

MARCH 3, 2016

## Health Care Fades

Late reporters are coming in slightly lower than early reports although we are observing a more dramatic decline for Health Care companies. Health Care companies were at a nearly 90% beat rate on EPS halfway through and have faded down to a still respectable 80%. Discretionary companies have increased their beat rate as the quarter progressed particularly on sales moving from a sluggish 39% beat rate to 50%. Overall, this has been a fairly normal quarter for earnings surprises while sales have been weaker relative to the normal trend over the past five years of sales beating, on average, at about a 60% rate.

Q1 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q4'15 - Q4'14 % Earnings Growth	Median Q1'16 - Q1'15 Expected Earnings Growth	Median 2016 Expected Growth (EPS / Sales)
S&P 500	92%	75% / 52%	3.3% / 0.0%	1.2%	0.5%	5.8% / 2.9%
Ex Energy	92%	77% / 52%	2.8% / 0.0%	2.9%	1.4%	6.3% / 3.3%
Smith Group Large Cap Focused Growth	85%	90% / 71%	4.6% / 0.3%	10.7%	6.9%	8.9% / 4.3%

S&P 500 Sectors						
Consumer Discretionary	80%	78% / 50%	3.3% / 0.0%	6.5%	7.7%	10.3% / 4.4%
Consumer Staples	87%	81% / 45%	4.4% / 0.0%	0.0%	-1.6%	5.9% / 1.0%
Energy	100%	66% / 50%	8.9% / 0.9%	-85.9%	-78.2%	-46.8% / -14.8%
Financials	98%	67% / 73%	3.6% / 1.8%	1.0%	0.0%	4.7% / 3.2%
Health Care	96%	80% / 63%	1.9% / 0.4%	10.0%	6.2%	7.6% / 6.2%
Industrials	95%	72% / 36%	1.7% / -0.5%	0.0%	-2.0%	4.2% / 1.5%
Info Tech	87%	93% / 67%	5.8% / 0.9%	4.2%	2.4%	8.3% / 4.8%
Materials	100%	79% / 16%	5.9% / -2.0%	-5.2%	-7.9%	3.7% / 0.3%
Telecom	100%	67% / 40%	0.6% / -0.5%	33.3%	3.4%	-5.0% / 0.1%
Utilities	97%	69% / 22%	2.7% / -13.2%	-5.5%	-1.0%	1.9% / 8.0%

## Growth Ticks Up Slightly

We lamented the lack of clarity in forward growth estimates in the last report and although the picture hasn't changed meaningfully there has been a slight tick up in both EPS and Sales growth for 2016 since early February. Take out the impact of Energy companies the picture improves somewhat, but still not at a trend that indicates earnings are going to be a significant driver of market returns this year if growth estimates are accurate. Tech companies have improved the most since our last report on both EPS and Sales growth while, not surprisingly, Health Care companies have declined the most coincident with our observation in the surprise commentary.

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