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An Average Ending

Earnings season is coming to a close with a typical beat rate on EPS and a slightly higher beat rate on sales relative to history. The trend in sales continues to be encouraging as companies have relied less on buybacks and cost controls to generate earnings growth this quarter. This is a necessary condition for the current rally to extend. One interesting pattern we noticed last quarter was the disparity between large and small cap stocks as companies in the Russell 2000 had a weaker than normal reporting season. That has reversed itself this quarter as the small cap universe returned to a more typical surprise rate.

Q3 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q2'13 - Q2'14 % Earnings Growth	Median Q3'13 - Q3'14 Expected Earnings Growth	Median 2014 Expected Growth (EPS / Sales)
S&P 500	95%	75% / 68%	2.9% / 0.8%	10.0%	8.1%	10.2% / 4.8%
Ex Financials	94%	75% / 67%	2.4% / 0.8%	9.6%	8.3%	10.5% / 4.8%
Smith Group Large Cap Focused Growth	98%	91% / 75%	3.4% / 0.8%	17.7%	13.4%	12.7% / 5.5%

S&P 500 Sectors						
Consumer Discretionary	91%	74% / 59%	2.4% / 0.3%	11.8%	11.2%	14.5% / 6.1%
Consumer Staples	83%	60% / 40%	0.2% / -0.3%	6.0%	5.1%	7.0% / 2.6%
Energy	100%	62% / 67%	1.4% / 1.7%	14.9%	9.5%	15.8% / 8.6%
Financials	100%	72% / 71%	3.9% / 1.9%	10.1%	5.2%	6.4% / 3.6%
Health Care	98%	97% / 86%	4.8% / 1.8%	10.0%	8.2%	8.3% / 5.4%
Industrials	97%	77% / 54%	1.7% / 0.2%	10.1%	10.9%	11.3% / 4.2%
Info Tech	89%	84% / 71%	3.8% / 1.1%	13.2%	7.4%	10.5% / 5.8%
Materials	97%	76% / 68%	1.9% / 0.6%	17.8%	12.0%	13.2% / 3.6%
Telecom	100%	60% / 50%	1.3% / -0.1%	-7.5%	-2.2%	4.1% / 0.0%
Utilities	100%	67% / 77%	3.2% / 4.7%	3.2%	0.0%	5.8% / 4.8%

Growth Intact

The current economic data continues to improve, albeit with the occasional hiccup, and growth rates remain strong as the median S&P 500 company is expected to generate more than 10% earnings growth in 2014. One of the themes we've been focused on is the possible emergence of capital spending by companies which has been uniquely absent in this recovery. Given the record amount of cash on corporate balance sheets, capital spending increases could sustain the current expansion and enhance the quality of growth as the rise in earnings over the past five years has been as much about margins and buybacks as it has been driven by organic revenue growth.

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.