FORTREND SECURITIES

Research Report

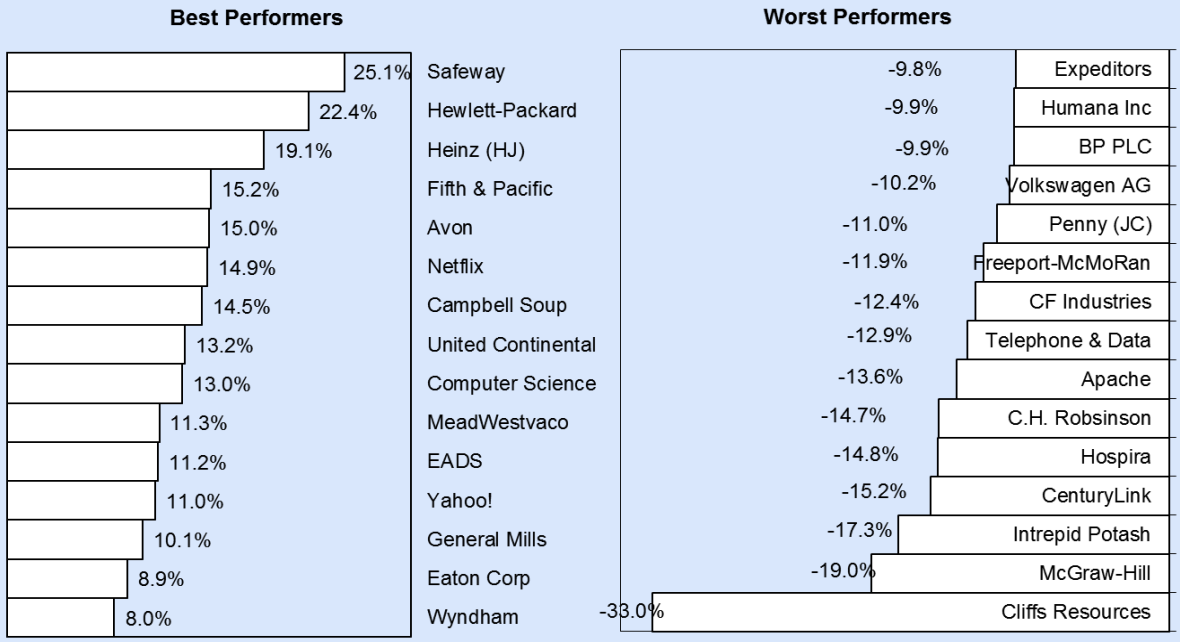
4 March 2013

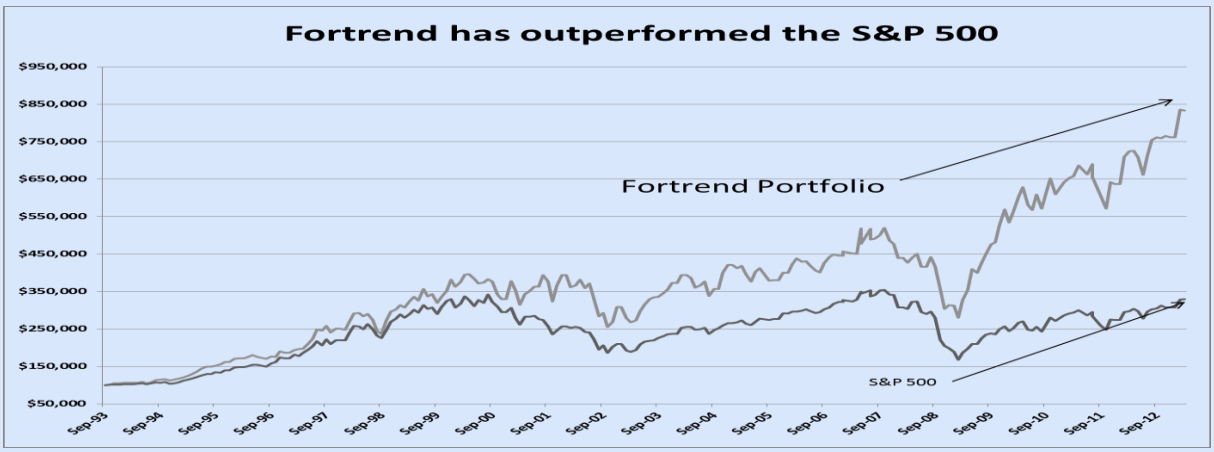
**Joe Forster**
**Chief Executive Officer**

# Relative Value Model
# Bulls vs. Bears

The S&P 500 rose 0.3%, while earnings estimates fell 0.2%, leaving the 2014 P/E at 12.3. The stock market was tied to the political cycle last year, and in December we predicted a decoupling. When sequestration occurred on March 1st markets did not move, proving our theory. This year markets will refocus on fundamental earnings and risk premiums.

We sold Nike for 55.75. **Buy McGraw Hill.** In the last 5 years the RV is up 96% versus the S&P 500's return of 8%.




FORTREND SECURITIES PTY LTD, LEVEL 41, 55 COLLINS STREET, MELBOURNE VIC 3000, AUSTRALIA

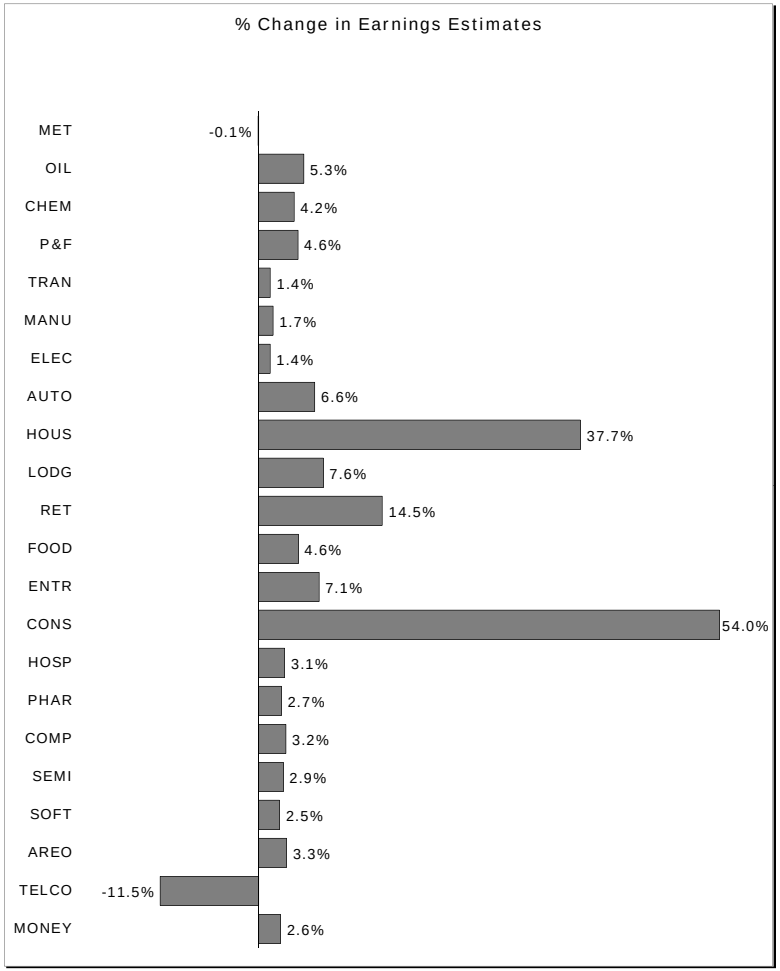
PHONE: (03) 9650 8400
FACSIMILE: (03) 9650 8740

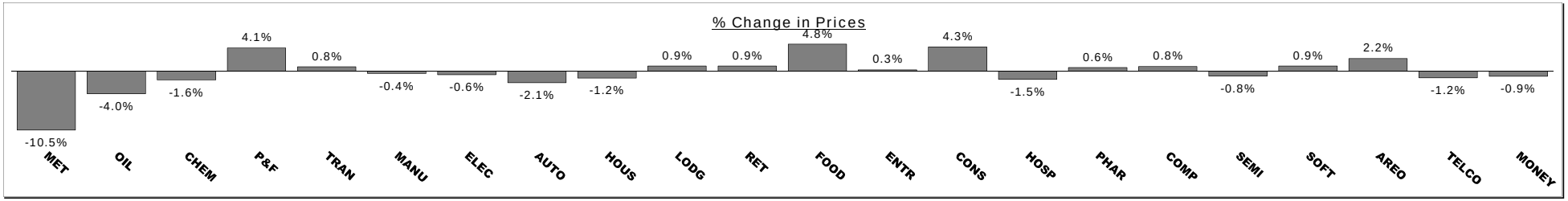
www.fortrend.com.au
info@fortrend.com.au

February 1st - March 4th

# Relative Value Model

| | |
|---|---|
| Plus Percentage Change in Price/Book | 0.2% |
| Minus Percentage Change in ROE 2014 | -0.2% |
| Equals Percentage change in P/E 2014 | 0.4% |
| Current P/E 2014 | 12.3 |
| SPX Dividend Yield | 2.4% |
| 10 year Treasury Yield | 1.9% |



## Bulls

1. Citigroup Tobias Levkovich
2. Bank of America, Savita Supramanian
3. Deutsche Bank, David Bianco

## Neutral

1. Credit Suisse, Andrew Garthwaite
2. Goldman Sachs, David Kostin
3. JP Morgan, Thomas Lee

## Bears

1. Wells Fargo, Gina Martin Adams
2. Morgan Stanley, Adam Parker
3. UBS, Jonathan Golub

## Bears

**Wells Fargo, Gina Martin Adams** is the most bearish strategist on Wall Street, predicting the S&P will fall 8.4% to 1,390 by the end of 2013. She says the year started with very strong funds flows, and everyone is bullish but unfortunately earnings are very weak. The combination of optimism and weak earnings; combined with expectations we will get through this earnings trough means the market over-valued. There have been a lot of warnings and she believes the earnings trough will be deeper and longer than the market thinks it will be.

Washington is a piece of her bearishness, and a resolution of the debt issue would be a relief, but she thinks resolutions will be piecemeal. As negotiations drag out, markets will fall.

**Jonathan Golub, UBS** is the second most bearish on Wall Street, predicting that markets will trade at 12.5x '13 earnings = S&P 1,425 = 6% fall by the end of 2013.

In his report dated February 20th he interviews head economist Maury Harris on his projected range of outcomes for economic activity and John Savercool, the head of U.S. Public Policy. Harris expects 2013 GDP growth of 2.3% with a range of 1.5% to 2.8%. He says state and local government budget cuts were a drag on growth in recent years, while this year Federal spending cuts will be the drag. The sequester amounts to $90B per year; but Bernanke is pumping in $85B per year, so monetary policy is highly stimulative.

Sivercool basically says deadlines with partial resolutions, but budget negotiations remain a focus for Washington for years to come. In my words, U.S. political influence on markets will be watered down.

Golub concludes that markets have been going up because risk came down, not because growth has reemerged. He averaged the P/E for the past 3 years at 12.5 and predicts markets must fall. He recommends food, beverages and consumer staples. We think he is off course risk has fallen in the past three years, so P/E's should be higher. Further, we think growth expectations will improve.

**Morgan Stanley, Adam Parker's** earnings estimates for the S&P 500 are $98.71X'13, about 8% below consensus. He predicts the market will fall 6%. He writes about idiosyncratic risk returns, commenting that risk is at its lowest level since the start of the financial crisis of 2008. His bearish earnings estimates were proven wrong last year, and he had to shift from being bearish to making some veiled bullish notes. He says it is a stock pickers market, and asks "Where do we go fishing?" He recommends Food & Staples, Retail, Food & Beverage, Consumer Durables and Tobacco.

## Bulls

**Citi, Tobias Levkovich** remains the most bullish on the street. He expects the market to close 2013 at 1,615. Levkovich refocuses from global risk valuation metrics to domestic recovery trends and relative value comparisons. His points are: 1. The US consumer looks in far better shape than was the case several years ago. 2. Trimming back on debt has restored debt service levels unseen since the early 90's. (look at figure 10 in his report from Feb 22nd and second guess it) 3. Future job trends may be healthier than perceived. 4. The wealth effect of stocks beats that of houses, but both are improving. 5. Caution on Consumer Discretionary sectors remains due to valuations. Like Fortrend, he likes cyclical stocks.

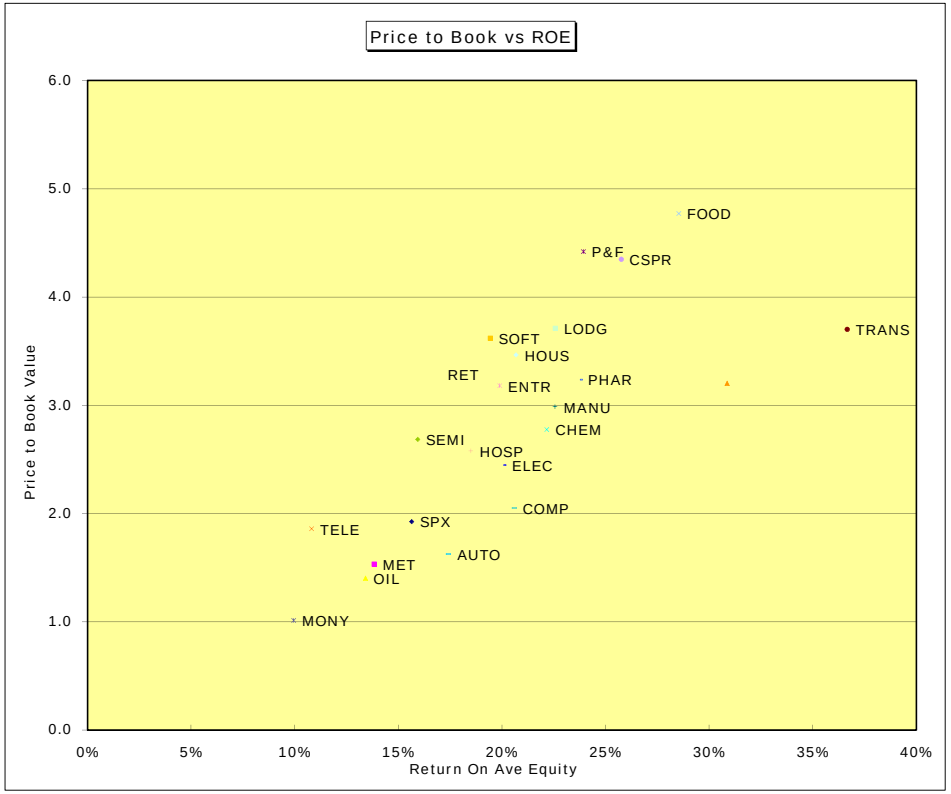
**Bank of America Merrill Lynch, Savita Subramanian** is the second biggest bull on the street, but is only looking for a 5% gain. Her report on Feb 26th reads a bit like a PHD thesis, and is fascinating for those interested in mental gymnastics, but I wonder if her track record can come anywhere close to Fortrend's for stock picking. She identifies a number of market movers such as Risk Premiums, Sell Side Indicators, Estimate Revisions, Revision Ratio's and Long Term Valuation Models. She does rigorous analysis, and comes up with something similar to the Fortrend conclusion: expect volatility, but markets are going up. I think she is missing the money flow back from the trade deficit and how that will be funneled into equities. But she does an intense job.

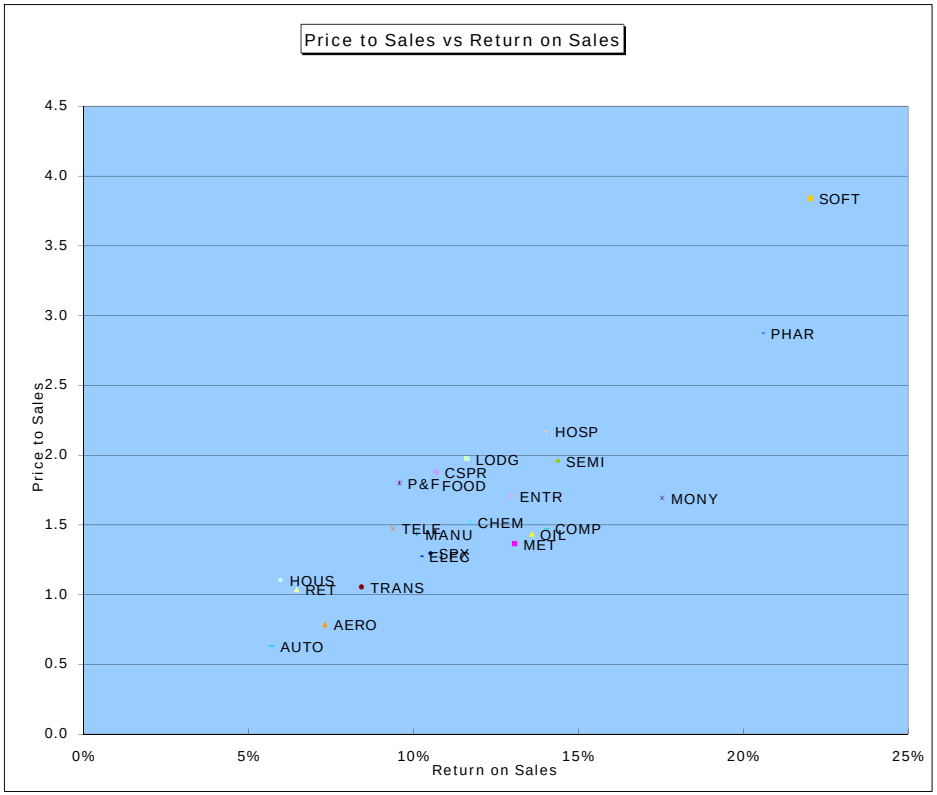
**Deutsche Bank, David Bianco** predicts the market will rise 6% in the next twelve months to trade at trade at 14.8x 108 EPS=1,600. He is telling clients to buy the "Tech's enduring eight" which sounds like a terrible idea to us – since tech companies have such a high churn rate. However, some companies he is recommending are great enduring companies, but I would not recommend them because they are

FORTREND SECURITIES

## THE RELATIVE VALUE MODEL

| Company | Code | Price | X Shares Outstanding | = | Market Cap | Equity 12A | EPS 13E | Div 13E | = | Equity 13E | EPS 14E | Div 14E | = | Equity 14E | Price/ Book | ROE 14E | Projected Sales 14E | Price/ Sales | ROS 14E | P/E 14E | Yield |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **S&P 500** | ***SPX*** | 1,518 | 1 | = | 1,518 | 669 | 110.74 | 34.42 | = | 745 | 123.41 | 36.79 | = | 832 | **1.9** | **15.6%** | 1,174 | **1.3** | **10.5%** | 12.3 | 2.4% |
| **RAW MATERIALS** | | | | | | | | | | | | | | | | | | | | | |
| **Metals** | ***MET*** | 28.53 | 476 | = | 13,400 | 9,596 | 2.38 | 0.94 | = | 10,509 | 2.90 | 0.96 | = | 11,571 | **1.5** | **13.8%** | 12,884 | **1.4** | **13.1%** | 10.4 | 3.2% |
| **Oil** | ***OIL*** | 65.88 | 1,362 | = | 97,403 | 56,523 | 5.79 | 1.51 | = | 62,796 | 6.52 | 1.60 | = | 69,629 | **1.4** | **13.4%** | 106,321 | **1.4** | **13.6%** | 10.5 | 2.4% |
| **INDUSTRIAL CYCLICAL** | | | | | | | | | | | | | | | | | | | | | |
| **Chemicals** | ***CHEM*** | 78.06 | 366 | = | 21,683 | 7,302 | 6.05 | 1.45 | = | 8,299 | 6.44 | 1.53 | = | 9,461 | **2.8** | **22.2%** | 20,447 | **1.5** | **11.7%** | 13.0 | 2.3% |
| **Paper, Forest Packaging** | ***P&F*** | 44.09 | 227 | = | 10,622 | 2,578 | 2.38 | 1.20 | = | 2,897 | 2.76 | 1.24 | = | 3,299 | **4.4** | **23.9%** | 8,307 | **1.8** | **9.6%** | 18.8 | 2.4% |
| **Transportation** | ***TRANS*** | 53.97 | 1,431 | = | 27,194 | 9,145 | 3.73 | 0.94 | = | 10,616 | 4.33 | 1.03 | = | 12,355 | **3.7** | **36.7%** | 30,794 | **1.1** | **8.4%** | 12.5 | 1.6% |
| **Manufacturing** | ***MANU*** | 77.25 | 206 | = | 17,574 | 5,070 | 4.82 | 1.16 | = | 5,875 | 5.52 | 1.21 | = | 6,803 | **3.0** | **22.6%** | 11,126 | **1.4** | **10.1%** | 14.2 | 1.8% |
| **Electrical** | ***ELEC*** | 78.08 | 1,316 | = | 48,151 | 19,801 | 5.60 | 1.39 | = | 22,094 | 6.24 | 1.48 | = | 24,661 | **2.4** | **20.1%** | 36,219 | **1.3** | **10.2%** | 12.5 | 2.0% |
| **CONSUMER CYCLICAL** | | | | | | | | | | | | | | | | | | | | | |
| **Automobile** | ***AUTO*** | 1,999.00 | 777 | = | 1,147,233 | 771,993 | 268.04 | 33.73 | = | 843,934 | 334.80 | 33.74 | = | 945,849 | **1.6** | **17.4%** | 2,105,589 | **0.6** | **5.7%** | 11.1 | 1.1% |
| **Housing** | ***HOUS*** | 140.57 | 166 | = | 6,705 | 2,081 | 7.37 | 0.56 | = | 2,331 | 10.02 | 0.61 | = | 2,681 | **3.5** | **20.7%** | 6,949 | **1.1** | **6.0%** | 18.5 | 1.0% |
| **Lodging** | ***LODG*** | 59.82 | 1,156 | = | 19,417 | 4,779 | 2.86 | 0.96 | = | 5,353 | 3.31 | 1.07 | = | 6,032 | **3.7** | **22.6%** | 9,100 | **2.0** | **11.6%** | 17.0 | 2.5% |
| **Retail** | ***RET*** | 94.86 | 724 | = | 51,295 | 13,696 | 5.13 | 1.12 | = | 15,574 | 6.06 | 0.81 | = | 17,985 | **3.3** | **17.0%** | 79,576 | **1.0** | **6.5%** | 16.0 | 1.6% |
| **CONSUMER NON-CYCLICALS** | | | | | | | | | | | | | | | | | | | | | |
| **Food** | ***FOOD*** | 53.35 | 1,003 | = | 50,747 | 13,435 | 2.95 | 1.45 | = | 14,793 | 3.20 | 1.59 | = | 16,270 | **4.8** | **28.5%** | 26,891 | **1.8** | **10.6%** | 16.8 | 3.0% |
| **Entertainment** | ***ENTR*** | 140.63 | 915 | = | 125,422 | 168,973 | 4.14 | 2.28 | = | 170,222 | 7.34 | 2.37 | = | 174,454 | **3.2** | **19.9%** | 450,382 | **1.7** | **13.0%** | 13.2 | 1.6% |
| **Consumer Prod.** | ***CSPR*** | 69.42 | 689 | = | 43,281 | 10,757 | 3.70 | 1.55 | = | 11,876 | 4.12 | 1.66 | = | 13,123 | **4.3** | **25.8%** | 20,621 | **1.9** | **10.7%** | 17.5 | 2.2% |
| **Health Care** | ***HOSP*** | 95.50 | 428 | = | 21,400 | 8,562 | 5.34 | 0.79 | = | 9,837 | 6.04 | 0.83 | = | 11,252 | **2.6** | **18.5%** | 27,021 | **2.2** | **14.0%** | 15.4 | 1.3% |
| **Pharmaceuticals** | ***PHAR*** | 64.51 | 1,680 | = | 77,831 | 23,144 | 4.36 | 1.51 | = | 26,250 | 4.73 | 1.62 | = | 29,553 | **3.2** | **23.8%** | 25,764 | **2.9** | **20.6%** | 14.0 | 2.5% |
| **TECHNOLOGY** | | | | | | | | | | | | | | | | | | | | | |
| **Computers** | ***COMP*** | 110,357.93 | 1,405 | = | 16,330,396 | 6,380,941 | 13,929.56 | 642.38 | = | 8,343,031 | 15,249.01 | 702.83 | = | 10,491,278 | **2.1** | **20.6%** | 18,269,275 | **1.5** | **14.0%** | 10.5 | 1.6% |
| **Semiconductors** | ***SEMI*** | 26.98 | 1,013 | = | 21,972 | 8,983 | 1.48 | 0.38 | = | 9,871 | 1.93 | 0.41 | = | 11,099 | **2.7** | **15.9%** | 11,141 | **2.0** | **14.4%** | 13.6 | 1.4% |
| **Software** | ***SOFT*** | 109.85 | 1,332 | = | 66,194 | 17,547 | 5.62 | 0.45 | = | 21,330 | 6.51 | 0.47 | = | 25,645 | **3.6** | **19.5%** | 18,887 | **3.8** | **22.0%** | 17.4 | 1.1% |
| **Aerospace** | ***AERO*** | 62.58 | 581 | = | 23,225 | 6,792 | 5.65 | 1.66 | = | 8,047 | 6.01 | 1.82 | = | 9,438 | **3.2** | **30.9%** | 31,142 | **0.8** | **7.3%** | 10.7 | 3.0% |
| **Telecom** | ***TELE*** | 31.07 | 2,803 | = | 64,349 | 31,664 | 1.62 | 0.88 | = | 33,100 | 1.94 | 0.92 | = | 35,049 | **1.9** | **10.8%** | 42,158 | **1.5** | **9.4%** | 15.7 | 2.8% |
| **Financial Inst.** | ***MONY*** | 51.06 | 2,851 | = | 89,560 | 107,933 | 4.61 | 0.75 | = | 115,154 | 5.19 | 0.87 | = | 123,130 | **1.0** | **9.9%** | 53,539 | **1.7** | **17.5%** | 9.6 | 1.8% |


Price to Book vs ROE
Price to Book Value
Return On Ave Equity
6.0
5.0
4.0
3.0
2.0
1.0
0.0
0%
5%
10%
15%
20%
25%
30%
35%
40%
FOOD
P&F
CSPR
TRANS
LODG
SOFT
HOUS
RET
ENTR
PHAR
MANU
CHEM
SEMI
HOSP
ELEC
COMP
SPX
TELE
AUTO
MET
OIL
MONY


Price to Sales vs Return on Sales
Price to Sales
Return on Sales
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
0%
5%
10%
15%
20%
25%
SOFT
PHAR
HOSP
LODG
SEMI
CSPR
P&F
FOOD
ENTR
MONY
CHEM
TELE
MANU
COMP
OIL
MET
ELEC
HOUS
RET
TRANS
AERO
AUTO

enduring. The stocks are: Cisco, EMC, Hewlett Packard, IBM, Intel, Mircosoft, NetApp, and Oracle.

Bianco is out of consumer staples. He said that the rise in gasoline, increase in payroll taxes and a rise in health care premiums will hit pockets. Avoid retailers, particularly where they have fierce competition from online retailers. He is overweight Media, Hotels, Restaurants and Leisure stocks.

## Fortrend View - The Virtuous Cycle

For all the concerns about over optimism, none of the strategists are looking for an exceptional year for equities. Yet I am more convinced than ever that the bull market is in full force. The consumer debt is down, and the Fed is pumping the market with cash which supports the housing market, and they have no intention to stop. The inverse wealth effect of the housing market collapse is history. After markets rebalanced, consumers have not yet started using equity in homes to go on a shopping spree.

US Government debt is finally getting some decent attention, and we believe that the sequester is good. The trajectory for debt growth is not as high, which reduces risk in DFC models. In other words, when debt stops going up so fast, the potential leverages in the US GDP comes down and the risk of volatility in US economic progress comes down. As risk comes down, companies invest, risk premiums fall and growth gets better. This is a virtuous cycle.

The sequester should take about $85B of spending out of the economy and the Fed can use QE to fill the pot hole, without inflation – for a while. The Fed is focused on jobs because that is where the slack is in the economy. The Fed is not focused on bank lending ratios. But bank lending ratios are looking good in anticipation of Basil III.

US bank creation of M2 is low, but if they start lending again, M2 could go up, and inflation could become a concern, but that will not happen for several years. If banks crank up lending, the Fed can pull back on QE. This is the counter balance the to virtuous cycle.

The big issue is still the trade deficit and the bubble cycles. We expect a great rotation to start this year, and that equity prices can go up 15%. The cycle is caused by the trade deficit, which forces foreign exporters of oil and widgets to the US to invest the cash in back into the US at a rate of about $45B/per month, or about an Apple a year. In the 90's money was recycled into stocks, from 2000- 2008 mortgages were securitized, and from 2008 until now money has flowed to the safety of US treasuries.

Now that risk is falling, money will start to flow back into equities. By the end of 2013 P/E's could easily be 15x '14 ($115) = 1,725 = 14% gain for the S&P 500.

| **HONEYWELL INTERNATIONAL** | | **$ 70.05** | **BUY** |
|---|---|---|---|
| **Market Cap** | | **$ 54,904** | **Mil** |
| **Sales** | **Est '13** | **$ 41,561** | **Mil** |
| **Profit** | **Est '13** | **$ 4,384** | **Mil** |
| **P/E** | **Est '13** | **12.7** | |

**Honeywell is a worldwide diversified technology and manufacturing company providing aerospace products and services, control, sensing and security technologies, turbochargers, automotive products, specialty chemicals, electronic and advanced materials, process technology for refining and petrochemicals, and energy efficient products and solutions.**

Sequestration impacted Honeywell, in a good way. Now that it is here, uncertainty is gone.

CEO David Cote said he would rather have sequestration than inaction. (Sequestration is not the result of inaction; it is the result of Republican power to hold the President to promises made when the debt ceiling was increased.)

David Cote spends too much time talking on TV and discussing politics. This month his speech in Boston was almost all about politics, and not about Honeywell, which is where we want him to focus. However, Honeywell is becoming a Wall Street darling. Cramer is pumping it on Mad Money.

He did spend some time this month talking about acquisitions, and said they have capital to deploy, but probably for acquisitions of $1B or less. He referred to the Allied Signal acquisition in 1999 which resulted in infighting. He said that deal was too large to digest and he wants to do more small deals.

Honeywell - 6 months

FORTREND SECURITIES

| NAVISTAR INTERNATIONAL C( | | $ | 24.11 | BUY |
|---|---|---|---|---|
| Market Cap | | $ | 1,930 | Mil |
| Sales | Est '14 | $ | 14,677 | Mil |
| Profit | Est '14 | $ | 162 | Mil |
| P/E | Est '14 | | 12.5 | |

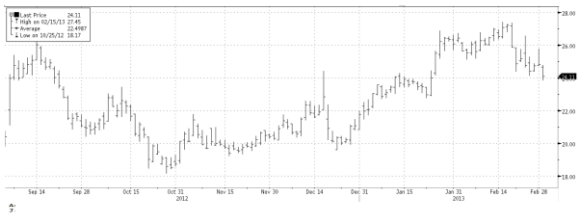
**Navistar International Corp manufactures and markets medium and heavy trucks, school buses, mid-range diesel engines, and service parts. The Company also provides financial services to its dealers and customers.**

Earnings estimates for Navistar stabilized in 2013 after falling during 2012. This October FYE company will report 1Q13 earnings on March 7th, the day we present this report. There are fifteen estimates from Wall Street ranging from a loss of $1.30 to a loss of $2.73. The average estimate is ($1.73).

The fundamental drivers in the Truck Building business are: volumes driven by consumer demand, cost advantages versus air and rail (which is impacted by diesel fuel prices), and market share between the four producers (Daimler, Paccar, Navistar and Volvo).

Our macro themes support a fundamental recovery of the industry; a stronger economy without a relatively strong diesel price. We like the systemic risk profile of the industry.

The kicker in owning Navistar is the company specific risk. After an accounting scandal, the company lost market share and management. It is in a rebuild phase with strong performance driven executives. Corporate activist Carl Icahn has two of his people on the board, and things will turn around for this American icon. But expect volatility. After adding the stock last month it dropped 8%, but that does not deter us in the slightest. If earnings are bad, it also would not deter us. Management may still be "sweeping the decks" but as problems are exposed and resolved the risk profile will fall and the stock price will surge.

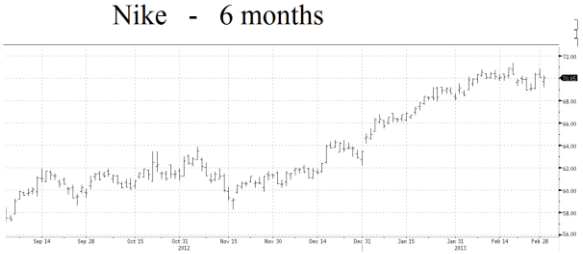


| NIKE INC -CL B | | $ | 54.82 | SOLD |
|---|---|---|---|---|
| Market Cap | | $ | 49,399 | Mil |
| Sales | Est '14 | $ | 27,270 | Mil |
| Profit | Est '14 | $ | 2,687 | Mil |
| P/E | Est '14 | | 18.6 | |

**NIKE, Inc. designs, develops, and markets athletic footwear, apparel, equipment, and accessory products for men, women, and children. The Company sells its products worldwide to retail stores, through its own stores, subsidiaries, and distributors.**

We only added Nike in September 2012 at 48.68. It was added after some disappointing short term results created a compelling long term investment opportunity. But the stock surged creating a compelling opportunity to take a great profit at 55.75. That is 14% in 5 months, a good result. We sold at a limit during the month, and have been holding 10% cash during the last couple weeks of volatility.

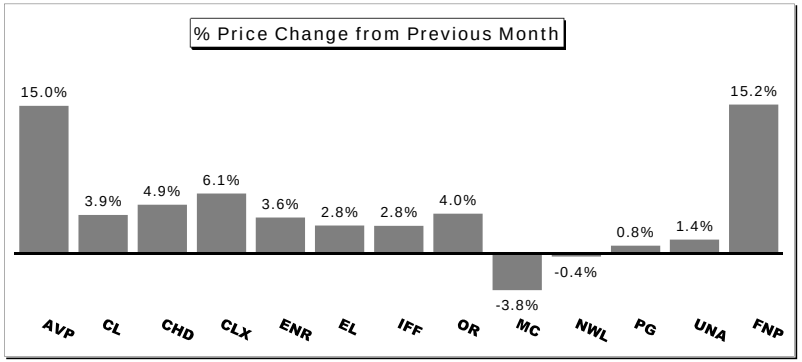
Nike - 6 months

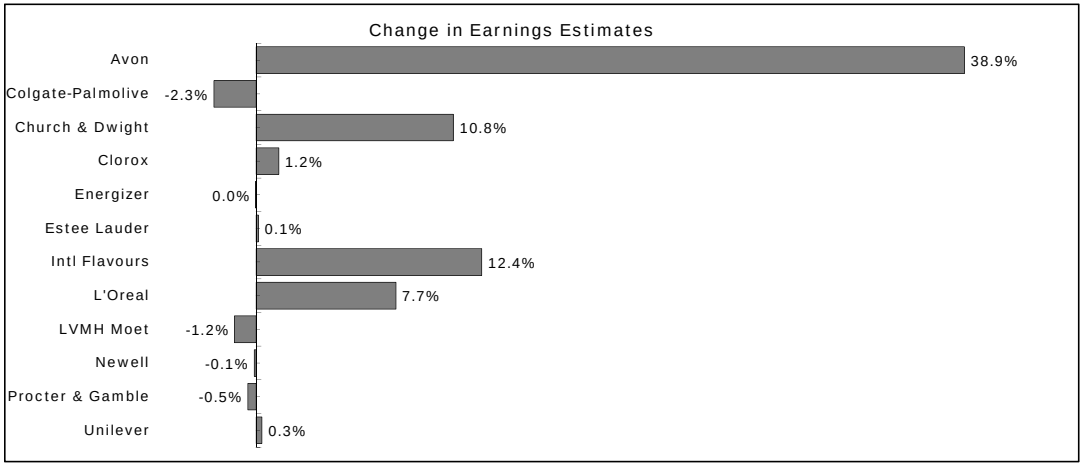


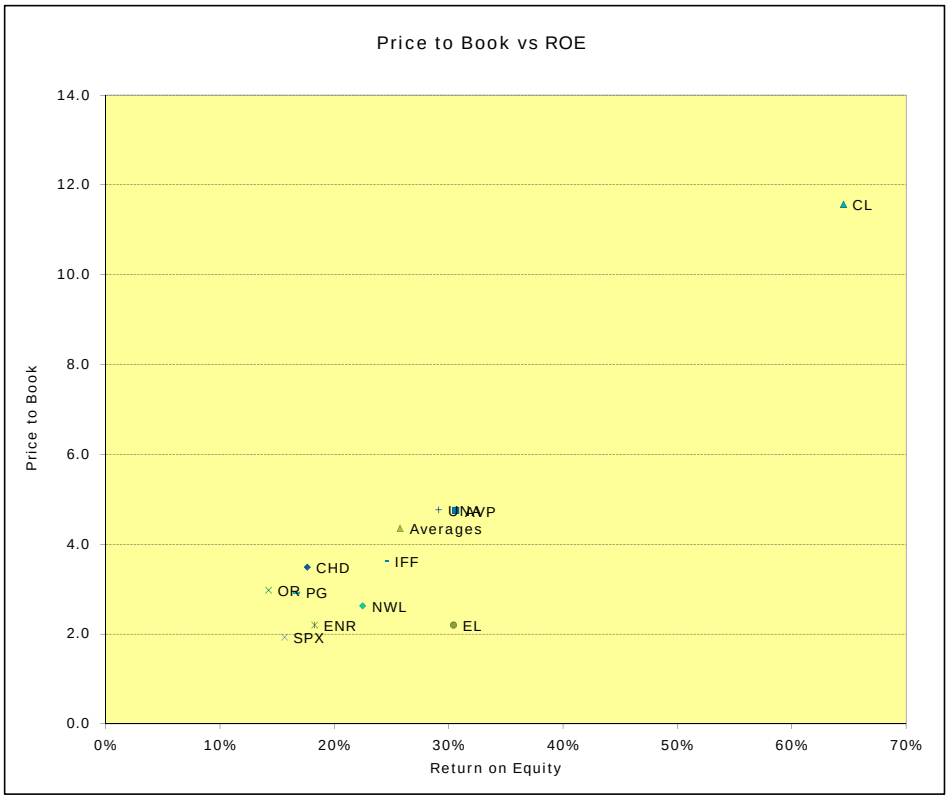
## CONSUMER PRODUCTS

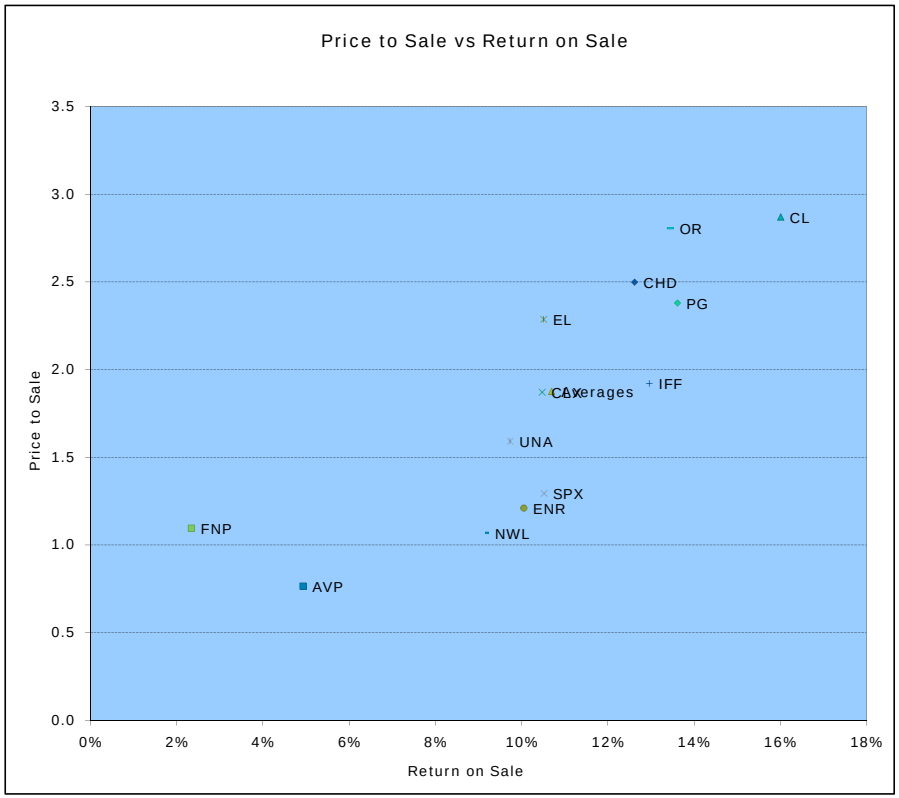
| Company | Code | | Price | X Shares Outstanding | = | Market Cap | Equity 12A | EPS 13E | Div 13E | = | Equity 13E | EPS 14E | Div 14E | = | Equity 14E | Price/ Book | ROE 14E | Projected Sales 14E | Price/ Sales | ROS 14E | P/E 14E | Yield | FYE |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avon** | ***AVP*** | USD | 19.73 | 432 | = | 8,527 | 1,233 | 1.03 | 0.24 | = | 1,574 | 1.27 | 0.25 | = | 2,018 | 4.7 | 30.6% | 11,150 | 0.8 | 4.9% | 15.5 | 1.2% | Dec |
| **Colgate-Palmolive** | ***CL*** | USD | 114.11 | 472 | = | 53,915 | 2,390 | 5.76 | 2.67 | = | 3,849 | 6.37 | 2.93 | = | 5,472 | 11.6 | 64.5% | 18,785 | 2.9 | 16.0% | 17.9 | 2.6% | Dec |
| **Church & Dwight** | ***CHD*** | USD | 61.38 | 138 | = | 8,470 | 2,061 | 2.81 | 1.10 | = | 2,297 | 3.10 | 1.20 | = | 2,559 | 3.5 | 17.6% | 3,392 | 2.5 | 12.6% | 19.8 | 2.0% | Dec |
| **Clorox** | ***CLX*** | USD | 83.98 | 131 | = | 10,998 | (135) | 4.34 | 2.58 | = | 96 | 4.70 | 2.79 | = | 347 | NM | NM | 5,881 | 1.9 | 10.5% | 17.9 | 3.3% | Jun |
| **Energizer** | ***ENR*** | USD | 91.24 | 62 | = | 5,661 | 2,070 | 6.81 | 1.61 | = | 2,392 | 7.58 | 1.69 | = | 2,758 | 2.2 | 18.3% | 4,679 | 1.2 | 10.1% | 12.0 | 1.9% | Sep |
| **Estee Lauder** | ***EL*** | USD | 64.47 | 389 | = | 25,103 | 2,748 | 2.59 | 0.99 | = | 3,371 | 2.97 | 0.79 | = | 4,219 | 6.6 | 30.4% | 10,980 | 2.3 | 10.5% | 21.7 | 1.2% | Jun |
| **Intl Flavours** | ***IFF*** | USD | 73.30 | 81 | = | 5,973 | 1,253 | 4.42 | 1.36 | = | 1,502 | 4.95 | 1.38 | = | 1,793 | 3.6 | 24.5% | 3,110 | 1.9 | 13.0% | 14.8 | 1.9% | Dec |
| **L'Oreal** | ***OR*** | **EUR** | 115.20 | 604 | = | 69,617 | 20,936 | 5.12 | 2.43 | = | 22,559 | 5.53 | 2.66 | = | 24,289 | 3.0 | 14.3% | 24,826 | 2.8 | 13.5% | 20.8 | 2.3% | Dec |
| **LVMH Moet** | ***MC*** | **EUR** | 131.40 | 508 | = | 66,708 | 25,666 | 7.61 | 3.29 | = | 27,863 | 8.53 | 3.71 | = | 30,309 | 2.3 | 14.9% | 32,726 | 2.0 | 13.2% | 15.4 | 2.8% | Dec |
| **Newell** | ***NWL*** | USD | 23.30 | 288 | = | 6,701 | 2,000 | 1.83 | 0.61 | = | 2,350 | 2.00 | 0.59 | = | 2,755 | 2.6 | 22.5% | 6,264 | 1.1 | 9.2% | 11.7 | 2.5% | Dec |
| **Procter & Gamble** | ***PG*** | USD | 76.49 | 2,732 | = | 208,944 | 64,035 | 4.06 | 2.28 | = | 68,908 | 4.38 | 2.46 | = | 74,161 | 2.9 | 16.7% | 87,840 | 2.4 | 13.6% | 17.5 | 3.2% | Jun |
| **Unilever** | ***UNA*** | **EUR** | 29.99 | 2,998 | = | 89,901 | 15,716 | 1.69 | 1.02 | = | 17,752 | 1.83 | 1.08 | = | 20,000 | 4.8 | 29.1% | 56,491 | 1.6 | 9.7% | 16.3 | 3.6% | Jun |
| **Fifth & Pacific** | ***FNP*** | USD | 17.85 | 120 | = | 2,139 | (127) | 0.02 | - | = | (125) | 0.38 | - | = | (79) | NM | NM | 1,954 | 1.1 | 2.3% | 46.7 | 0.0% | Oct |
| | | | | | | | | | | | | | | | Averages | 4.3 | 25.8% | | 1.9 | 10.7% | 17.5 | 2.2% | |
| **S&P 500** | ***SPX*** | | 1,518 | 1 | = | 1,518 | 669 | 110.74 | 34.42 | = | 745 | 123.41 | 36.79 | = | 832 | **1.9** | **15.6%** | 1,174 | **1.3** | **10.5%** | 12.3 | 2.4% | |

| | |
|---|---|
| Plus Percentage Change in Price/Book | 1.6% |
| Minus Percentage Change in ROE 2014 | 2.8% |
| Equals Percentage change in P/E 2014 | -1.2% |
| P/E Last Month 2013 | 38.7 |
| Current P/E 2014 | 17.5 |




Price to Book vs ROE
Price to Book
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
0%
10%
20%
30%
40%
50%
60%
70%
Return on Equity
CL
UNA
AVP
Averages
CHD
IFF
OR
PG
NWL
ENR
EL
SPX


Price to Sale vs Return on Sale
Price to Sale
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
0%
2%
4%
6%
8%
10%
12%
14%
16%
18%
Return on Sale
CL
OR
CHD
PG
EL
IFF
Averages
UNA
SPX
ENR
FNP
NWL
AVP

| DR PEPPER SNAPPLE GROUP IN | | $ | 43.78 | BUY |
|---|---|---|---|---|
| Market Cap | | $ | 8,915 | Mil |
| Sales | Est '13 | $ | 6,342 | Mil |
| Profit | Est '13 | $ | 659 | Mil |
| P/E | Est '13 | | 13.2 | |

**Dr Pepper Snapple Group, Inc. is an integrated brand owner, bottler and distributor of non-alcoholic beverages in the United States, Canada and Mexico. The Company offers flavored carbonated and non-carbonated soft drinks, teas, juices, juice drinks and mixers.**

Dr Pepper reported sales of $1,484m up 1.6% from $1,461m last year. Earnings rose to $170m from $165m last year, or 82 cents per share. Wall Street was looking for 85 cents, so the result was disappointing, and the stock price fell. They also guided lower by reducing the top end of range for 2013.

Ongoing productivity improvements and lower marketing investments were partially offset by planned increases in labor and benefits and a higher LIFO inventory provision of $6 million

The stock price ended the month 3.2% lower. We recommend buying the stock at these levels.

Dr Pepper - 6 months

| THERMO FISHER SCIENTIFIC IN | | $ | 74.78 | BUY |
|---|---|---|---|---|
| Market Cap | | $ | 26,937 | Mil |
| Sales | Est '13 | $ | 13,494 | Mil |
| Profit | Est '13 | $ | 2,108 | Mil |
| P/E | Est '13 | | 12.5 | |

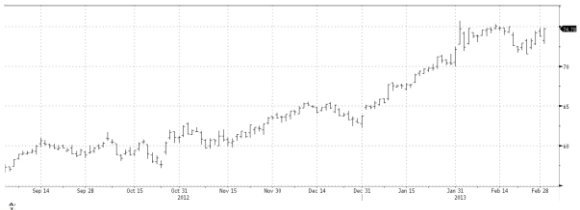
**Thermo Fisher Scientific, Inc. manufactures scientific instruments, consumables, and chemicals. The Company offers analytical instruments, laboratory equipment, software, services, consumables, reagents, chemicals, and supplies to pharmaceutical and biotech companies, hospitals and clinical diagnostic labs, universities, research institutions, and government agencies.**

Sequestration should impact Thermo Fisher less than Honeywell because Thermo Fisher is more global, and less dependent on U.S. government sales. Medicare will see a 2% budget reduction, while the National Institutes of Health, which funds medical research, will be cut by 5%, or about $1.5 billion, according to the White House.

By their reactions on Friday, investors expected and even took comfort in knowing the budget cuts are real and defined. This shows that while the press acted as an "echo chamber" for the political noise surrounding sequestration, Wall Street understood the numbers and probable impact on short term earnings. The bottom line is that estimates were unchanged.

Unlike Honeywell, Thermo's CEO is not on the public debate circuit, so there was no company specific news this month. Earnings come out on April 25th.

Thermo Fisher - 6 months



| CONAGRA FOODS INC | | $ | 34.30 | BUY |
|---|---|---|---|---|
| Market Cap | | $ | 14,168 | Mil |
| Sales | Est '14 | $ | 18,350 | Mil |
| Profit | Est '14 | $ | 1,020 | Mil |
| P/E | Est '14 | | 13.9 | |

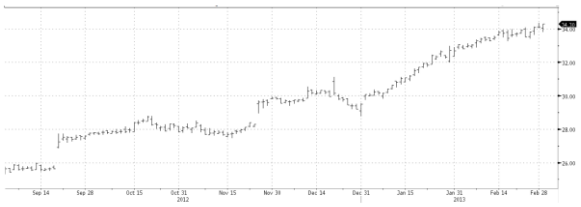
**ConAgra Foods, Inc. manufactures and markets packaged foods for retail consumers, restaurants and institutions. The Company offers a wide range of food products, including meals, entrees, condiments, sides, snacks, specialty potato products, milled grain ingredients, dehydrated vegetables and seasonings, and blends and flavors.**

ConAgra has been a star since we added it to the buy list two months ago. In Mid February ConAgra presented to a group of analysts an upbeat outlook for earnings.

The company's "Recipe for Growth" focuses on growth opportunities in core/adjacencies, international markets, and private label. Meantime, the recent acquisition of Ralcorp creates a leveraged play where we can expect debt to be worked off and risk to fall over the next two years. A major risk is the execution of the merger (which Honeywell admitted can be hard as per Allied Signal).

Gary Rodkin, CEO said "The profitability of our core business is showing strong progress. We have already begun the Ralcorp integration process, and look forward to reporting on our progress over the next few months." Preliminary estimates for fiscal 2013 diluted EPS have been raised to a target of approximately $2.15. The company currently expects Ralcorp to add approximately $0.25 to fiscal 2014.

ConAgra - 6 months



| NVIDIA CORP | | $ | 12.71 | BUY |
|---|---|---|---|---|
| Market Cap | | $ | 7,942 | Mil |
| Sales | Est '13 | $ | 4,638 | Mil |
| Profit | Est '13 | $ | 604 | Mil |
| P/E | Est '13 | | 13.1 | |

**NVIDIA Corporation designs, develops, and markets three dimensional (3D) graphics processors and related software. The Company's products provide interactive 3D graphics to the mainstream personal computer market.**

Nvidia finished the month 2.75% higher even though they provided downward guidance during the month. The maker of graphics processors, forecasted 1Q13 sales that fell short of estimates amid weak demand for personal-computer parts and stiff competition in new markets.

Sales in the period ending in April will be about $940m compared with an average analyst projection of $1,070m.

PC makers, facing lackluster demand as consumers opt for mobile devices, are scaling back orders for components, including Nvidia's chips that speed up graphics for gamers and designers. The company's attempt to move into the faster-growing market for phones and tablets with its Tegra processor is also running into tough competition from companies such as Qualcomm. One analyst commented that "On the Tegra side, there's an increasingly difficult competitive and customer situation."

Nvidia CEO said he will not sell chips to Sony for their new Playstation 4, but instead wants to focus on chips for mobile devices like Google's Android platform.

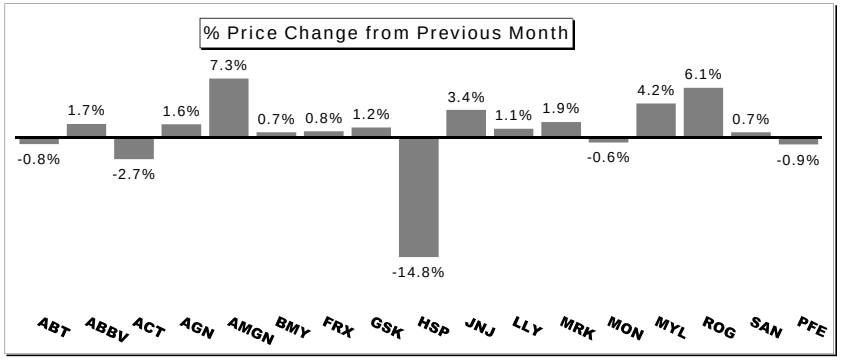
We remain buyers on a relative value basis.

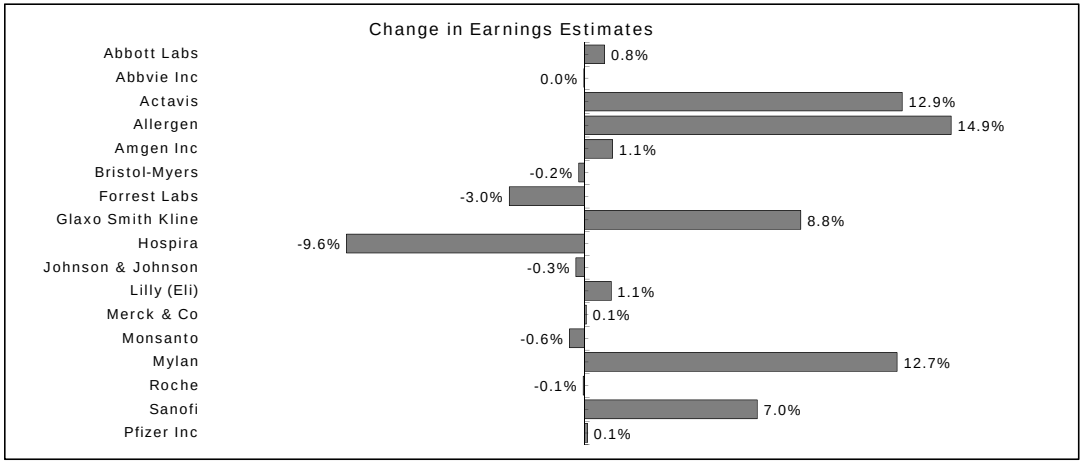
Nvidia - 6 months

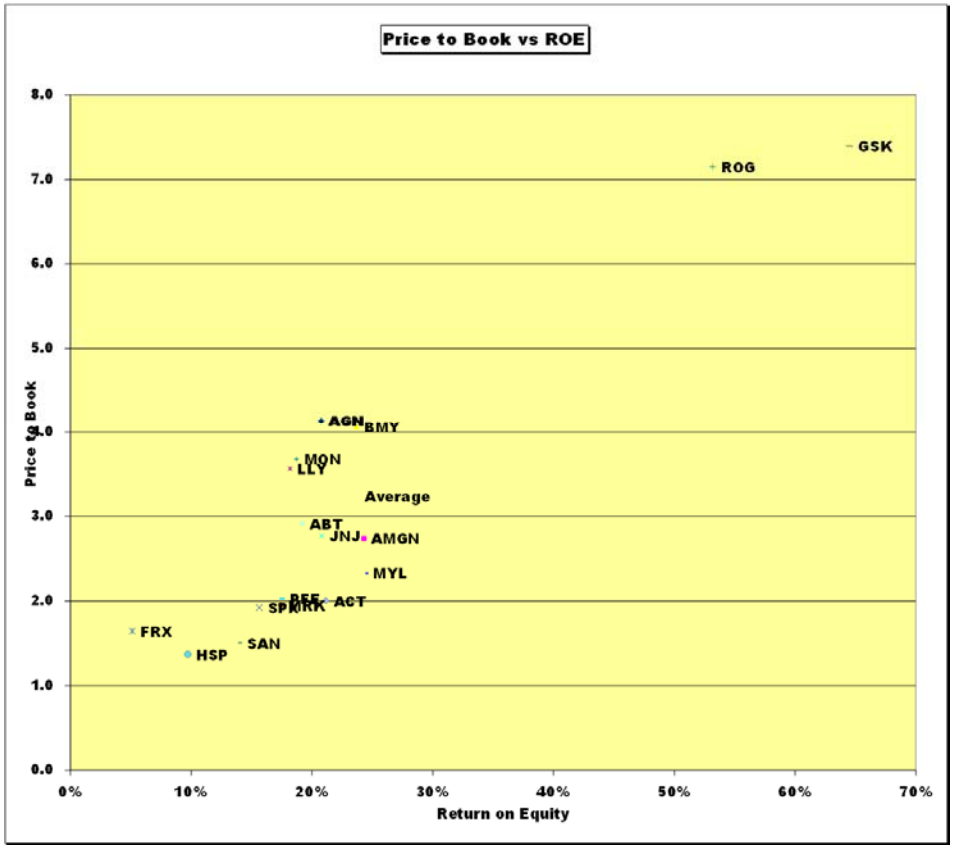
## PHARMACEUTICALS

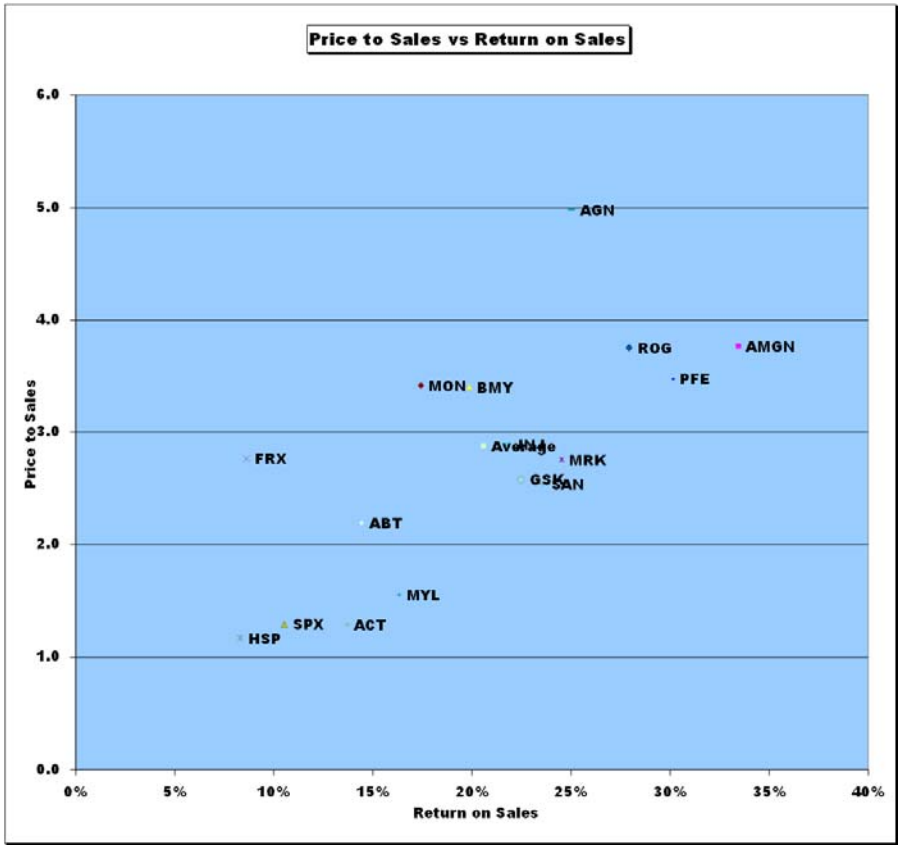
| Company | Code | | Price | X Shares Outstanding | = | Market Cap | Equity 12A | EPS 13E | Div 13E | = | Equity 13E | EPS 14E | Div 14E | = | Equity 14E | Price/ Book | ROE 14E | Projected Sales 14E | Price/ Sales | ROS 14E | P/E 14E | Yield | FYE |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Abbott Labs** | ***ABT*** | **USD** | 33.60 | 1,571 | = | 52,775 | 14,590 | 1.99 | 0.56 | = | 16,836 | 2.21 | 0.63 | = | 19,319 | 2.9 | 19.2% | 24,074 | 2.2 | 14.4% | 15.2 | 1.9% | Dec |
| **Abbvie Inc** | ***ABBV*** | **USD** | 37.81 | 1,571 | = | 59,387 | 12,224 | 3.10 | 1.60 | = | 14,581 | 3.18 | 1.65 | = | 16,986 | 3.8 | 31.6% | 18,746 | 3.2 | 26.6% | 11.9 | 4.4% | Dec |
| **Actavis** | ***ACT*** | **USD** | 85.54 | 128 | = | 10,935 | 3,856 | 8.02 | - | = | 4,881 | 9.03 | - | = | 6,035 | 2.0 | 21.1% | 8,477 | 1.3 | 13.6% | 9.5 | 0.0% | Dec |
| **Allergen** | ***AGN*** | **USD** | 108.60 | 308 | = | 33,400 | 5,863 | 4.76 | 0.20 | = | 7,264 | 5.45 | 0.21 | = | 8,877 | 4.1 | 20.8% | 6,701 | 5.0 | 25.0% | 19.9 | 0.2% | Dec |
| **Amgen Inc** | ***AMGN*** | **USD** | 92.58 | 748 | = | 69,290 | 19,060 | 7.19 | 1.86 | = | 23,048 | 8.21 | 2.25 | = | 27,508 | 2.7 | 24.3% | 18,373 | 3.8 | 33.4% | 11.3 | 2.4% | Dec |
| **Bristol-Myers** | ***BMY*** | **USD** | 37.15 | 1,637 | = | 60,828 | 13,638 | 1.84 | 1.40 | = | 14,368 | 2.17 | 1.43 | = | 15,583 | 4.1 | 23.7% | 17,865 | 3.4 | 19.9% | 17.1 | 3.8% | Dec |
| **Forrest Labs** | ***FRX*** | **USD** | 36.76 | 266 | = | 9,789 | 5,677 | 0.42 | - | = | 5,788 | 1.15 | - | = | 6,093 | 1.6 | 5.1% | 3,543 | 2.8 | 8.6% | 32.1 | 0.0% | Dec |
| **Glaxo Smith Kline** | ***GSK*** | **GBp** | 14.66 | 4,906 | = | 71,928 | 6,747 | 1.16 | 0.78 | = | 8,611 | 1.28 | 0.83 | = | 10,834 | 7.4 | 64.5% | 27,919 | 2.6 | 22.5% | 11.5 | 5.6% | Dec |
| **Hospira** | ***HSP*** | **USD** | 29.45 | 165 | = | 4,866 | 3,042 | 2.05 | - | = | 3,381 | 2.09 | - | = | 3,726 | 1.4 | 9.7% | 4,162 | 1.2 | 8.3% | 14.1 | 0.0% | Dec |
| **Johnson & Johnson** | ***JNJ*** | **USD** | 76.70 | 2,795 | = | 214,401 | 64,826 | 5.42 | 2.48 | = | 73,027 | 5.77 | 2.62 | = | 81,836 | 2.8 | 20.8% | 74,194 | 2.9 | 21.7% | 13.3 | 3.4% | Dec |
| **Lilly (Eli)** | ***LLY*** | **USD** | 54.78 | 1,134 | = | 62,143 | 14,774 | 3.90 | 1.96 | = | 16,969 | 2.80 | 1.96 | = | 17,913 | 3.6 | 18.2% | 19,909 | 3.1 | 15.9% | 19.6 | 3.6% | Dec |
| **Merck & Co** | ***MRK*** | **USD** | 42.63 | 3,022 | = | 128,844 | 56,943 | 3.64 | 1.71 | = | 62,785 | 3.80 | 1.74 | = | 69,014 | 2.0 | 17.4% | 46,797 | 2.8 | 24.5% | 11.2 | 4.1% | Dec |
| **Monsanto** | ***MON*** | **USD** | 101.66 | 536 | = | 54,471 | 12,036 | 4.56 | 1.29 | = | 13,792 | 5.17 | 1.39 | = | 15,821 | 3.7 | 18.7% | 15,921 | 3.4 | 17.4% | 19.6 | 1.4% | Aug |
| **Mylan** | ***MYL*** | **USD** | 30.10 | 396 | = | 11,906 | 3,356 | 2.85 | - | = | 4,484 | 3.16 | - | = | 5,733 | 2.3 | 24.5% | 7,659 | 1.6 | 16.3% | 9.5 | 0.0% | Mar |
| **Roche** | ***ROG*** | **CHF** | 215.00 | 863 | = | 185,451 | 16,728 | 14.92 | 7.93 | = | 22,751 | 15.98 | 8.62 | = | 29,097 | 7.2 | 53.2% | 49,367 | 3.8 | 27.9% | 13.5 | 4.0% | Mar |
| **Sanofi** | ***SAN*** | **EUR** | 72.23 | 1,326 | = | 95,802 | 57,472 | 6.00 | 2.94 | = | 61,537 | 6.69 | 3.26 | = | 66,091 | 1.5 | 13.9% | 37,715 | 2.5 | 23.5% | 10.8 | 4.5% | Dec |
| **Pfizer Inc** | ***PFE*** | **USD** | 27.39 | 7,189 | = | 196,908 | 82,621 | 2.28 | 0.95 | = | 92,147 | 2.37 | 1.01 | = | 101,931 | 2.0 | 17.5% | 56,562 | 3.5 | 30.1% | 11.6 | 3.7% | Dec |
| | | | | | | | | | | | | | | | Average | 3.2 | 23.8% | | 2.9 | 20.6% | 14.0 | 2.5% | |
| **S&P 500** | ***SPX*** | | 1,518 | 1 | = | 1,518 | 669 | 110.74 | 34.42 | = | 745 | 123.41 | 36.79 | = | 832 | **1.9** | **15.6%** | 1,174 | **1.3** | **10.5%** | 12.3 | 2.4% | |

| | |
|---|---|
| Plus Percentage Change in Price/Book | 0.8% |
| Minus Percentage Change in ROE 2014 | 3.2% |
| Equals Percentage change in P/E 2014 | -2.4% |
| P/E Last Month 2013 | 15.0 |
| Current P/E 2014 | 14.0 |




Price to Book vs ROE
Price to Book
Return on Equity
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
0%
10%
20%
30%
40%
50%
60%
70%
GSK
ROG
AGN
BMY
MON
LLY
Average
ABT
JNJ
AMGN
MYL
SPX
MRK
ACT
FRX
HSP
SAN

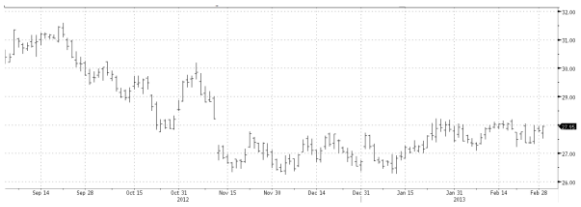

Price to Sales vs Return on Sales
Price to Sales
Return on Sales
6.0
5.0
4.0
3.0
2.0
1.0
0.0
0%
5%
10%
15%
20%
25%
30%
35%
40%
AGN
ROG
AMGN
PFE
MON
BMY
FRX
MRK
GSK
SAN
ABT
MYL
SPX
ACT
HSP

| MICROSOFT CORP | | $ 27.95 | BUY |
|---|---|---|---|
| Market Cap | | $ 234,116 | Mil |
| Sales | Est '13 | $ 86,101 | Mil |
| Profit | Est '13 | $ 26,192 | Mil |
| P/E | Est '13 | 8.9 | |

**Microsoft develops, licenses, sells, and supports software products. The Company offers operating system software, server application software, business and consumer applications and Internet and intranet software. Microsoft also develops the MSN network of Internet products and services.**

Although estimates came down in the second half of 2012, they have stabilized in 2013. This is reflected in the graph below. Wall Street expects earnings of 77 cents on April 18th.

Microsoft - 6 months



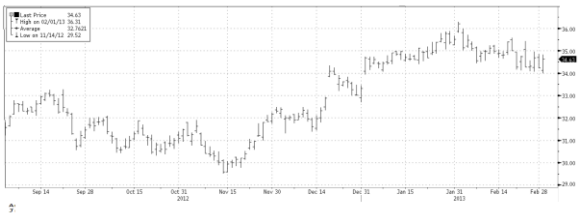
| ORACLE CORP | | $ 34.63 | BUY |
|---|---|---|---|
| Market Cap | | $ 163,949 | Mil |
| Sales | Est '13 | $ 40,704 | Mil |
| Profit | Est '13 | $ 14,196 | Mil |
| P/E | Est '13 | 11.7 | |

**Oracle supplies software for enterprise information management. They offer databases and relational servers, application development and enterprise business applications. Oracle's software runs on network computers, personal digital assistants, set-top devices, PCs, workstations, mainframes, and massively parallel computers.**

Oracle was one of the losers in the portfolio this month which cause a mild underperfornace. This does not concern us because it was not driven by worthy news, but looks more like a retracement from a good performance in the prior period.

Oracle agreed to acquire Acme Packet for $2.1b, a maker of networking gear that helps corporations securely transmit information over the Internet. Oracle has spent more han $50b on more than 80 acquisitions since 2005 to expand in the market for software and hardware that enable cloud-computing, moving beyond the company's traditional applications that run on corporate servers. Acme's tools to transmit voice and video via the Web may help Oracle challenge Cisco Cisco in networking -- a market that's benefiting from the boom in mobile devices.

Oracle -- 6 months

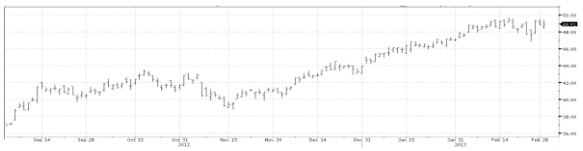


| JPMORGAN CHASE & CO | | $ 48.91 | BUY |
|---|---|---|---|
| Market Cap | | $ 186,054 | Mil |
| Sales | Est '14 | $ 102,641 | Mil |
| Profit | Est '14 | $ 22,018 | Mil |
| P/E | Est '14 | 8.4 | |

**JPMorgan Chase & Co. provides global financial services and retail banking. The Company provides services such as investment banking, treasury and securities services, asset management, private banking, card member services, commercial banking, and home finance. JP Morgan Chase serves business enterprises, institutions, and individuals.**

There is always a lot of news on JP Morgan, much more than that market impact news. The two key issues are that the "Whale Trade" is being unwound and they are moving on and second, banks appear to be so well capitalized that they will soon need to start lending. This makes up a part of the bubble cycle and great rotation analysis.

JP Morgan - 6 months



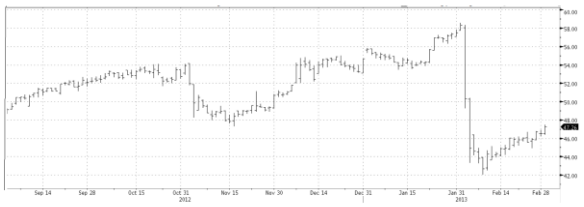
| MCGRAW-HILL COMPANIES IN | | $ 47.26 | BUY |
|---|---|---|---|
| Market Cap | | $ 13,271 | Mil |
| Sales | Est '14 | $ 5,585 | Mil |
| Profit | Est '14 | $ 1,034 | Mil |
| P/E | Est '14 | 12.6 | |

McGraw-Hill, headquartered in New York, operates in two segments, McGraw-Hill Financial (MHF) and McGraw-Hill Education (MHE). MHF houses the Standard & Poor's credit ratings business, the Capital IQ financial data products, the S&P Dow Jones Indices business, the Platts commodities pricing business, JD Powers, and McGraw-Hill Construction products such as the Dodge Reports and Aviation Week. MHE serves education needs for kindergarten through continuing professional education. McGraw-Hill announced plans in September 2011 to spin off the Education division.

The recent sell-off presents a compelling investment opportunity: strong fundamentals and attractive valuation.

1. The stock has been oversold on the back of a DoJ complaint which we anticipate will be resolved via negotiated settlement;
2. MHP is selling its low margin, low growth Education business to focus on high margin, high growth financial information services;
3. ~12.6X estimated 2014 earnings, ~2.4% dividend yield;
4. Management with proven commitment to returning value to shareholders through dividends, divestures, share repurchases, margin expansion, and strategic realignment.

McGraw Hill - 6 months



| Relative Value Model | | | | | | |
|---|---|---|---|---|---|---|
| **Sector** | **Company** | **Advice** | **Price** | **52 week High/Low** | | **P/E 2014** |
| Metals | | | | | | |
| Oil | | | | | | |
| Chemicals | | | | | | |
| Paper & Forest Products | | | | | | |
| Transportation | | | | | | |
| Manufacturing | **Honeywell** | **Buy** | **$ 70.05** | **52.2** | **71.4** | **12.7** |
| Elec. & Mfg Equipment | | | | | | |
| Automobile | **Navistar** | **Buy** | **$ 24.11** | **18.2** | **43.1** | **12.5** |
| Housing | | | | | | |
| Lodging & Restaurants | | | | | | |
| Retail | **Nike** | **SOLD** | **$ 54.82** | **42.6** | **57.4** | **18.6** |
| Real Estate | | | | | | |
| Food | **Dr Pepper** | **Buy** | **$ 43.78** | **37.4** | **46.4** | **13.2** |
| Media / Entertainment | **McGraw Hill** | **Buy** | **$ 47.26** | **40.1** | **58.6** | **12.6** |
| Consumer Products | | | | | | |
| Hospital | **Thermo Fisher** | **Buy** | **$ 74.78** | **48.1** | **75.8** | **12.5** |
| Pharmaceutical | | | | | | |
| Computers | | | | | | |
| Semiconductors | **Nvidia** | **Buy** | **$ 12.71** | **11.2** | **15.5** | **13.1** |
| Software | **Microsoft** | **Buy** | **$ 27.95** | **26.3** | **33.0** | **8.9** |
| | **Oracle** | **Buy** | **$ 34.63** | **25.3** | **36.3** | **11.7** |
| Aerospace | | | | | | |
| Financial | **JP Morgan** | **Buy** | **$ 48.91** | **30.8** | **49.7** | **8.4** |

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