

MARCH 6, 2014

Fading at the end

The second half of reporting season saw significantly fewer companies exceeding expectations than early reporting experience. The rate at which companies beat consensus dropped from 77% mid-quarter, fading to 70%, with all but a handful of companies yet to report. The rate of positive sales reports also dropped, from 72% to 67%, which is a slightly smaller decline than EPS. Earnings reports in Staples, Energy and Health Care companies deteriorated the most, dragging the overall quarter from one that started fairly strong, yet ended up being only average.

Q1 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q4'12 - Q4'13 % Earnings Growth	Median Q1'13 - Q1'14 Expected Earnings Growth	Median 2014 Expected Growth (EPS / Sales)
S&P 500	94%	70% / 67%	2.3% / 0.8%	8.5%	6.1%	9.9% / 4.8%
Ex Financials	93%	69% / 67%	2.2% / 0.6%	7.8%	6.1%	10.5% / 4.8%
Smith Group Large Cap Focused Growth	98	86% / 67%	3.4% / 1.4%	12.4%	9.4%	11.1% / 5.7%

S&P 500 Sectors						
Consumer Discretionary	83%	68% / 56%	2.3% / 0.2%	8.1%	8.2%	13.0% / 6.2%
Consumer Staples	85%	59% / 37%	1.0% / -0.4%	6.1%	7.0%	7.8% / 3.4%
Energy	100%	59% / 61%	1.7% / 1.8%	-2.3%	7.1%	18.7% / 7.2%
Financials	99%	76% / 69%	3.0% / 2.1%	11.4%	5.8%	6.5% / 3.7%
Health Care	98%	81% / 82%	2.1% / 1.3%	7.3%	3.6%	7.9% / 5.1%
Industrials	95%	65% / 66%	1.6% / 0.8%	11.9%	8.2%	10.5% / 4.5%
Info Tech	91%	76% / 72%	3.7% / 0.8%	11.4%	5.7%	9.6% / 5.7%
Materials	100%	74% / 60%	4.9% / 0.5%	13.5%	8.0%	12.4% / 4.2%
Telecom	100%	60% / 83%	1.9% / 0.3%	0.0%	14.7%	17.0% / 0.8%
Utilities	100%	67% / 57%	4.7% / 2.2%	1.7%	4.4%	3.9% / 2.4%

Shifting Forward

Expected growth for the first quarter of 2014 has shifted down slightly from an initial read of 7% to just north of 6%. This lowered expectation for the next quarter is fairly normal during reporting season, but we don't see a material shift in expectations for 2014 on either EPS or Sales. This indicates that the drop in Q1 estimates is, for the moment, an isolated event. Growth expectations for the full year are modest at around 10% for earnings and 5% for sales. Hopefully, modest expectations mean we will see a continuation of the pattern from last year where actual growth for 2013 was equal to the beginning of year estimate.

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.