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## Earnings Hold Better Than Stocks

Given the market slide in August one might surmise the second half of earnings season must have been a disaster relative to the first half. Yet, the portion of companies beating Q2 estimates is only modestly lower and median reported earnings surprise is virtually unchanged from early reports. Even at the sector level there are few notable swings except in the smaller sectors where a few stocks can swing the median significantly. Consumer and IT companies have continued to do surprisingly well during a quarter where economic growth was markedly weak. Growth in the quarter was highest in Energy and Materials but it appears that expectations are catching up with reality as the percentage beating expectations and the magnitude is moderating from high positive surprises in recent quarters. Industrials broadly had a lukewarm reporting season but it was marked by wide discrepancy between positive and negative surprises. Overall, some companies appear to be holding up quite well, while others are showing a growth slowdown in a less supportive economy.

Q3 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q2'10 - Q2'11 % Earnings Growth	Median Q3'10 - Q3'11 Expected Earnings Growth	Median 2011 Expected Growth (EPS / Sales)
S&P 500	93%	77% / 74%	3.4% / 1.7%	15.4%	11.3%	13.9% / 8.4%
Ex Financials	92%	78% / 73%	3.4% / 1.7%	14.7%	11.1%	13.9% / 8.9%
Smith Group Large Cap	93%	90% / 83%	4.6% / 2.3%	29.6%	25.1%	28.2% / 12.8%

S&P 500 Sectors						
Consumer Discretionary	85%	83% / 78%	6.1% / 1.4%	19.6%	14.3%	16.1% / 7.8%
Consumer Staples	78%	88% / 78%	2.2% / 1.5%	7.7%	8.3%	7.1% / 7.3%
Energy	100%	73% / 78%	3.7% / 5.4%	38.5%	40.1%	33.6% / 23.2%
Financials	95%	75% / 78%	3.4% / 2.7%	16.7%	14.4%	16.0% / 5.2%
Health Care	100%	87% / 80%	2.6% / 1.7%	12.2%	10.4%	11.7% / 6.2%
Industrials	95%	74% / 66%	2.7% / 1.3%	15.5%	15.2%	19.9% / 10.7%
Info Tech	89%	86% / 74%	5.1% / 1.5%	15.4%	0.5%	11.8% / 9.5%
Materials	97%	64% / 74%	1.5% / 2.0%	29.3%	16.2%	25.3% / 12.0%
Telecom	100%	50% / 71%	-1.2% / 0.5%	-1.7%	7.0%	7.8% / 12.2%
Utilities	100%	63% / 60%	2.6% / 2.5%	6.3%	-1.7%	2.5% / 3.3%

## Moderating Growth, Median vs. Aggregate

There has been a revision to growth expectations for the next couple of quarters. They were quite high with the S&P median for Q3 above 14%, compared to the current 11%. Some downward revision for the upcoming quarter is actually normal but this drop is certainly saying expectations were pretty full. Yet the projected double digit growth is still quite healthy. This quarter is a good example of why we report median instead of aggregate growth numbers. Aggregate growth for Q3 and full year 2011 is higher than median but it is dominated by large increases in a few names. For Q3 five companies account for 40% of projected aggregate earnings growth, and 46% for the full year 2011. Most would be surprised to learn that the largest contribution to growth in aggregate earnings was a reversal of losses in AIG.

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