1.275194
1/31/14	3,545,163	3,121,471	1.135735
1/15/14	3,025,621	1,767,664	1.711649
12/31/13	3,308,348	1,523,398	2.17169
12/13/13	3,381,955	2,035,362	1.661599
11/29/13	3,348,286	1,966,476	1.702683
11/15/13	3,380,088	2,207,650	1.53108
10/31/13	2,882,729	3,014,490	1
10/15/13	2,836,732	2,674,686	1.060585
9/30/13	4,097,591	2,401,608	1.706186
9/13/13	3,875,919	2,008,078	1.930164
8/30/13	3,871,522	1,958,423	1.976857
8/15/13	4,026,368	1,699,994	2.36846
7/31/13	3,550,029	2,610,901	1.359695

7/15/13	4,595,355	2,409,738	1.906994
6/28/13	5,967,433	3,395,953	1.757219
6/14/13	4,676,973	3,388,654	1.380186
5/31/13	5,100,291	3,827,777	1.332442
5/15/13	3,566,400	2,648,290	1.34668
4/30/13	3,707,298	2,690,896	1.377719
4/15/13	4,696,569	3,138,961	1.496218

source: <http://www.nasdaq.com>



source: <http://www.nasdaq.com>

Bank of New York Mellon Corporation (BK)

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
3/14/14	10,122,395	6,283,848	1.610859
2/28/14	6,782,851	4,867,902	1.393383
2/14/14	7,435,275	4,981,753	1.492502
1/31/14	7,862,199	6,676,129	1.177658
1/15/14	9,958,924	5,148,518	1.934328
12/31/13	10,135,890	3,374,440	3.003725
12/13/13	9,825,560	3,953,856	2.485058
11/29/13	10,915,200	4,119,742	2.649486
11/15/13	11,071,557	4,861,851	2.277231
10/31/13	12,866,306	5,499,111	2.339707
10/15/13	14,305,181	4,752,640	3.009944

9/30/13	14,927,764	4,675,157	3.192997
9/13/13	13,679,113	3,558,790	3.843754
8/30/13	12,738,959	4,076,090	3.125289
8/15/13	13,118,001	3,611,588	3.632198
7/31/13	12,711,626	5,629,154	2.258177
7/15/13	14,503,244	6,012,656	2.412119
6/28/13	15,150,686	7,629,101	1.985907
6/14/13	10,915,311	5,326,979	2.049062
5/31/13	13,034,668	5,930,847	2.197775
5/15/13	13,709,587	5,415,355	2.531614
4/30/13	14,060,504	6,403,207	2.195853
4/15/13	13,462,707	5,106,771	2.636246

source: <http://www.nasdaq.com>



source: <http://www.nasdaq.com>

Northern Trust Corporation (NTRS)

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
3/31/14	3,801,191	1,277,384	2.975762
3/14/14	3,710,791	940,473	3.945665
2/28/14	4,045,500	946,914	4.272299
2/14/14	3,944,629	988,449	3.990726
1/31/14	3,504,412	1,714,636	2.043823
1/15/14	3,955,592	1,187,304	3.331575
12/31/13	3,945,664	1,282,227	3.077196

12/13/13	3,636,338	1,152,827	3.154279
11/29/13	3,930,132	972,519	4.041188
11/15/13	2,989,435	1,039,610	2.875535
10/31/13	2,608,046	1,446,814	1.802613
10/15/13	2,408,131	1,413,551	1.703604
9/30/13	2,741,494	1,562,077	1.755031
9/13/13	2,033,456	1,270,800	1.600138
8/30/13	2,211,054	756,233	2.923773
8/15/13	2,950,885	897,813	3.286748
7/31/13	3,221,222	1,528,299	2.107717
7/15/13	3,922,245	1,016,358	3.859118
6/28/13	3,598,491	2,165,298	1.661892
6/14/13	4,679,082	1,118,725	4.182513
5/31/13	5,336,450	1,528,181	3.492027
5/15/13	6,547,434	1,363,775	4.800964
4/30/13	6,770,569	1,536,720	4.405857
4/15/13	8,013,414	1,260,933	6.355147

source: <http://www.nasdaq.com>



source: <http://www.nasdaq.com>

(H-2) Short Interest Data**State Street Corp (STT)**

Avg Vol (3 Month)	Avg Vol (10 day)	Shares Outstanding	Float
2,960,460	2,580,160	431.63M	428.05M
Shares Short (Most Recent Date)	Short Ratio (Most Recent Date)	Short % of Float (Most recent date)	Shares Short (2 weeks prior)
3.68M	1.30	N/A	3.52M

source: <http://finance.yahoo.com>**Bank of New York Mellon (BK)**

Avg Vol (3 Month)	Avg Vol (10 day)	Shares Outstanding	Float
6,053,730	4,755,410	1.14B	1.12B
Shares Short (Most Recent Date)	Short Ratio (Most Recent Date)	Short % of Float (Most recent date)	Shares Short (2 weeks prior)
10.12M	1.80	0.90%	6.78M

source: <http://finance.yahoo.com>**Northern Trust Corporation (NTRS)**

Avg Vol (3 Month)	Avg Vol (10 day)	Shares Outstanding	Float
1,225,070	1,450,500	237.31M	236.33M
Shares Short (Most Recent Date)	Short Ratio (Most Recent Date)	Short % of Float (Most recent date)	Shares Short (2 weeks prior)
3.71M	4.00	1.70%	4.05M

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

State Street's last earnings report date was February 21, 2014 and the next is April 25, 2014. Bank of New York Mellon's last earnings report date was February 28, 2014 and the next is April 22, 2014. Northern Trust Corporation's last earnings report date was February 26, 2014 and the next is April 15, 2014. For STT, the days to cover has fluctuated between one and slightly above two for the past year, with the highest spike at 2.36836 days to cover in August 2013 and the lowest of 1.00 in October 2013. After the drop in October, the days to cover began to rise again and have since leveled out to fluctuate a little above one. This shows that market sentiment for STT has become more bullish over the recent months, compared to the end of 2013.

When comparing STT with BK and NTRS, STT and NTRS are more similar in terms of their short interest statistics because they have similar shares short, compared to BK, which has nearly three times the amount of shares short that both NTRS and STT. BK has a significantly higher number of shares outstanding at 1.14 billion compared to STT's shares outstanding of 431.63 million and NTRS's shares outstanding of 237.31 million. Sentiment for STT has remained steadily bullish over the last year, with days to cover remaining around one and short interest remaining around 3 million. The amount of short interest has not increased drastically at all in the past four months, meaning there is less reason to believe the stock price may fall soon.

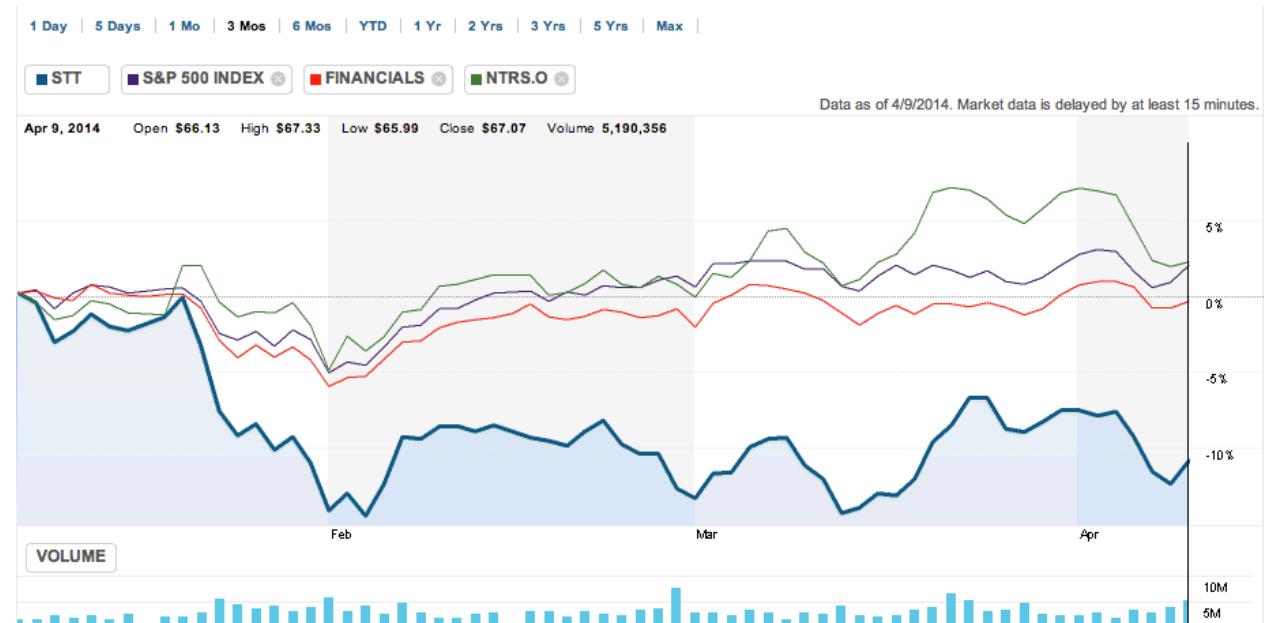
BK's short interest has spiked, and nearly doubled in the past month. This is a signal to investors that the stock may be in line to decrease soon. NTRS has experienced similar fluctuation as STT, with their short interest staying somewhat the same in the recent months, however their days to cover is hovering around 3, which is almost double that of STT's. NTRS also has a much higher short ratio than BK and STT, but the days to cover chart shows how the short ratio has decreased over the year.

Considering the February 21, 2014 earnings release date, not too much changed according to short interest for STT. Just before the release the company had 3,912,893 shares of short interest with a ratio of 1.275, and immediately after, short interest dropped to 3,522,041 but the more significant change was in days to cover, which fell to 1.0747 days. The notable decrease was

right after the earnings report. The stock price chart did not react in any significant way to the earnings release.

Section (I) Stock Charts

(I-1) 3-Month Price Chart



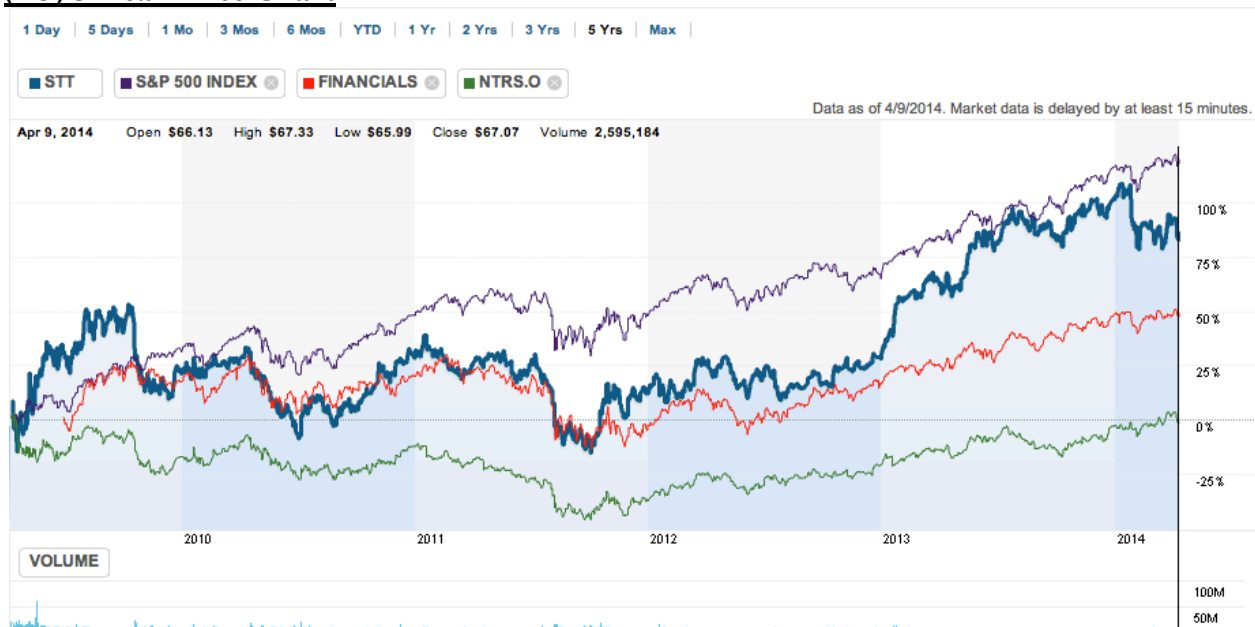
source: <http://www.reuters.com/>

(I-2) 1-Year Price Chart



source: <http://www.reuters.com/>

(I-3) 5-Year Price Chart



source: <http://www.reuters.com/>

The large drop at the end of January and beginning of February 2014 on the 3-month price chart was due to the selloff of emerging market currencies, which spurred central banks to raise their interest rates, and in turn sent the S&P 500 down 3.6%, but negatively affected State Street even more heavily.

In the 3-month price chart it is obvious that State Street has not fully recovered from this downfall, as it was performing in line with the sector, S&P 500 and competitors before this happened. The drop is also obvious in the 1-year price chart, you can see the stock dropped nearly 20% in just a few short days, while the sector, the S&P and other competitors stayed in line with each other with only slight fluctuations around this times. This drop can also be attributable to State Street missing estimates, and analysts downgrading their positions as a result. For the beginning of the 1-year price chart, however, State Street was outperforming the rest. This shows how cyclical and sensitive State Street is to the market.

The stocks, sector and S&P are all over the map in the 5-year price chart. None of the stocks were performing similarly, however towards the end of 2013 and beginning of 2014 STT begins to pull away from the sector and outperform by a pretty substantial gap.

(I-4) Technical Indicators

10/50 Day Moving Average



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

50/200 Day Moving Average



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

In the 10/50 day moving average price chart, there was just recently a golden cross when the 10-day moving average crossed over the 50-day moving average, however it appears the 10-day

moving average is declining again, and looks as if there may be a death cross in the near future. The death cross that occurred in early February 2014 hit STT hard and it took the stock about an entire month to recover and cross back over again.

There have been two death crosses on the 50/200-day moving average price chart. The first occurred in 2012 and STT recovered pretty quickly, as the stock itself began to perform better. Very recently there was another death cross and it does not appear that the 50-day moving average is curving up at all. This, combined with the recent 10/50-day moving average death cross makes for a very bearish sentiment.

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