

DECEMBER 9, 2014

Closing out 2014

With nearly all S&P 500 companies having reported, the final earnings season for 2014 is ending up about where it started. Virtually all four quarters this year have been good news for corporate earnings with 3rd quarter earnings likely to be the most positive relative to expectations for the year. Technology stocks have been the standout the last three quarters posting a better than 80% beat rate in each period. Energy stocks are holding their own despite the massive drop in oil prices which won't hit earnings fully until next year.

Q4 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q3'14 - Q3'13 % Earnings Growth	Median Q4'14 - Q4'13 Expected Earnings Growth	Median 2014 Expected Growth (EPS / Sales)
S&P 500	95%	78% / 63%	3.7% / 0.6%	10.5%	7.7%	10.2% / 4.7%
Ex Financials	94%	80% / 61%	3.6% / 0.6%	10.7%	8.6%	10.7% / 4.7%
Smith Group Large Cap Focused Growth	98%	91% / 65%	3.7% / 0.5%	18.4%	9.5%	16.0% / 6.3%

S&P 500 Sectors						
Consumer Discretionary	89%	78% / 58%	3.2% / 0.3%	13.9%	10.2%	13.9% / 5.9%
Consumer Staples	90%	78% / 51%	3.3% / 0.0%	6.1%	2.1%	7.6% / 1.6%
Energy	100%	75% / 63%	6.0% / 2.5%	5.6%	2.0%	11.4% / 7.6%
Financials	100%	70% / 68%	7.4% / 1.5%	10.3%	5.1%	7.5% / 4.2%
Health Care	100%	88% / 77%	3.8% / 1.3%	13.2%	7.4%	8.8% / 6.0%
Industrials	95%	87% / 55%	3.5% / 0.2%	12.8%	13.3%	12.8% / 4.2%
Info Tech	89%	89% / 68%	4.8% / 0.7%	9.7%	9.2%	9.4% / 6.0%
Materials	100%	83% / 48%	2.6% / -0.2%	12.5%	9.5%	12.7% / 2.6%
Telecom	100%	50% / 33%	-0.9% / -0.6%	-2.3%	17.9%	12.3% / 3.3%
Utilities	100%	59% / 48%	1.2% / -0.6%	-2.0%	-1.9%	6.4% / 4.9%

Impact of Energy

The move in oil to sub \$70/bbl has had a strong impact on growth expectations for future periods. Not surprisingly, energy stocks have seen dramatic drops in estimated growth but that appears to be mostly affecting 2015 earnings. The drop in oil price appears to have a more delayed effect on energy service company estimates relative to producers given their lead time on contract rates. We've also observed increased growth expectations for consumer discretionary stocks as 4Q growth was expected to be a modest 7% in late November, but has moved substantially to over 10% in our latest read. Given the backdrop of lower gasoline prices and improving job numbers, that shouldn't come as a surprise.

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.