

Financial Sector

Mike Ranttila

Sector Overview

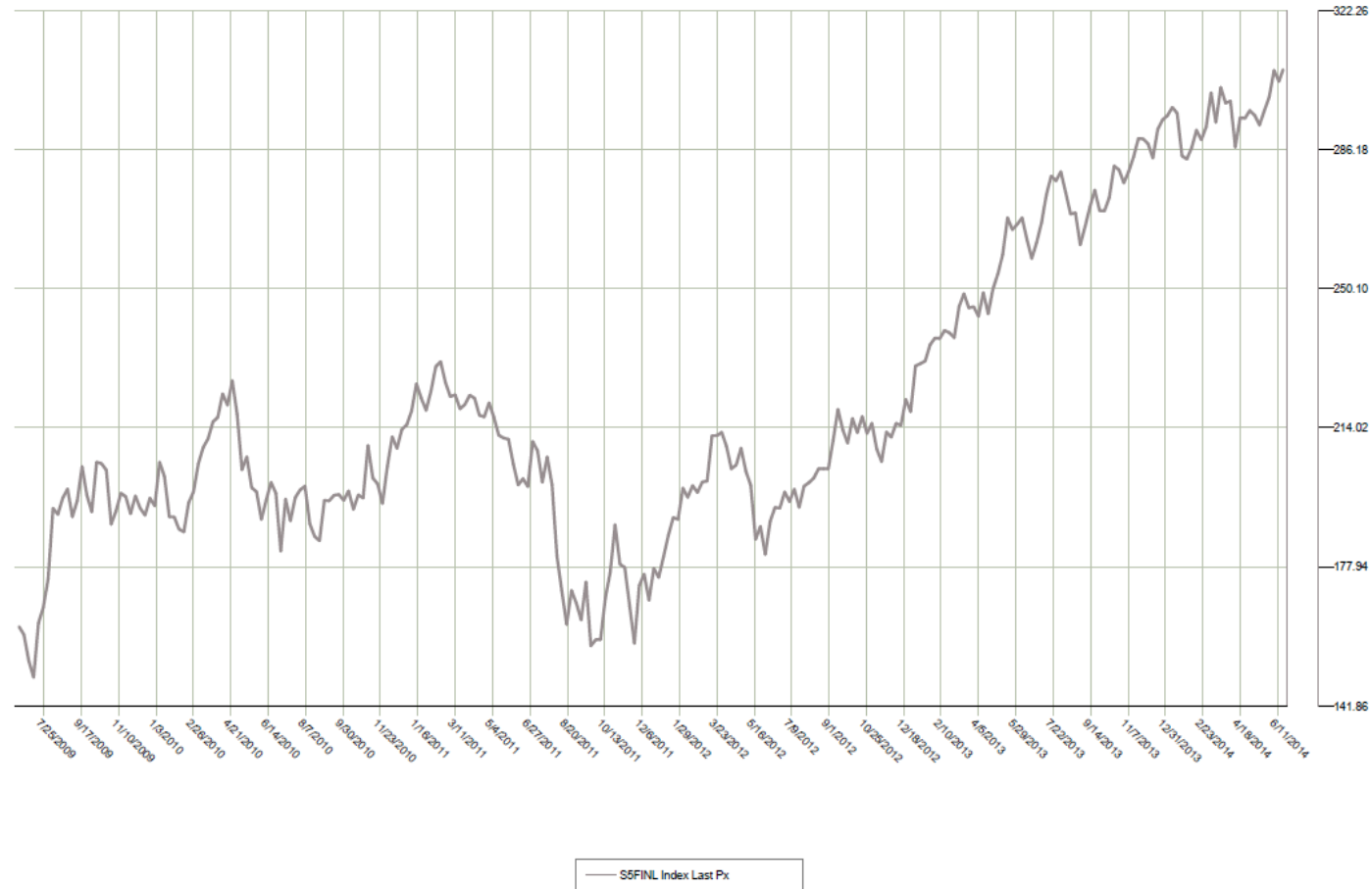
Financial Sector Historical Price

Bloomberg

Graphical Financial Analysis

Date Range: 6/19/2009 - 6/19/2014

Periodicity: Weekly



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Financial Sector Composition

A category of stocks containing firms that provide financial services to commercial and retail customers. This sector includes banks, investment funds, insurance companies and real estate.

www.Investopedia.com



Ticker	Name
11)	Banks (15 members)
12)	Capital Markets (13 members)
13)	Consumer Finance (4 members)
14)	Diversified Financial Services (7 members)
15)	Insurance (21 members)
16)	Real Estate Investment Trusts (REITs) (20 mem...
17)	Real Estate Management & Development (1 me...
18)	Thrifts & Mortgage Finance (2 members)

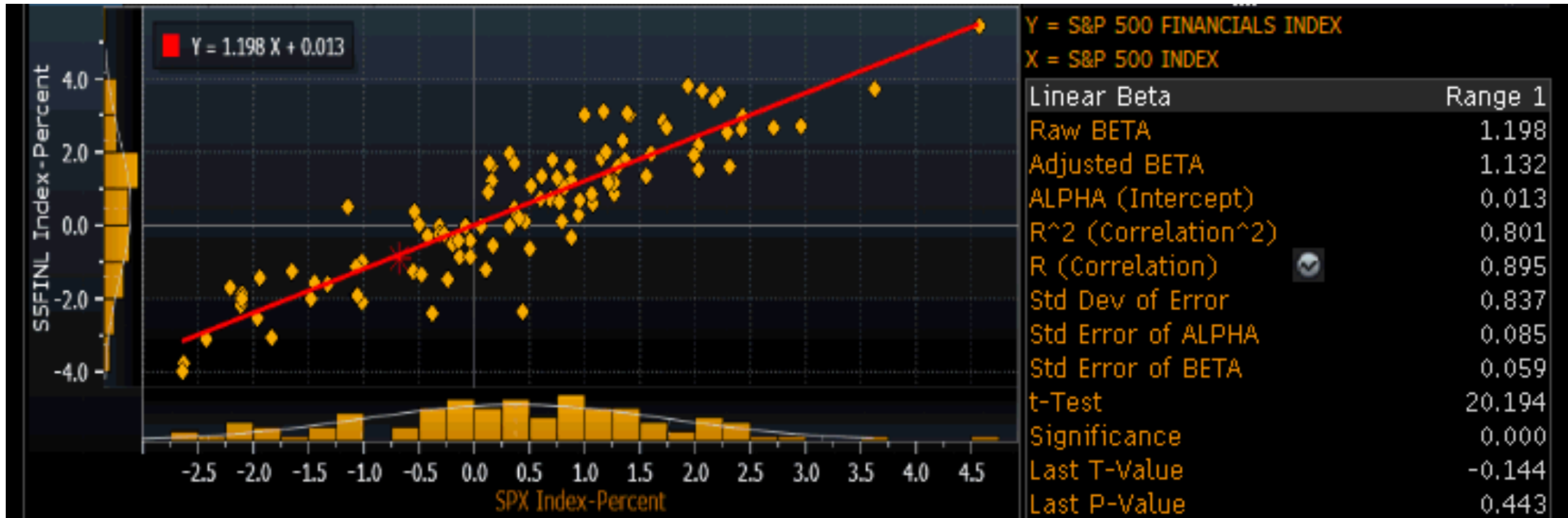
Largest Financial Sector Firms

Company	Market Capitalization (in billions)
Wells Fargo	\$274.1
JP Morgan	\$218.7
Bank of America	\$164.6
Berkshire Hathaway	\$150.1
Citigroup	\$145.6
Visa	\$132.8
American Express	\$101.2

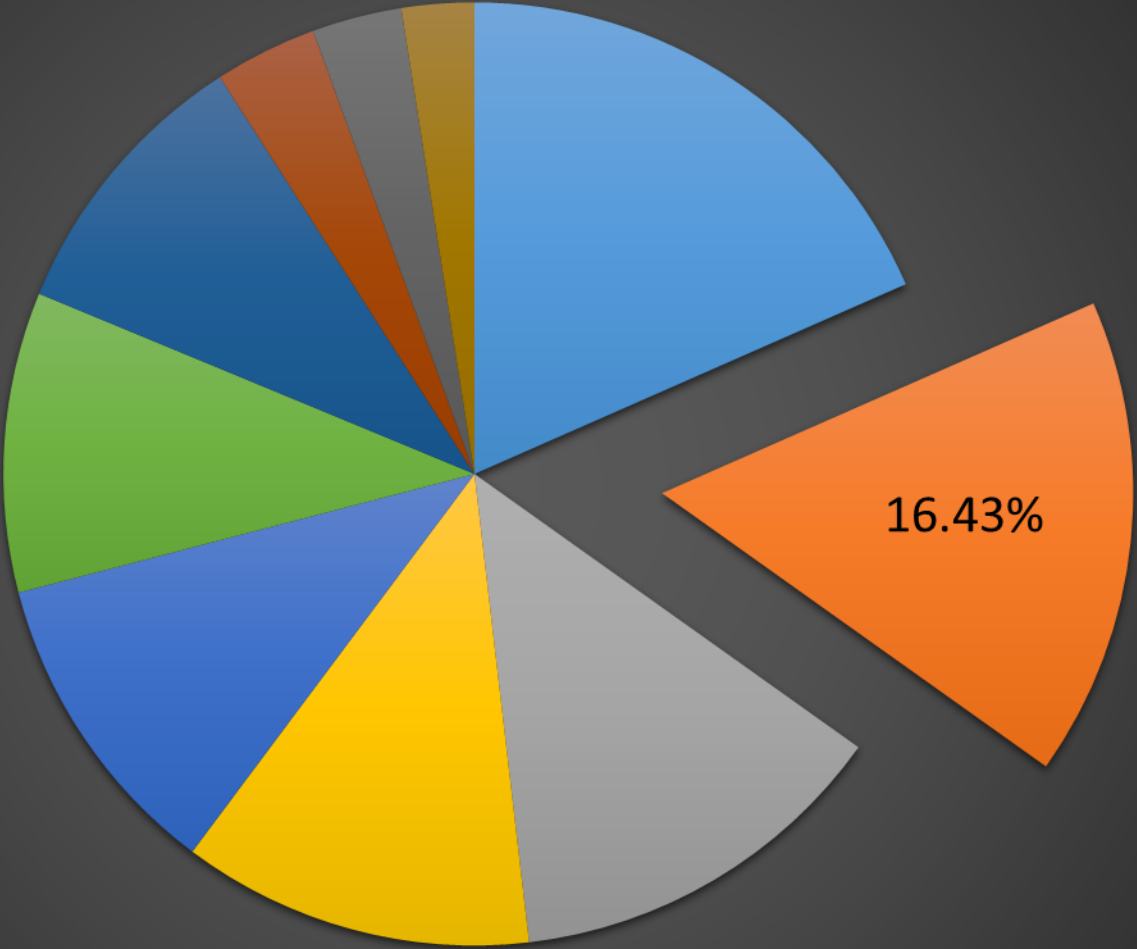
Financial Sector vs. S&P 500 YTD



Historical Correlation

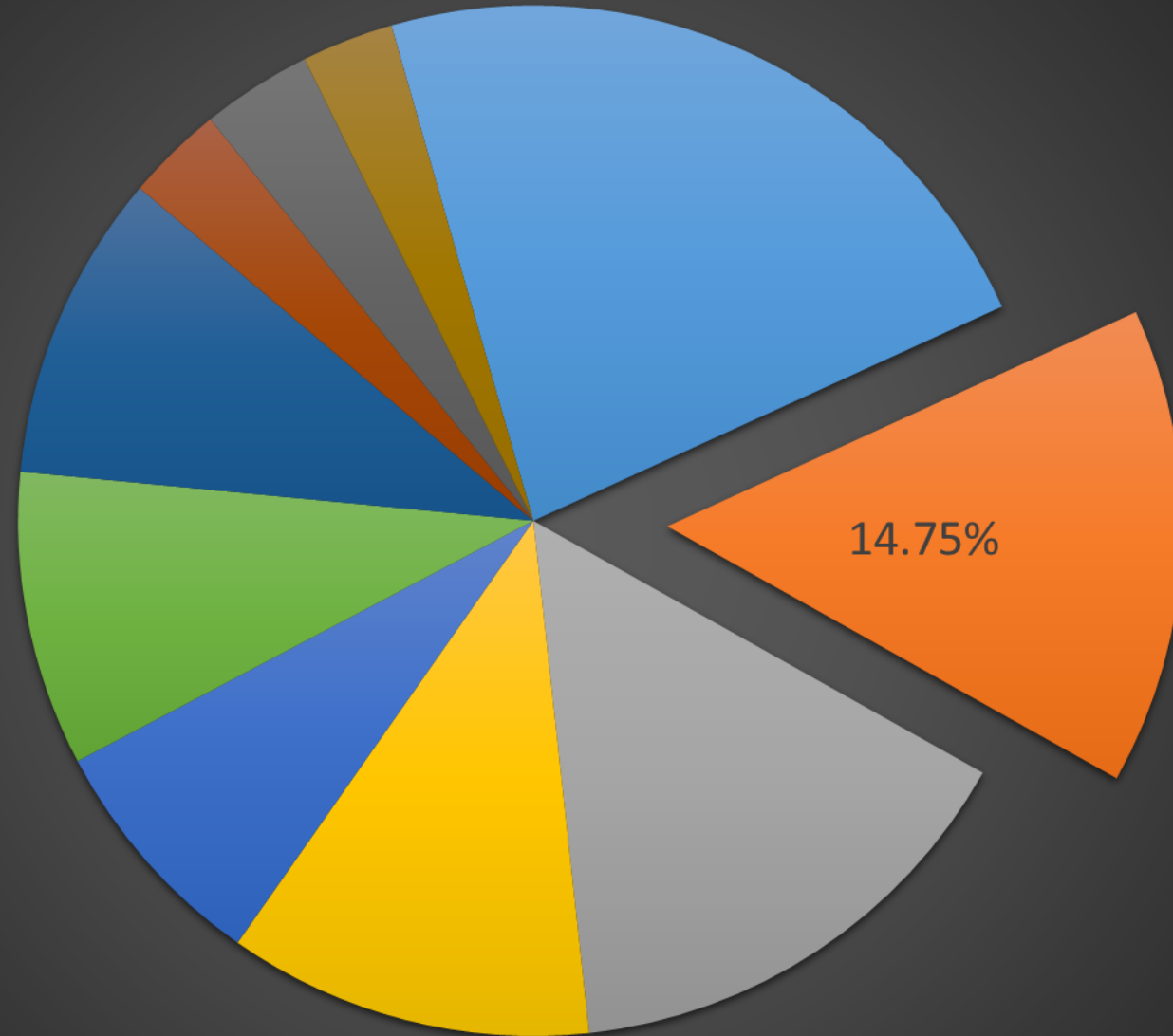


S&P 500 Weight



- Information Technology
- Financials
- Health Care
- Consumer Discretionary
- Industrials
- Energy
- Consumer Staples
- Materials
- Utilities
- Telecommunication Services

SIM Financials Underweight 168 bps

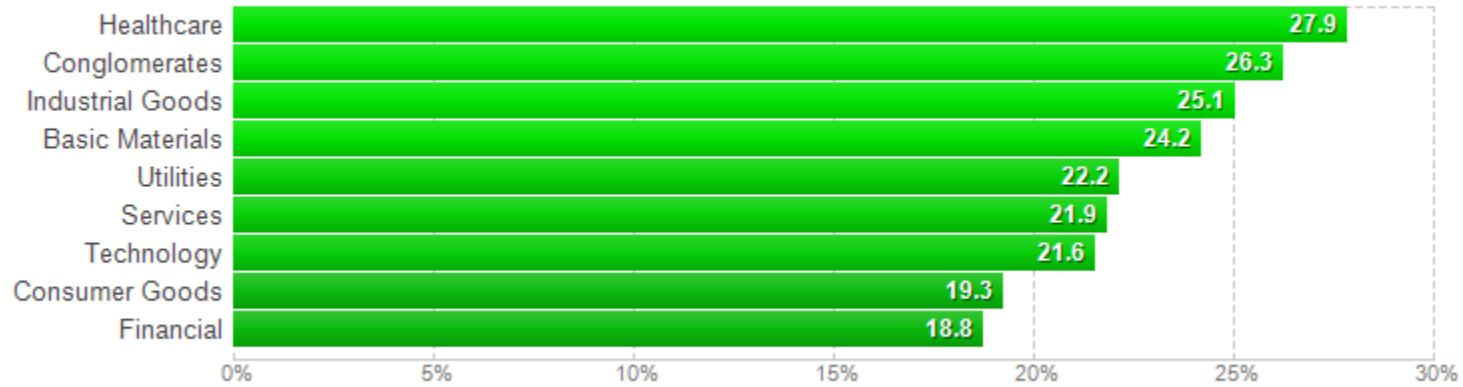


- Information Technology
- Financials
- Health Care
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- Utilities
- Telecommunication Services

1 YEAR PERFORMANCE %

JUN 19 2014 01:34 PM

finviz.com



Financial

19 Jun 14

Volume: 348.05M

-0.31%

finviz.com



Periodic Performance

Name	Performance (Week)	Performance (Month)	Performance (Quarter)	Performance (Half Year)	Performance (Year)	Performance (Year To Date)
Basic Materials	2.14%	5.13%	13.28%	16.74%	24.32%	11.85%
Conglomerates	2.55%	5.41%	7.41%	6.07%	26.40%	5.36%
Consumer Goods	1.40%	4.36%	9.38%	9.37%	19.34%	6.44%
Financial	0.64%	4.38%	3.71%	8.50%	18.88%	4.00%
Healthcare	1.07%	4.37%	2.08%	15.23%	27.97%	10.50%
Industrial Goods	0.62%	4.44%	4.63%	8.49%	25.16%	3.45%
Services	1.25%	4.50%	1.72%	6.39%	21.98%	2.20%
Technology	1.26%	5.06%	2.32%	8.74%	21.65%	4.01%
Utilities	3.31%	5.16%	10.88%	18.41%	22.27%	15.95%

Business Analysis

Porter's Five Forces Analysis (banking)

Force	Impact	Comments
Buyer Bargaining Power	Medium	Lending customers operate in a highly competitive market. A significant portion of the 1-4 family segment is commoditized via Government Sponsored Enterprise activity.
Supplier Bargaining Power	Low	Federal Reserve rates are a commodity. Small depositors hold little sway. Large CD depositors are almost welcome to leave due to the high cost of funds.
Threat of Substitutes	Medium	The threat is minimal today, but significant threats could exist on the horizon. Bitcoin?
Threat of New Entrants	Low	Intense regulatory environment. High capital threshold. No new banks created in 2011.
Industry Rivalry	High	Banks consistently review deposit and loan rates versus competition. Currently, most new loans are "stolen" from other banks. Little to no switching costs.

Trends and Developments

Quantitative Easing- Have we turned the corner?

Fed Balance Sheet- Unwinding over \$4+ trillion could have considerable consequences.

Regulatory Burdens- Dodd Frank, Volcker, Too Big to Fail, B of A capital

Interest Rate Sensitivity

Interest Rate Risk

Table 42: Earnings Sensitivity Over 24 Month Horizon Relative to Most Likely Earnings Plan

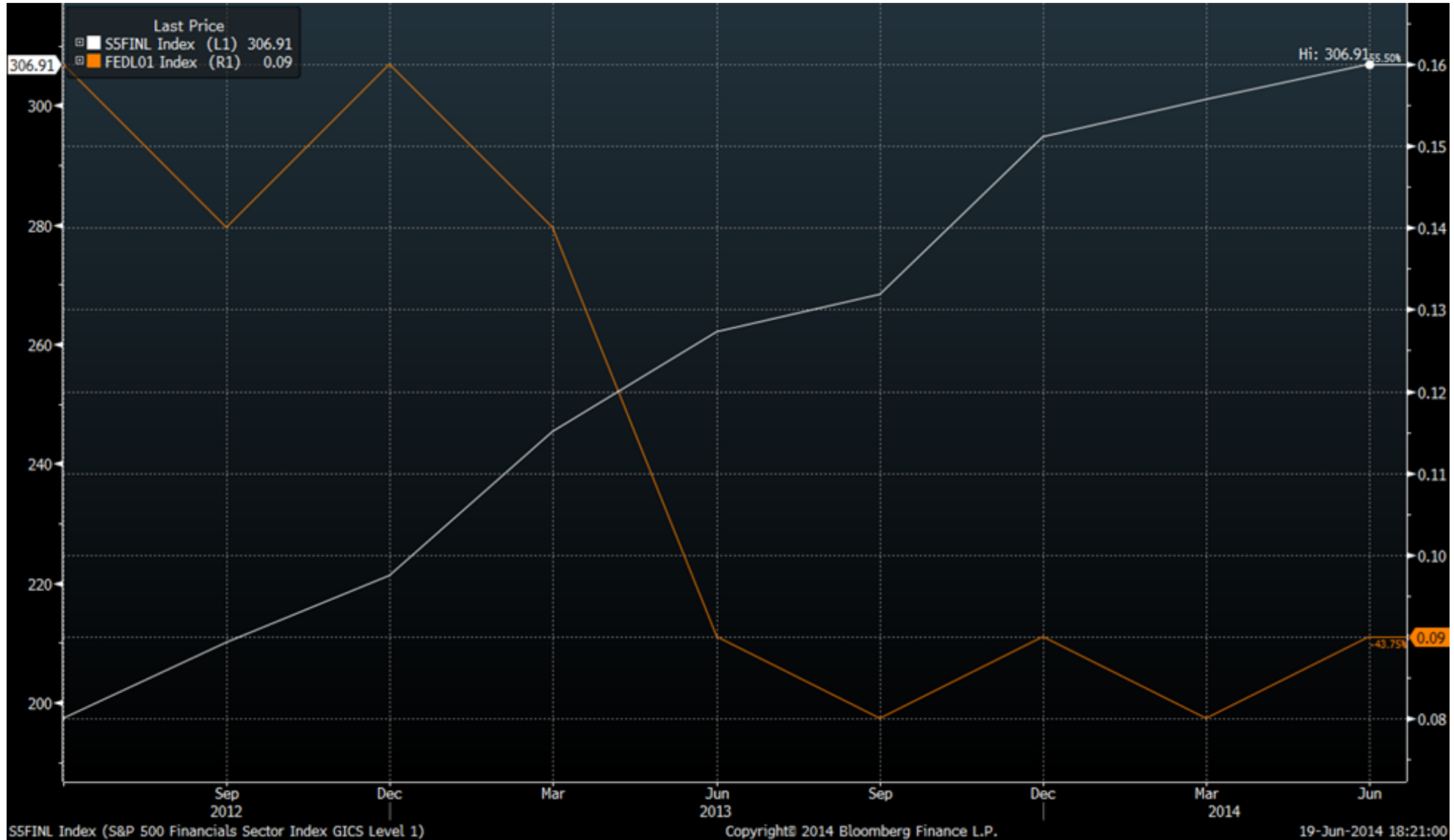
	Most likely		Lower rates		Higher rates	
			Scenario 1	Scenario 2	Scenario 3	Scenario 4
Ending rates:						
Fed funds	0.50	%	0.25	0.25	1.25	4.00
10-year treasury (1)	3.60		1.70	3.10	4.10	5.40
Earnings relative to most likely						
	N/A		-4.2%	-0.4%	0 - 5%	>5%

(1) U.S. Constant Maturity Treasury Rate

Source: Wells Fargo 2013 10K

Economic Analysis

Fed Funds vs. Financial Sector



Unemployment vs. Financial Sector

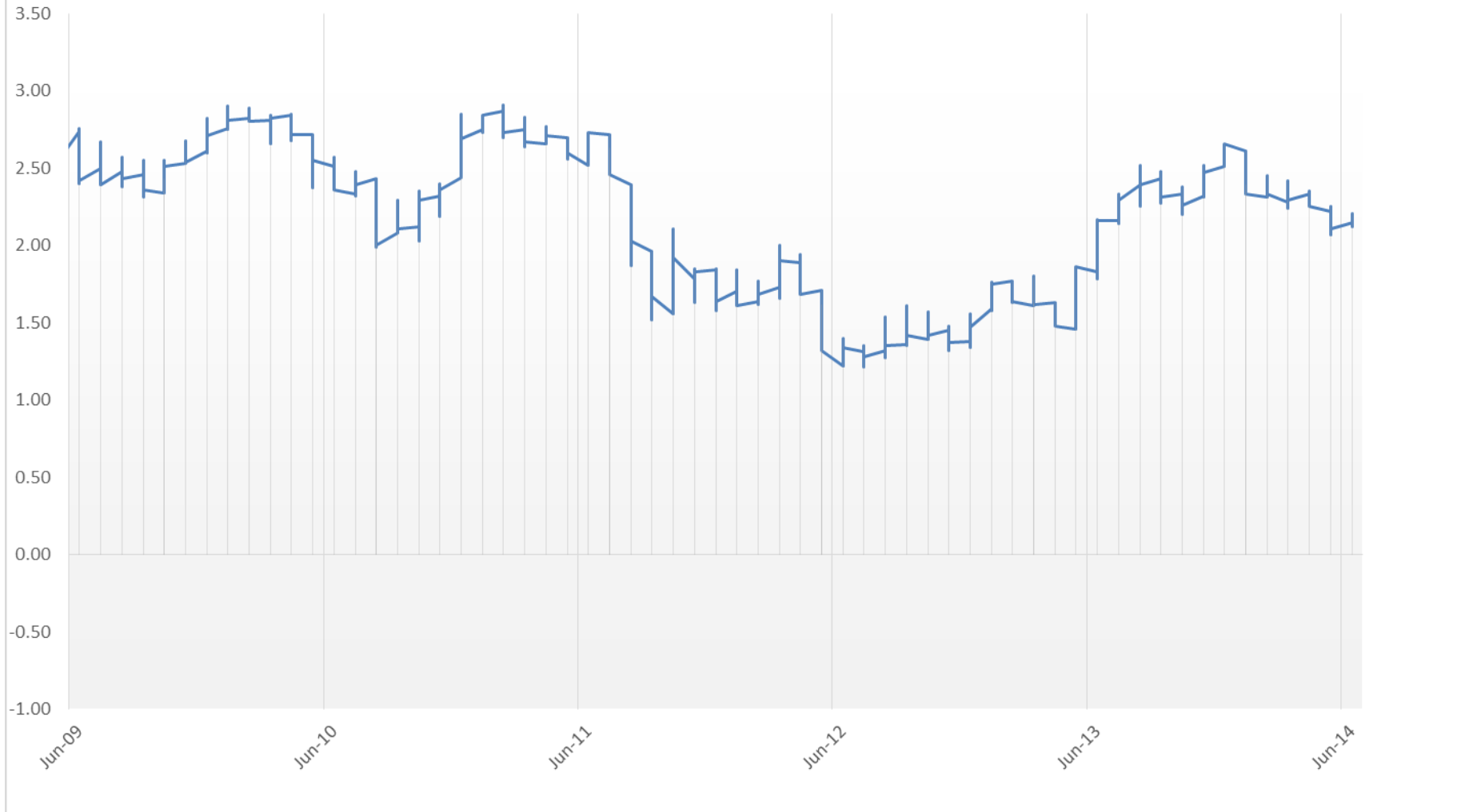
Bloomberg

S5FINL Index (S&P 500 Financials Sector Index GICS Level 1)
EHUPUS Index (US Unemployment Rate (%))



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Yield Spread 2Yr T-Note v 10Yr T-Note



Financial Analysis

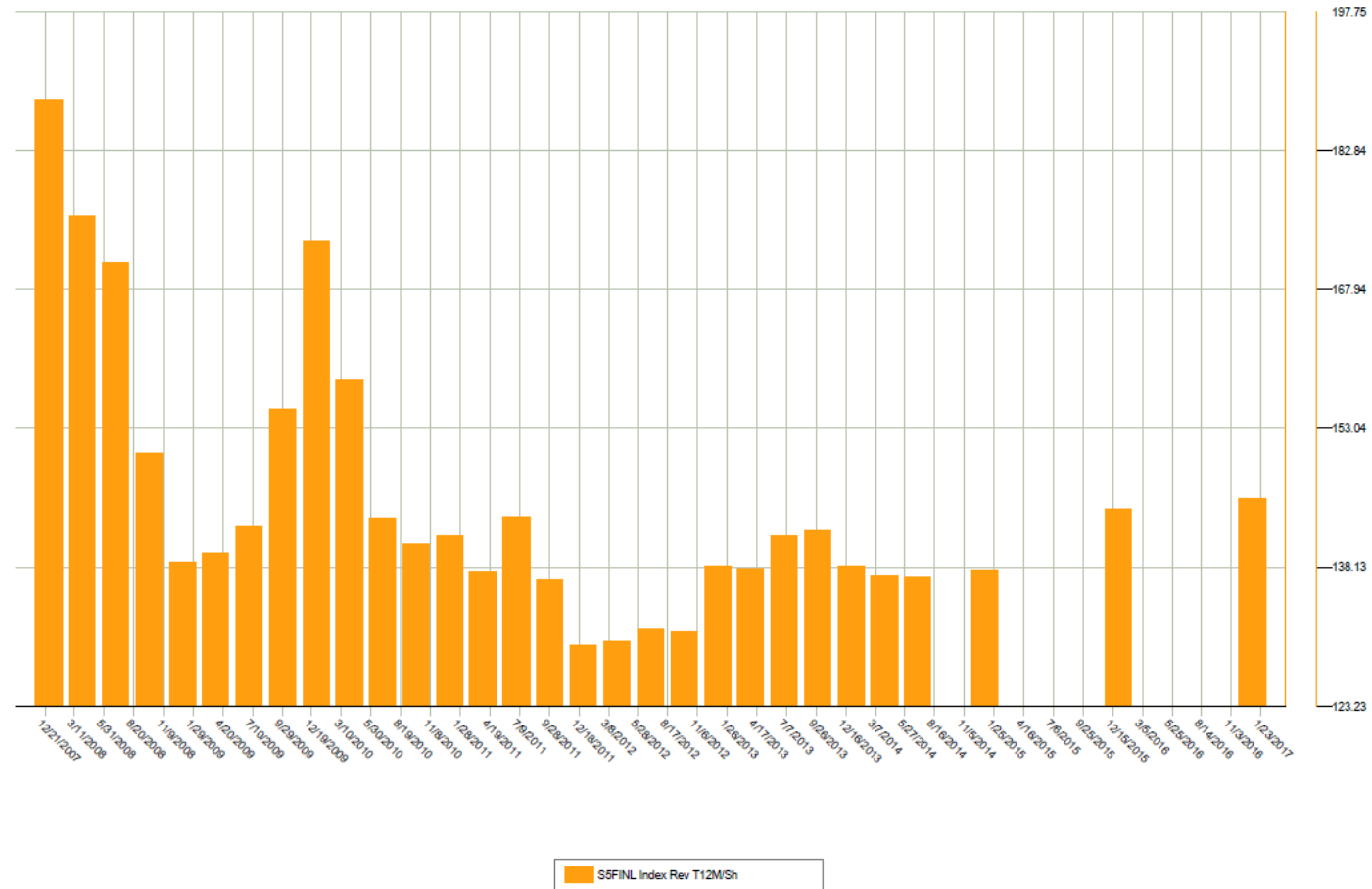
Trailing 12 months Earnings

Bloomberg

Graphical Financial Analysis

Date Range: 12/31/2007 - 12/31/2015

Periodicity: Quarterly



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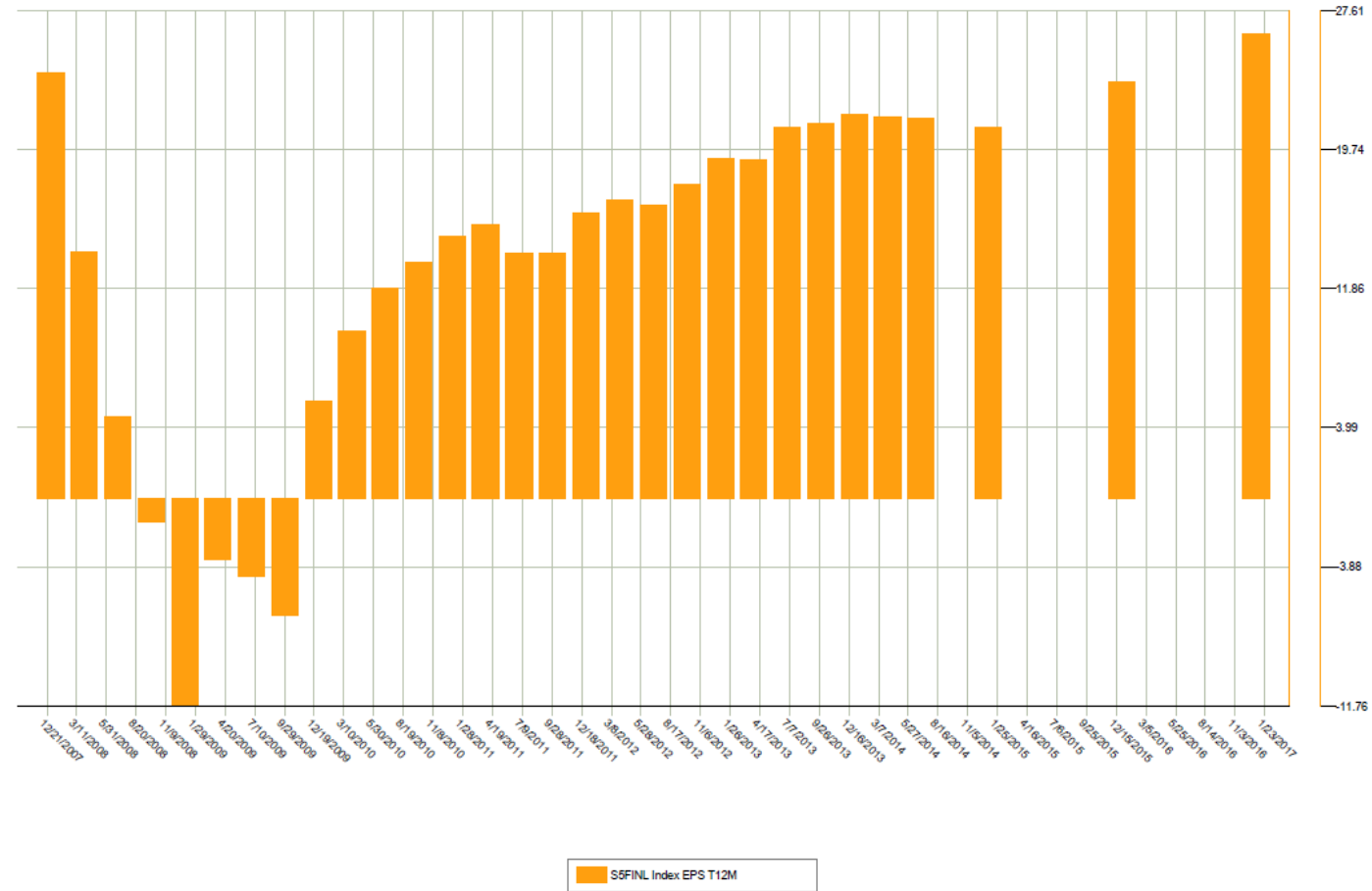
EPS

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Valuation Analysis

S&P vs. Financials

	S&P	Financials
P/E	17.94	14.29
Est P/E	16.57	14.64
P/B	2.73	1.36
P/S	1.75	2.24
EPS	109.21	21.48
Est. EPS	118.23	20.97
Div. Yield	1.91	1.71
Volume	436M	75M
Members	501	83

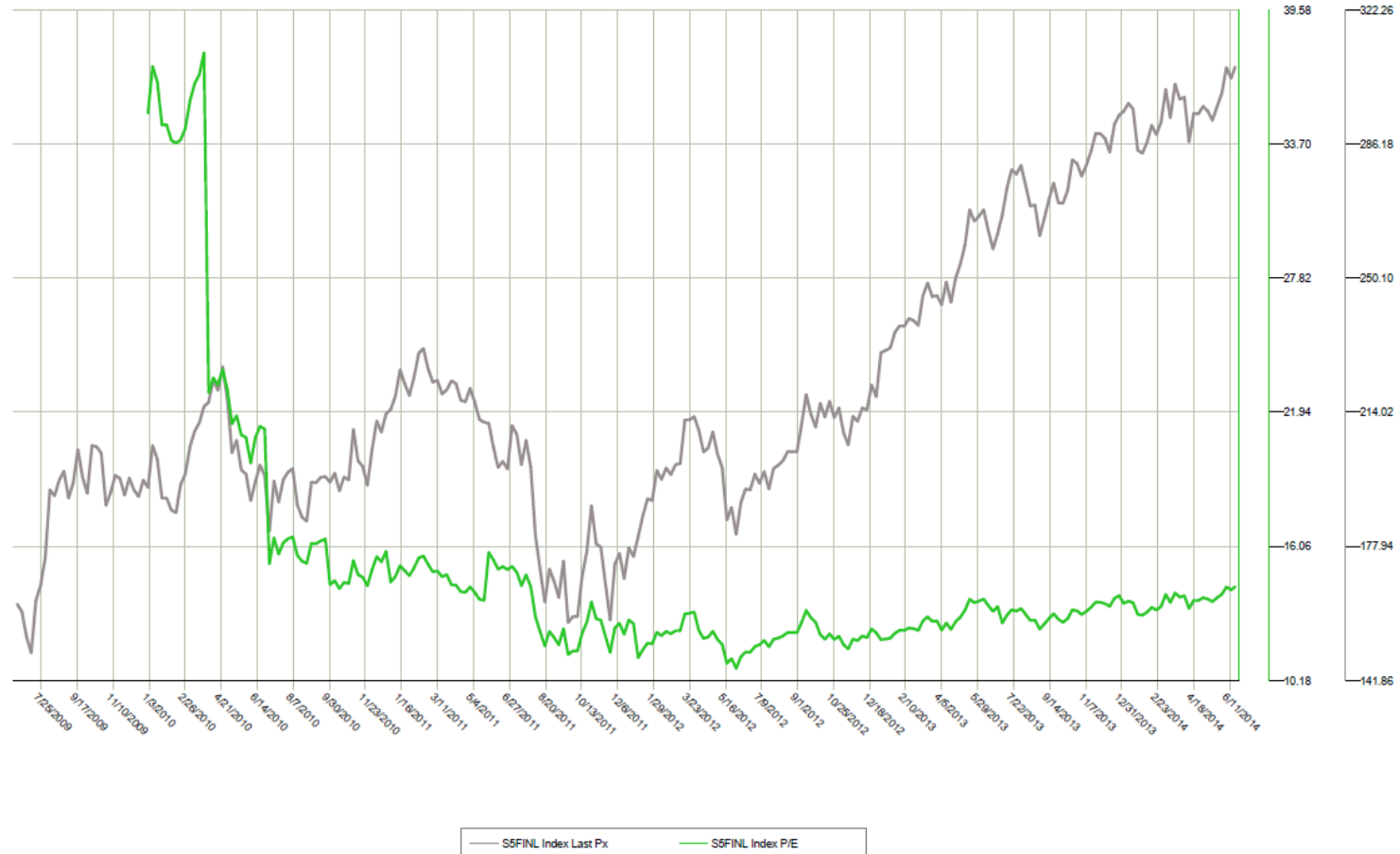
Price to Earnings Multiple Relative to Price

Bloomberg

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Financial Sector 10 Year Valuation

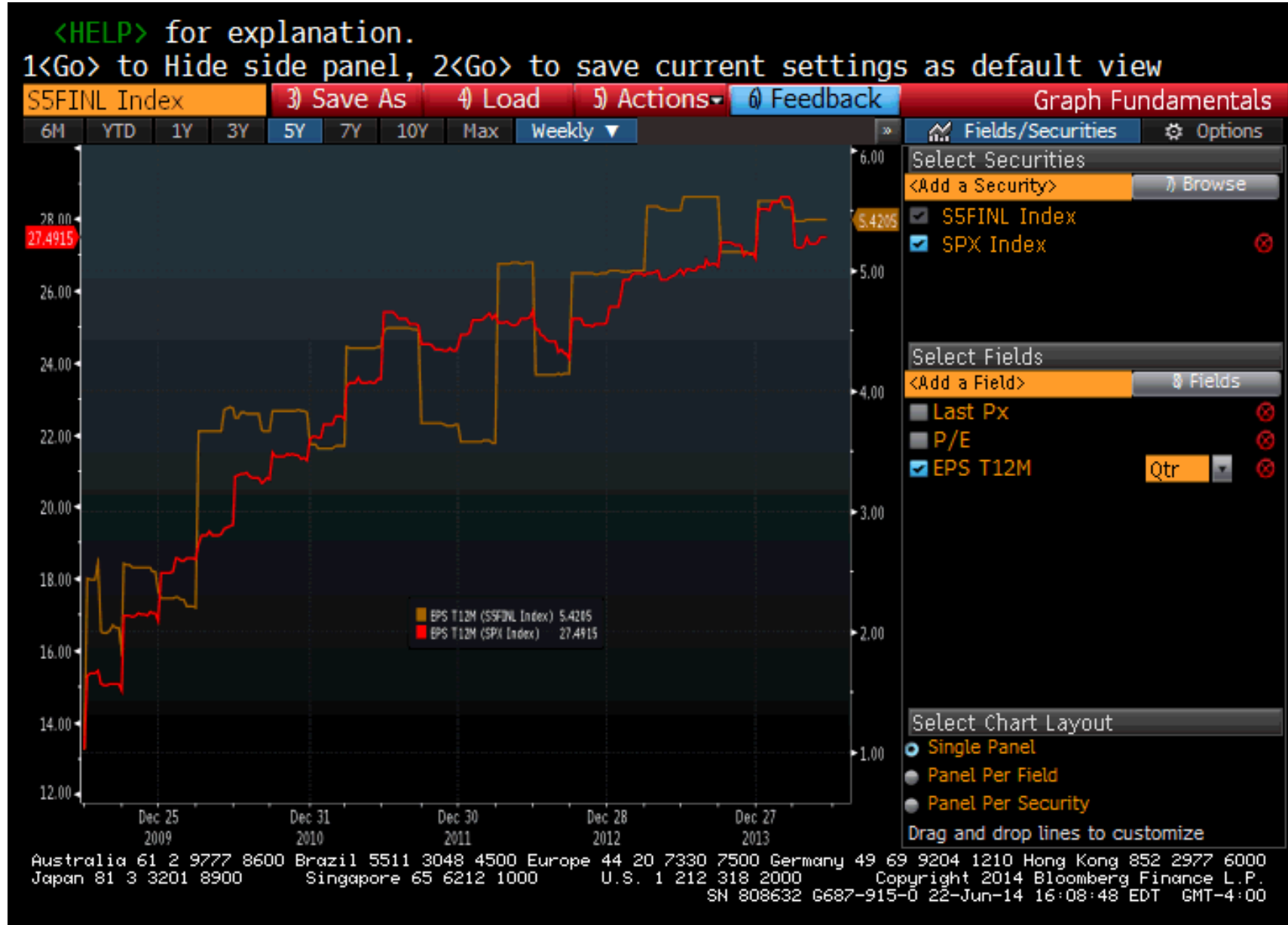
Absolute Basis	High	Low	Median	Current
P/E	173.47	10.85	13.64	13.64
P/B	2.16	0.60	1.25	1.29
P/S	2.58	0.74	1.85	2.14

Relative to S&P	High	Low	Median	Current
P/E	10.25	0.69	1.29	0.79
P/B	0.75	0.32	0.57	0.49
P/S	1.85	0.61	1.35	1.30

Financials to S&P Analysis



Financials and S&P EPS Comparison



Recommendation

Points to Consider

The financial sector has been lagging the broader index. Time for a rebound?

SIM has been correctly underweight during this time. Will it continue to be?

The banking segment lacks organic commercial loan growth. This should change during the next year.

Housing remains relatively weak; many mortgages still under water.

Mortgage lending could remain suppressed for years.

Regulatory burdens are extremely costly, but easier for the biggest banks to handle.

Banks have positioned their balance sheets to benefit in rising rate environment.

The yield curve should steepen (Fed and inflation), which will hinder REITs but bolster banks.

Allowances for loan losses should continue to dwindle, bolstering the bottom line.

SIM should increase financial sector holding by 300 bps.

Thank you!