

JUNE 2, 2011

## Early Birds or Late Bloomers

A common belief in the investment community is that those companies with good news report earnings early while those with less cheery narrative delay releasing results until later in the season. That appears to be the case this quarter but that does not mean there is no further insight to be had. Health Care (HC) and Information Technology (IT) held up the best relative to the mid-season report we did a month ago. This is notable in IT since at the time only half of companies had reported, yet the magnitude of surprise is virtually unchanged. One would have thought with that many companies left to report there was potential for a downward trend. The biggest negative changes were actually in Financials and Energy. Both have industry dynamics at play that produce disparity between winners and losers, leading to large swings in the median. Clearly, the winners in these two sectors reported good news early and the losers waited in hopes that some earnings watchers might suffer from attention deficit allowing their subpar results to go unnoticed.

Q2 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q1'10 - Q1'11 % Earnings Growth	Median Q2'10 - Q2'11 Expected Earnings Growth	Median 2011 Expected Growth (EPS / Sales)
S&P 500	93%	73% / 68%	4.0% / 1.3%	17.8%	12.0%	14.1% / 8.0%
Ex Financials	93%	75% / 70%	3.8% / 1.3%	16.7%	11.0%	13.5% / 8.3%
Smith Group Large Cap	95%	91% / 84%	5.3% / 3.6%	45.1%	24.9%	27.5% / 14.4%

S&P 500 Sectors						
Consumer Discretionary	89%	68% / 73%	3.6% / 1.5%	19.3%	13.2%	15.7% / 7.6%
Consumer Staples	83%	67% / 68%	1.4% / 1.5%	10.2%	5.9%	8.5% / 5.9%
Energy	100%	64% / 71%	3.0% / 4.8%	14.5%	36.6%	35.1% / 20.3%
Financials	96%	65% / 55%	5.2% / 0.6%	23.3%	14.3%	18.6% / 4.3%
Health Care	98%	89% / 82%	4.7% / 1.3%	16.8%	9.9%	11.8% / 5.5%
Industrials	93%	78% / 75%	4.2% / 1.4%	23.7%	14.1%	20.2% / 9.8%
Info Tech	88%	82% / 78%	4.9% / 1.4%	19.3%	11.6%	14.0% / 12.2%
Materials	100%	83% / 74%	6.1% / 2.5%	27.5%	23.2%	21.6% / 10.8%
Telecom	89%	80% / 71%	1.0% / 0.3%	-0.4%	-0.5%	4.1% / 12.2%
Utilities	100%	61% / 26%	1.4% / -2.7%	0.0%	0.2%	2.8% / 3.1%

## Can't Get No Satisfaction

The bearish camp got little satisfaction this quarter when it comes to the outlook for the rest of the year. Those who believe 2011 estimates are too rosy and that analysts will soon begin to lower them are still leaning against the wind. Both sales and earnings estimates for the current year increased. Obviously, this is partially a function of positive surprises in recent reports but Information Technology and Energy both are experiencing solidly positive trends in the upcoming quarter. For the full year, earnings and sales estimates have gotten stronger over the last 30 days in six of ten sectors, led by a large jump in earnings expectations in the oil patch. In general, it appears that analysts are moderating growth expectations for the 2nd quarter, while leaving full year growth estimates intact or increasing them. This is often a sign of uncertainty and will eventually have to sort itself out over the course of the year.

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