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Reporting Season Themes

First quarter results allowed for a sigh of relief after the draconian financial write-offs in the previous quarter. While financial company earnings growth was still negative for the majority of companies in the sector they generally were perceived to have turned the corner. On the other hand, a financial earnings crunch has clearly turned into a deflating global economy and the downward slope in most sectors accelerated. Yet expectations going into reporting season were so low that surprises were on balance better than normal, which has led to estimate upgrades for the fiscal year 2009.

Q1 Reporting Season	% Reported	% Beat	Median Reported % Earnings Surprise	Median Q1'08 - Q1'09 % Earnings Growth	Median Q2'08 - Q2'09 Expected Earnings Growth	Median 2009 Expected Earnings Growth
S&P 500	95	70	5.1	-16.9	-20.2	-9.8
Ex Financials	95	76	6.6	-15.1	-18.2	-9.9
Smith Group Large Cap Core/Growth	95	91	6.9	9.8	5.4	12.4

S&P 500 Sectors						
Consumer Discretionary	90	72	8.9	-25.8	-22.4	-14.8
Consumer Staples	83	80	4.5	0.0	-3.6	1.7
Energy	100	72	12.4	-37.3	-58.5	-56.3
Financials	97	44	-2.5	-37.1	-38.8	-15.4
Health Care	100	81	3.1	7.0	2.3	5.8
Industrials	95	68	4.7	-26.3	-28.3	-19.1
Info Tech	93	84	8.5	-21.1	-31.1	-16.5
Materials	97	78	9.6	-56.3	-52.0	-39.6
Telecom	100	67	6.1	0.7	-16.4	-3.1
Utilities	100	70	7.3	-6.7	-8.4	0.2

Preview of the Upcoming Reporting Season

- The broad averages suggest the decline in earnings will be at a slower pace than the last quarter but they are expected to be impacted by a reversal of fortune by some large companies. Using the median, which measures the average company, most company earnings are expected to be falling at a faster rate.
- Comparisons in Financial and Consumer Discretionary companies will be easy since they were the first to deflate in the first half of 2008. At the other extreme, Energy and Materials company earnings were in bubble territory with record commodity prices in the second quarter last year so they will suffer the steepest decline.
- Much of the positive surprise in Q1 was the result of deeper than expected cost cutting so it will be critical to long-term growth to see if that trend continues. Companies can slow the decline by cutting costs but can not grow as a group until revenues once again begin to expand.

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.