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Magnitude of Surprise Rises

This quarter's expectations were modest before reporting season started, but reports were respectable. With a stronger than expected quarter, expectations for the full year are rising. While the frequency of surprise did not change much in the later half of reporting season, the magnitude of the positive surprise expanded. Financial companies finished very well with 73% beating expectations and a median reported earnings surprise of 5.6%. The median Financial company reported a year-over-year earnings increase of 22%. Health Care also finished well with the frequency of positive surprise increasing to 81% and a median growth rate of 8%. After a strong start, Info Tech and Industrials finished weaker. The strongest growth for the quarter excluding Financials was in Consumer Discretionary companies at 12.6%. Sales surprises delivered about the same positive rate as earlier in the quarter with misses predominant in Staples and Materials.

Q3 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q2'12 - Q2'13 % Earnings Growth	Median Q3'12 - Q3'13 Expected Earnings Growth	Median 2013 Expected Growth (EPS / Sales)
S&P 500	94%	72% / 61%	2.6% / 0.3%	7.0%	6.1%	9.4% / 4.3%
Ex Financials	93%	71% / 57%	2.3% / 0.2%	5.5%	5.7%	8.7% / 4.2%
Smith Group Large Cap Focused Growth	90%	79% / 58%	3.2% / 0.6%	15.8%	10.3%	13.2% / 4.1%

S&P 500 Sectors						
Consumer Discretionary	85%	68% / 50%	2.5% / 0.1%	12.6%	11.4%	13.4% / 6.2%
Consumer Staples	85%	72% / 29%	1.5% / -0.9%	6.0%	6.2%	8.5% / 2.7%
Energy	100%	64% / 62%	2.5% / 1.5%	5.1%	15.0%	7.5% / 7.0%
Financials	100%	73% / 66%	5.6% / 2.2%	22%	5.3%	13.6% / 3.5%
Health Care	100%	81% / 47%	2.0% / 0.0%	8.0%	4.9%	7.1% / 3.8%
Industrials	98%	73% / 55%	1.9% / 0.3%	5.4%	7.7%	9.2% / 2.8%
Info Tech	88%	82% / 65%	5.0% / 0.9%	2.8%	5.0%	9.6% / 5.2%
Materials	96%	68% / 39%	1.3% / -0.5%	2.4%	7.3%	10.7% / 2.0%
Telecom	85%	60% / 66%	3.7% / 0.0%	1.5%	7.5%	-5.8% / 0.0%
Utilities	100%	56% / 77%	4.0% / 6.8%	0.0%	-1.7%	1.6% / 6.2%

Q3 Concerns from Conservative Guidance

Actual earnings were better than expectations in both Q1 and Q2. Full year expectations are rising, but near-term concerns are weighing on expectations for the current quarter. Over the past month, the median expected growth for the S&P 500 ex Financials has fallen from 7.2% to 5.7%. While this drop is larger than normal, the trend has become quite normal with management guidance being habitually conservative in outlook statements. Last quarter the drop was from 5.3% to 4.3%. These drops would be disconcerting if the companies were not beating the lowered estimates by such a respectable margin. Momentum in Financial earnings has moved them up to the highest expected earnings growth sector for the full year, followed by Consumer Discretionary, then Materials. Sales growth is expected to be strongest in Energy followed by Consumer Discretionary.

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.