

Both Halves Similar

The second half of reporting season has been much the same as the first half. The portion of companies beating earnings estimates is very similar throughout, while there was only a slight downtick in the frequency of beats in sales. However, the magnitude of earnings beats rose as the quarter progressed. Normally we would attribute that to accelerating earnings momentum but in this case we expect it is more a function of analysts being too aggressive in cutting expectations ahead of reports. Information Tech companies beat with the most consistency and by one of the widest margins. Telecom and Materials struggled the most against expectations. Overall, sales beats were not as impressive as earnings, which would imply that the earnings surprises came mostly from reduced costs.

Q1 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q4'11 - Q4'12 % Earnings Growth	Median Q1'12 - Q1'13 Expected Earnings Growth	Median 2013 Expected Growth
S&P 500	88%	76% / 69%	3.7% / 0.8%	7.7%	5.4%	9.3% / 4.7%
Ex Financials	87%	77% / 69%	3.6% / 0.8%	7.0%	4.5%	9.0% / 4.8%
Smith Group LC Focused Growth	80%	93% / 84%	3.4% / 0.8%	14.2%	9.8%	10.0% / 5.4%

S&P 500 Sectors						
Consumer Discretionary	71%	77% / 57%	3.2% / 0.3%	13.8%	9.5%	11.5% / 5.8%
Consumer Staples	83%	79% / 62%	3.6% / 0.5%	10.9%	4.1%	7.9% / 4.9%
Energy	95%	78% / 80%	5.2% / 3.3%	-2.7%	-4.2%	5.2% / 7.2%
Financials	95%	74% / 73%	5.6% / 1.7%	17.2%	7.3%	10.3% / 3.0%
Health Care	98%	78% / 72%	1.7% / 0.9%	7.0%	7.5%	8.7% / 4.9%
Industrials	92%	72% / 62%	2.2% / 0.7%	1.8%	5.1%	9.3% / 3.8%
Info Tech	87%	89% / 67%	5.2% / 0.5%	6.0%	2.3%	9.0% / 5.4%
Materials	97%	65% / 63%	1.5% / 0.5%	7.2%	4.6%	16.3% / 4.0%
Telecom	100%	25% / 71%	-6.7% / 0.7%	-17.1%	3.9%	-0.3% / -0.4%
Utilities	83%	78% / 48%	5.8% / -2.9%	3.7%	1.7%	1.9% / 6.5%

Moderate Growth

Growth expectations for the current quarter and year have moderated further in the past month. The median expected earnings growth for the current quarter for non-financial S&P 500 companies has dropped to 4.5% compared to 6.4% a month ago. For the full year the downward revision has been more moderate, with the median growth rate dropping to 9.0% from 9.3%. On the other hand, median 2013 sales growth expectations had a small uptick from 4.7% to 4.8%. The theme for 2013 continues to be backend loaded growth. Analysts are projecting a slow start to the year due to fiscal drag, followed by acceleration due to pent-up demand and a steady improvement in a self sustaining recovery. For 2013 the strongest sales growth is expected in Energy, largely due to higher prices. Consumer Discretionary, Materials, and Financials are the only three sectors expected to have double digit earnings growth.

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