S&P 500 EARNINGS REPORT UPDATE

Smith Group
ASSET MANAGEMENT

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Reporting Season Themes

After 6-months of precipitous downward earnings revisions investors are anxious to see if analysts were too hot, too cold, or just right on how far they cut expectations. Banks gave guidance early in March about how operations were profitable but the remaining question was if it was enough to offset further asset write-downs. All sectors were projected to have negative earnings growth in the first quarter as the reporting season kicked off.

Q1 Reporting Season	% Reported	% Beat	Median Reported % Surprise	Median Q1'08 - Q1'09 % Growth	Q2 '09 Revision Last 30 days*	Median 2009 Expected Earnings Growth
S&P 500	51	71	5.1	-15.5	-5.0	-10.6
Ex Financials	49	77	6.2	-14.3	-2.5	-9.9
Smith Group Large Cap Core/Growth	38	86	14.7	9.1	-0.7	10.8
S&P 500 Sectors						
Consumer Discretionary	42	78	13.6	-25.8	9.8	-17.8
Consumer Staples	29	80	5.3	-6.2	-1.3	-10.6
Energy	42	75	10.5	-40.2	-12.2	-48.5
Financials	60	47	-0.8	-32.8	-30.3	-14.2
Health Care	69	78	3.1	6.4	-0.4	3.5
Industrials	69	71	3.8	-27.6	-8.0	-27.1
Info Tech	48	79	9.2	-17.9	0.7	-26.8
Materials	69	78	6.9	-51.5	-16.0	-41.4
Telecom	44	75	8.0	-4.9	3.2	-16.9
Utilities	23	88	8.6	-9.0	-1.2	-4.8

Observations

- Early Financial reports have been surprisingly strong but the strength has come from one-off gains, trading profits, or loan loss provisions that appear inadequate.
- Positive surprises outside of Financials are largely the result of better than expected cost control as opposed to revenue gains.
- Sectors with low expectations have tended to yield the largest positive surprise, whereas, defensive sectors like Staples and Health Care are only marginally ahead.
- The rally that began in March of the hardest hit stocks is overwhelming earnings reports in some cases. For instance, over the last 30 days Consumer Discretionary companies that beat expectations were up 16.6% while those that missed were up 17.1%.
- Dispersion is causing a distorted reported surprise picture. This is especially true in Financials where the largest banks are reporting abnormally positive surprises while most others are reporting approximately in line. We prefer to look at 'Median' surprise because it is a better reflection of stock selection opportunity.

** companies that have already reported, [1] actual for company already reported combined with expected for those yet to report*

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