

DECEMBER 5, 2013

## Rather ordinary

As is typical during the last phase of earnings season, reports slightly weakened particularly among Consumer Staples and Energy companies. Late reporters in the Consumer Discretionary sector picked up the pace increasing the magnitude of earnings beats by a modest amount. While the overall tone of earnings reports aren't indicating a clear direction for the final quarter of 2013, we are observing the usual pattern of management guiding expectations down in order to clear the path for upside surprises next reporting season.

Q4 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q3'12 - Q3'13 % Earnings Growth	Median Q4'12 - Q4'13 Expected Earnings Growth	Median 2013 Expected Growth (EPS / Sales)
S&P 500	95%	73% / 54%	2.8% / 0.2%	9.4%	7.9%	9.4% / 4.2%
Ex Financials	94%	75% / 54%	2.7% / 0.2%	9.3%	7.5%	8.7% / 4.3%
Smith Group Large Cap Focused Growth	95%	90% / 68%	3.2% / 0.5%	12.9%	13.9%	11.9% / 4.5%

S&P 500 Sectors						
Consumer Discretionary	88%	72% / 53%	2.6% / 0.1%	15.5%	7.3%	13.2% / 5.5%
Consumer Staples	88%	73% / 35%	2.2% / -0.4%	5.8%	6.4%	8.1% / 3.3%
Energy	100%	63% / 60%	2.3% / 0.4%	14.6%	4.7%	4.9% / 7.2%
Financials	100%	68% / 54%	3.5% / 0.5%	9.4%	9.6%	14.6% / 3.1%
Health Care	100%	84% / 67%	3.1% / 0.7%	8.8%	4.9%	7.6% / 3.9%
Industrials	95%	75% / 46%	1.9% / -0.1%	9.4%	10.7%	8.8% / 3.2%
Info Tech	90%	91% / 64%	4.6% / 0.5%	8.6%	7.3%	9.5% / 4.9%
Materials	100%	69% / 42%	2.4% / -0.4%	11.4%	13.5%	8.3% / 1.5%
Telecom	100%	67% / 67%	1.9% / 0.0%	0.0%	9.9%	-5.7% / 0.0%
Utilities	100%	57% / 53%	1.1% / 0.2%	-1.3%	1.7%	2.9% / 4.7%

## At the margin

Expected earnings growth for 2013 is largely unchanged from where we began the year. This would make 2013 rather unusual if growth expectations are realized given that beginning of year estimates are typically quite a bit higher than where reported earnings end up. Most notably, Consumer Discretionary, Technology and Financial stocks have considerably higher growth targets for the year versus beginning expectations while Industrials and Health Care companies have seen deterioration in expectations as the year progressed. With margins still near the highs of mid-2011, it's difficult to imagine further cost leaning by corporations being the primary driver of growth for 2014. Sales will clearly need to deliver going forward.

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