Smith Group
ASSET MANAGEMENT

S&P 500 EARNINGS REPORT UPDATE

MARCH 3, 2011

Moderating But Still Healthy

As the remainder of reporting season wound down there was some moderation in the magnitude of positive surprises. That is fairly normal, as companies tend to hurry to announce good news but delay in revealing bad news. Consumer Discretionary companies were the exception, as reported results improved markedly in the later half of the reporting season at both the earnings and sales level. This fed through to the median year-over-year Q4 growth rate for the sector rising from 19.8% when we published the preliminary estimate at the beginning of February to 21.8% now. The highest growth rates were in Financials and Industrials; HealthCare and Consumer Discretionary had highest percentage of positive surprises; while Energy and Information Technology beat by the greatest magnitude.

Q1 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q4'09 - Q4'10 % Earnings Growth	Median Q1'10 - Q1'11 Expected Earnings Growth	Median 2011 Expected Earnings Growth
S&P 500	93%	75% / 69%	3.7% / 1.0%	17.6%	11.7%	13.7%
Ex Financials	92%	78% / 69%	3.7% / 0.8%	16.0%	10.5%	12.9%
Smith Group LC Core/Growth	93%	97% / 82%	6.3% / 2.1%	36.0%	25.7%	20.9%
S&P 500 Sectors						
Consumer Discretionary	83%	87% / 86%	5.0% / 1.4%	21.8%	10.6%	17.9%
Consumer Staples	83%	76% / 57%	1.7% / 0.4%	10.9%	0.8%	8.0%
Energy	100%	68% / 74%	8.6% / 3.5%	13.8%	13.4%	17.1%
Financials	96%	63% / 69%	4.5% / 2.6%	29.9%	23.4%	18.9%
Health Care	100%	92% / 64%	3.4% / 0.8%	12.7%	6.2%	10.8%
Industrials	95%	79% / 74%	3.9% / 1.3%	25.5%	17.7%	16.6%
Info Tech	88%	86% / 81%	5.3% / 1.4%	21.9%	15.8%	14.5%
Materials	100%	74% / 75%	1.8% / 1.0%	14.7%	23.2%	19.6%
Telecom	100%	33% / 50%	-1.9% / -0.1%	14.7%	1.0%	3.8%
Utilities	97%	50% / 27%	-0.5% / -5.5%	-0.3%	0.0%	2.5%

Earnings Tide Shifts To The Top Line

The flood of rising forward expectations has peaked and receded from the torrent of upward revisions we saw early in the year. The ratio of positive to negative revisions for the coming quarter ticked marginally negative last week. Full year growth expectations for many companies have eased in recent weeks moving the median down to 12.9% when Financials are excluded. Energy expectations have risen the most for the upcoming quarter when compared to where they were a month ago. This should be no surprise to anybody that has opened a newspaper to headlines of turmoil in the Middle East/North Africa. However, that has not fed through to higher expectations for the full year yet. HealthCare earnings expectations continue to drift lower. On a positive note, positive sales revisions have been more plentiful of late than positive earnings revisions. This is a welcome shift because it means revenue growth is playing a bigger role in rising expectations than expanding margins. This is a very good sign for the sustainability of the earnings expansion phase we are entering.

Past performance is not indicative of future results. As with any investment vehicle, there is always a potential for profit as well as the possibility of loss. Nothing contained in this presentation should be construed as a recommendation to buy or sell a security or economic sector.

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