



THE OHIO STATE UNIVERSITY

FISHER COLLEGE OF BUSINESS



THE OHIO STATE UNIVERSITY

Financial Sector

Student Investment Management

Deven Suthar

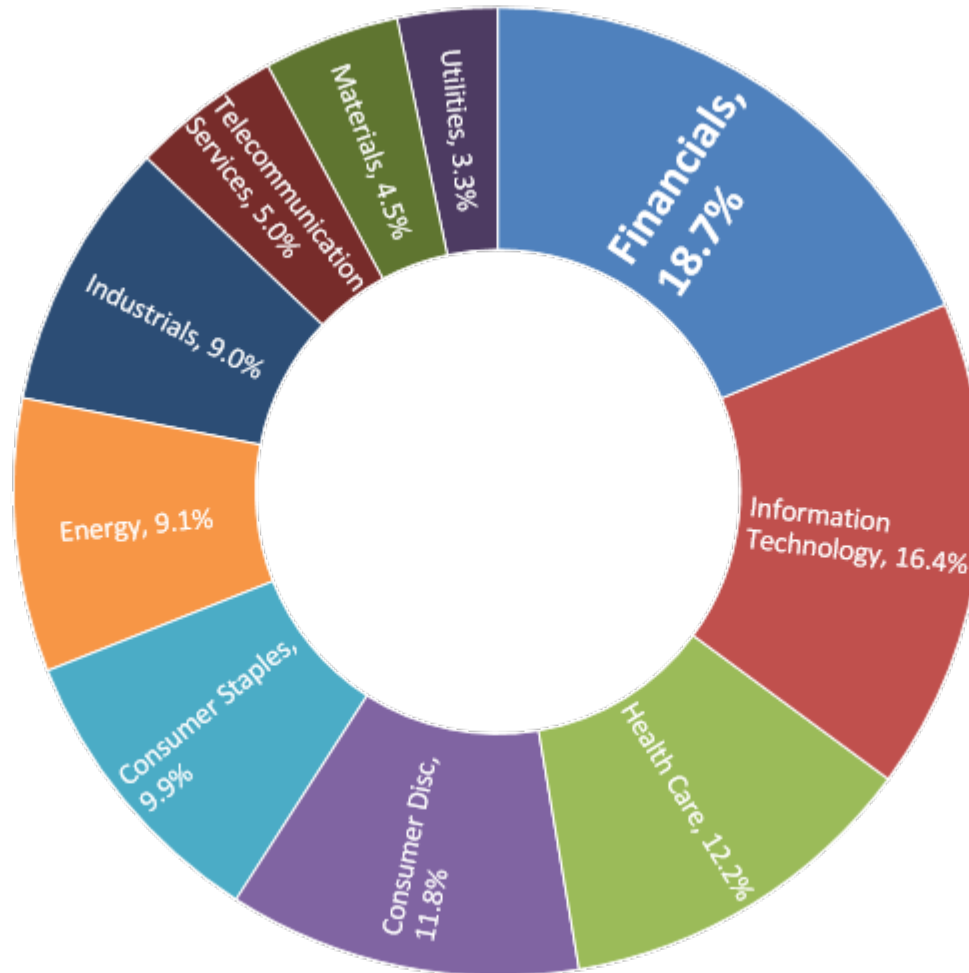


- Financial Sector Overview
- Business Analysis
- Economic Analysis
- Financial Analysis
- Valuation
- Recommendation
- Questions



Size of the Sector

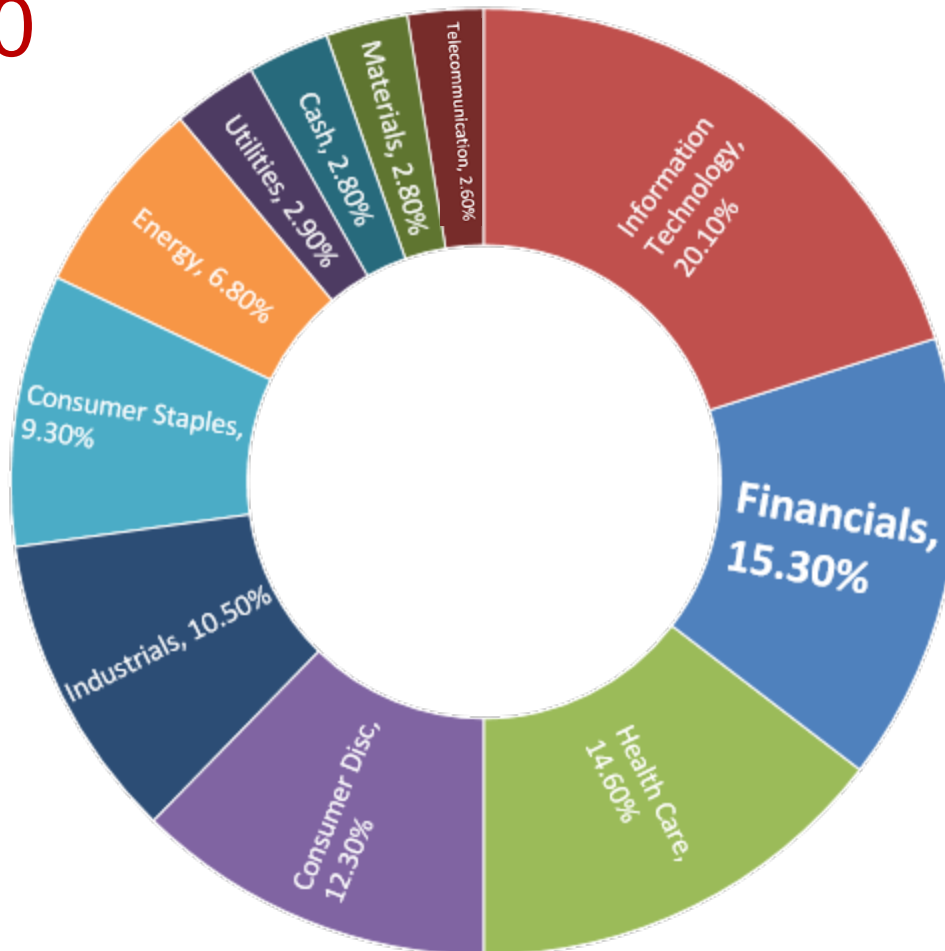
Largest sector in the S&P 500, \$6.59T





Student Investment Management Fund

SIM Fund financial holdings underweight S&P 500



WELLS FARGO

AMERICAN EXPRESS

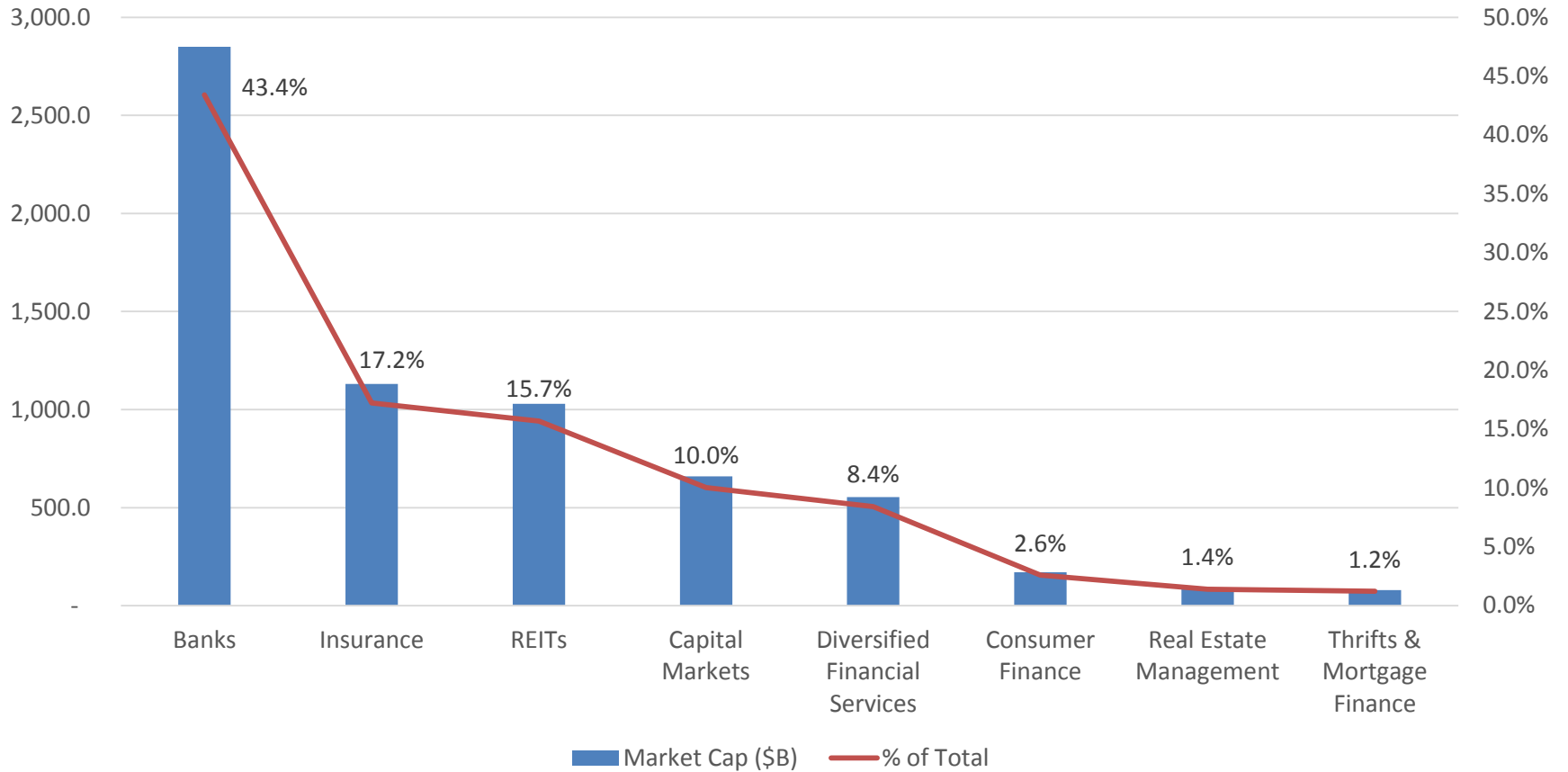
citi

Goldman Sachs



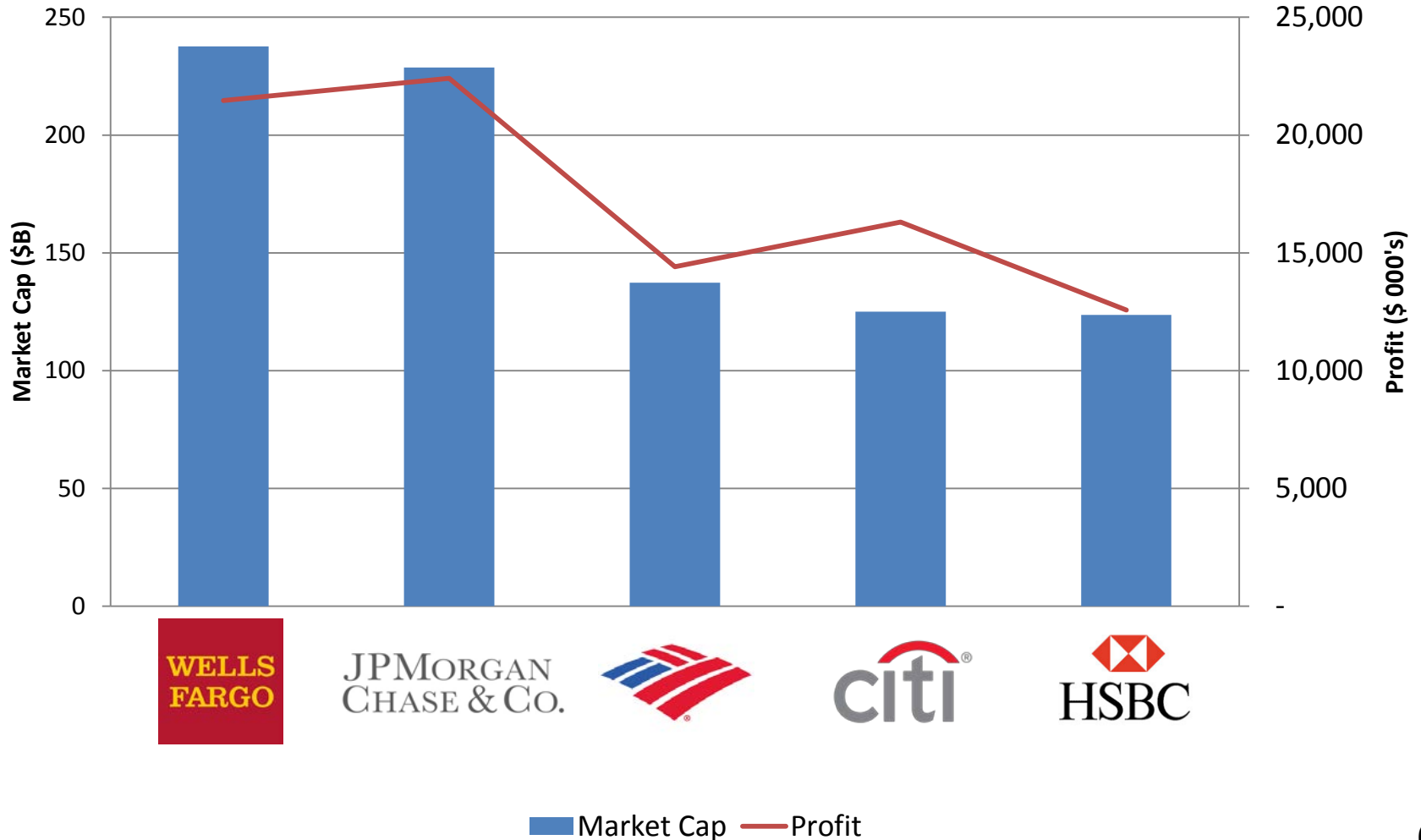
Industries within the Sector

Sector consists of eight industries





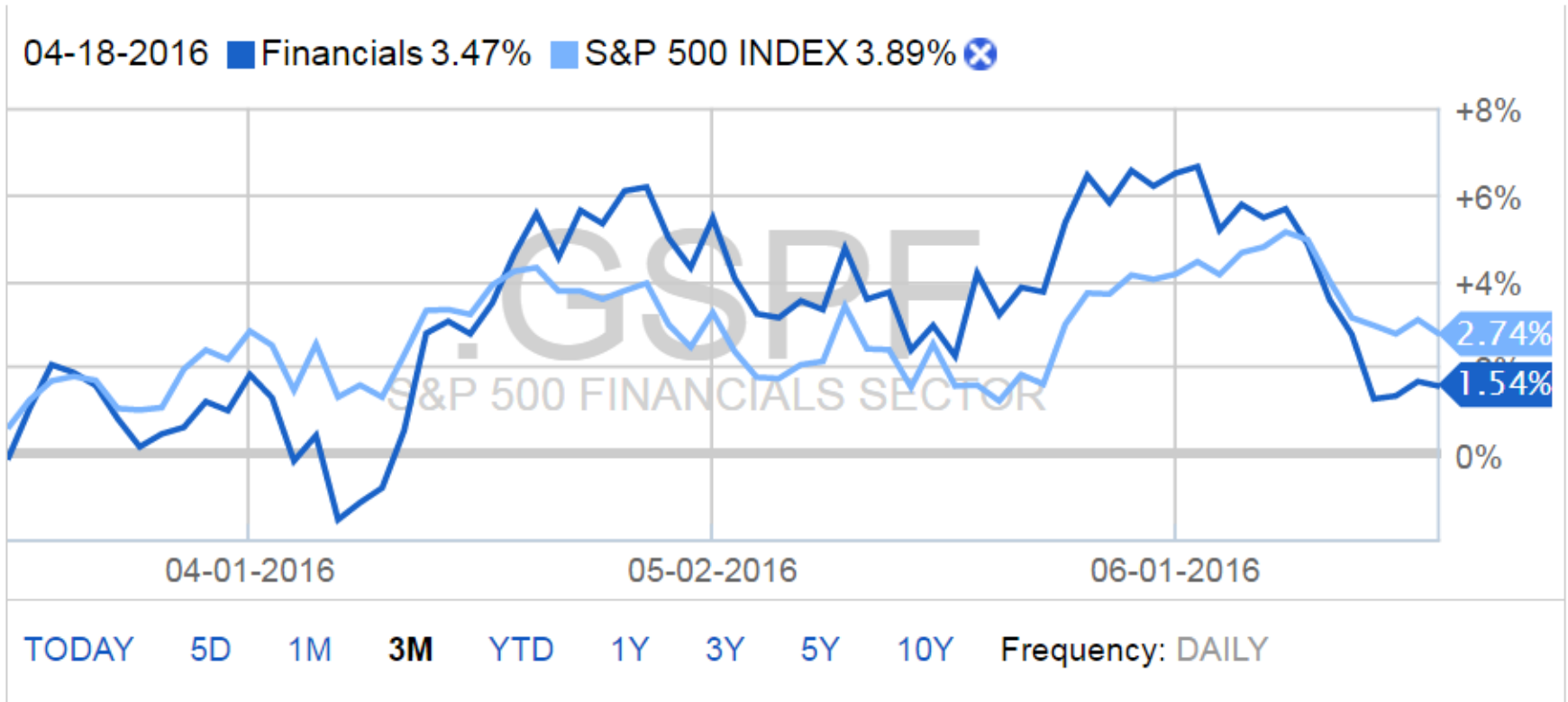
Largest Companies in the Sector





Sector Performance vs. S&P 500

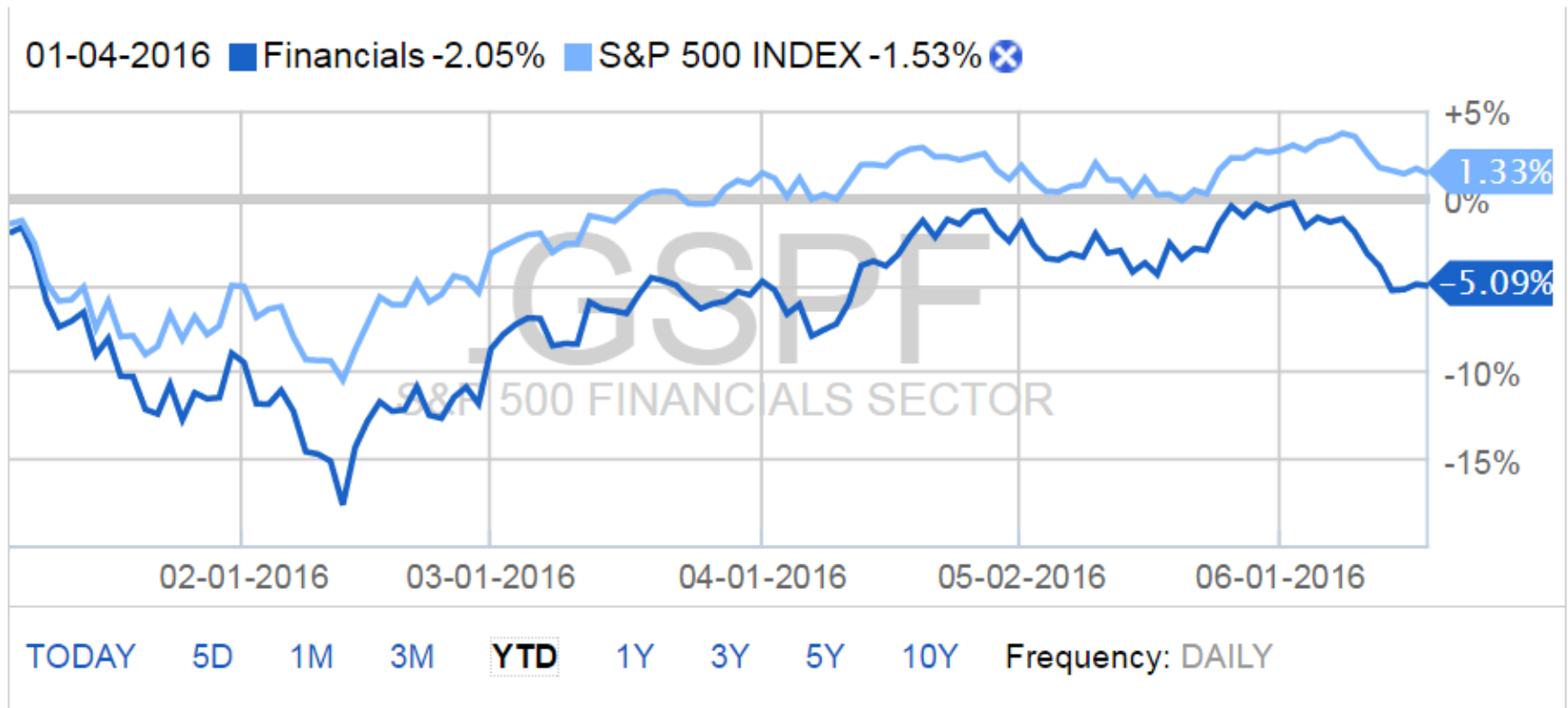
Sector performance past 3 months





Sector Performance vs. S&P 500

Year-to-date sector performance





Sector Performance vs. S&P 500

Sector performance past 5 years

- Financial sector has underperformed the S&P 500 over the past 10 years

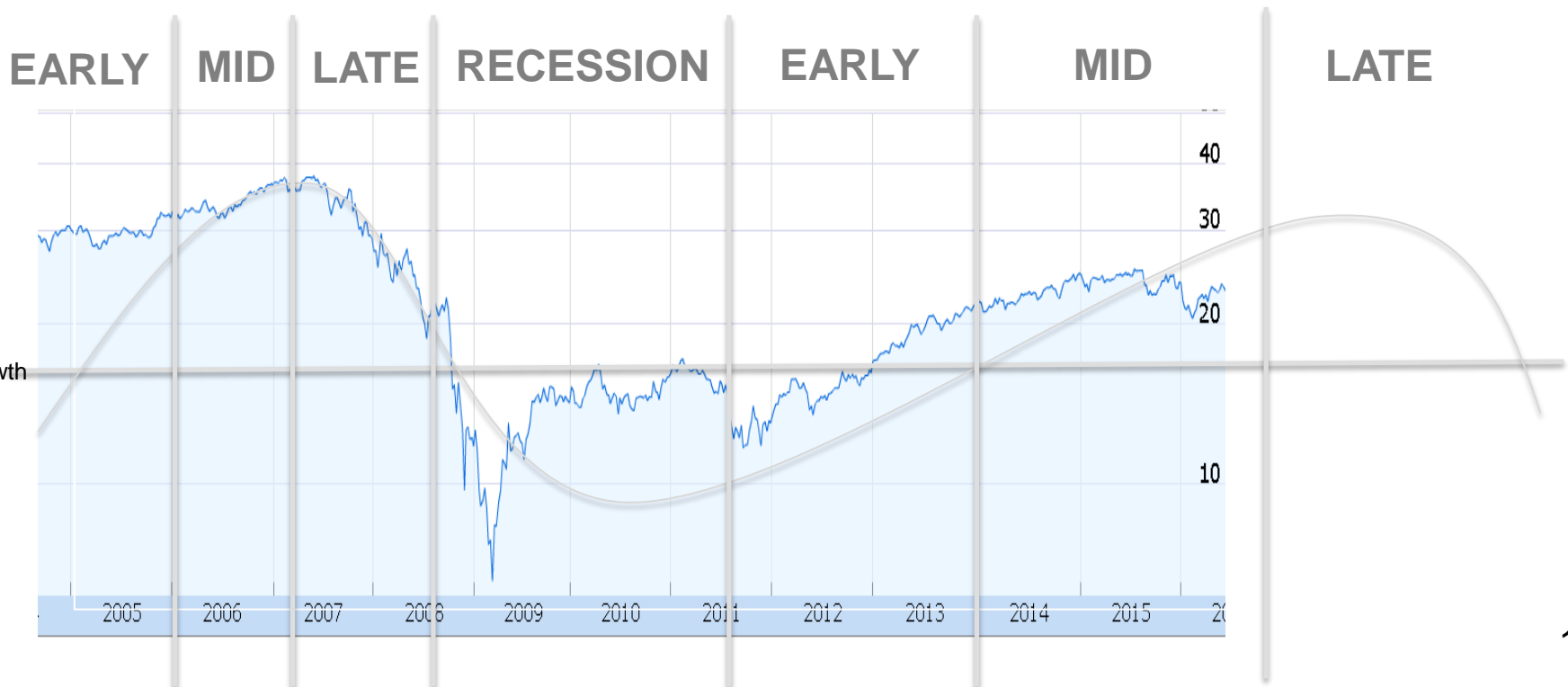
Sectors	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500® Index	1.3%	-1.2%	27.3%	63.4%	65.5%
Utilities	16.7%	19.5%	34.2%	54.1%	57.5%
Telecommunication Services	16.2%	13.2%	8.7%	34.7%	33.9%
Energy	11.7%	-11.1%	-14.6%	-6.5%	26.6%
Materials	8.4%	-5.4%	18.1%	29.5%	56.9%
Consumer Staples	5.9%	11.4%	31.3%	71.6%	124.7%
Industrials	4.5%	1.5%	29.4%	58.4%	58.9%
Consumer Discretionary	-0.2%	2.1%	39.1%	108.0%	137.0%
Information Technology	-1.4%	0.0%	42.1%	82.0%	130.2%
Health Care	-2.8%	-6.1%	44.5%	101.7%	130.2%
Financials	-5.1%	-9.3%	16.2%	53.5%	-28.6%



Economic Cycle Analysis

Economic cycle for financial sector – Mid Stage

- Inflation pressure remains low, interest rates also remain low





Porters 5 Forces Analysis

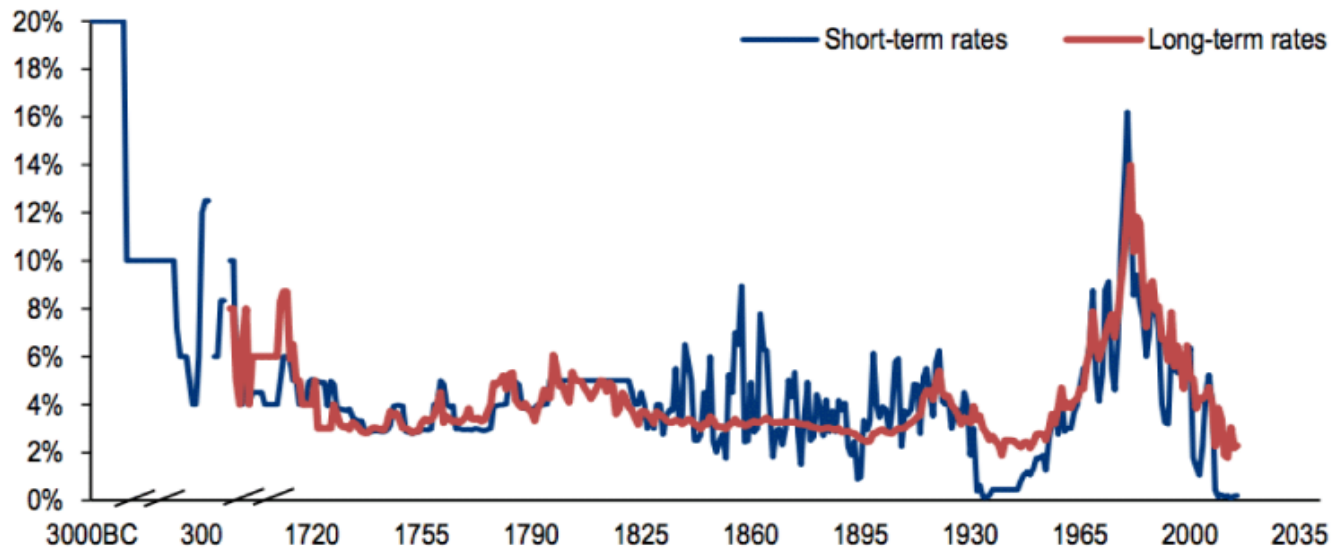
Power of Suppliers	High	Federal Reserve has high influence over the financial industry through monetary policy and control of the money supply
Rivalry	High	Undifferentiated product and low switching costs leads to high rivalry
Threat of Substitutes	Med	Undifferentiated products but lack of substitutes to existing financial instruments
Power of Buyers	Low/Med	Low switching costs and low brand loyalty
Threat of New Entry	Low	High regulation and capital requirements force strong barriers to new entrants

Overall an undifferentiated product along with high external factors leads to an unattractive sector



Lowest interest rates 5000 years

- 2/3 of Citigroup's revenues in 2015 generated from interest revenue



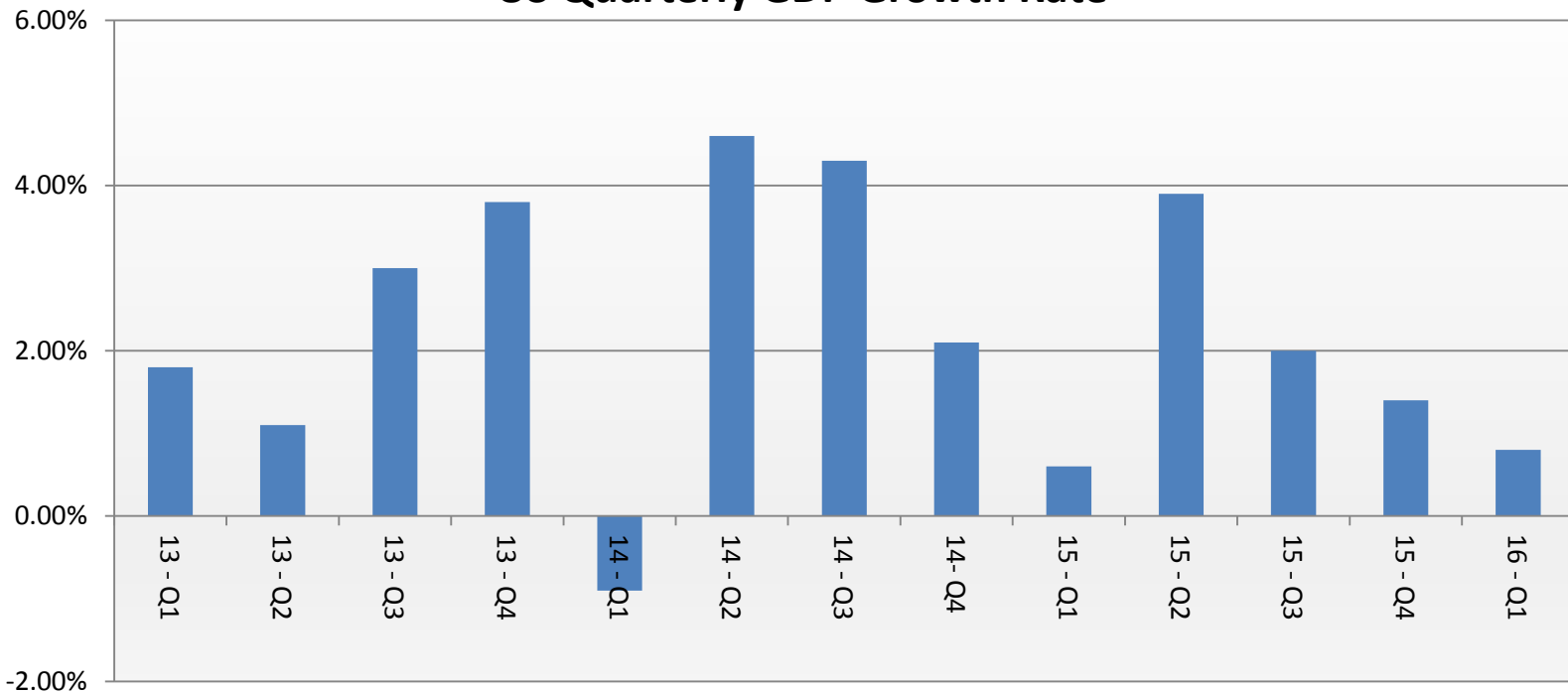
Sources: Bank of England, Global Financial Data, Homer and Sylla "A History of Interest Rates"

Note: the intervals on the x-axis change through time up to 1700. From 1700 onwards they are annual intervals. Full methodology available upon request



Positive but inconsistent and shrinking GDP growth rate

US Quarterly GDP Growth Rate





June, 2016 Federal Open Market Committee (FOMC) meeting notes

- Growth in economic activity has picked up
- Housing sector has continued to improve
- Inflation continues to run below the committee's 2 percent long run objective
- Pace of improvements in the labor markets has slowed
- Maintain the target range for the fed funds rate at .25 to .50 percent (rate which banks charge for overnight loans)
- Fed discount rate remains at 1 percent (rate at which banks borrow from Federal Reserve)



Global Uncertainty and Slowdown

Uncertainty affecting global markets

- Lowest China GDP growth rate since 1999
- European debt crisis
- Potential exits in the Eurozone
- South American recession (especially Brazil)
- Slowdown in M&A activity
- Middle East conflicts

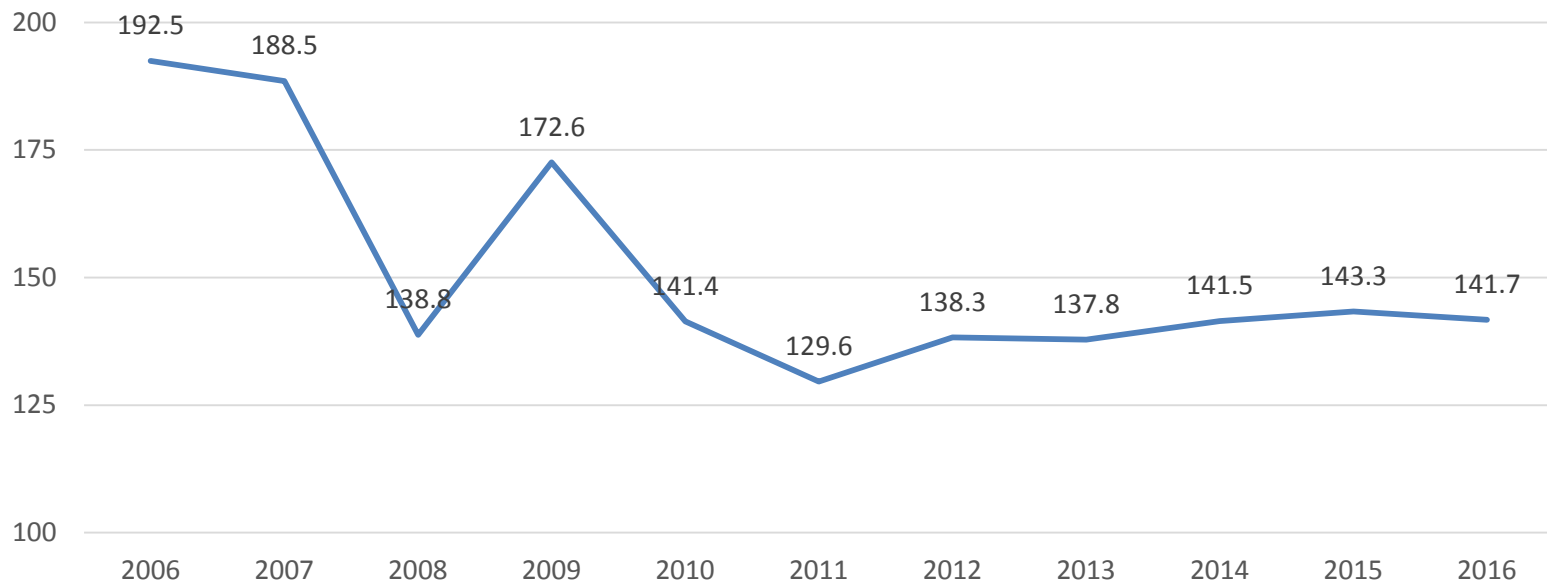




Yearly Sales

Sales numbers have not returned to pre-financial crisis levels

- Sales growth has diminished since 2012
- Sales have been steady since 2012

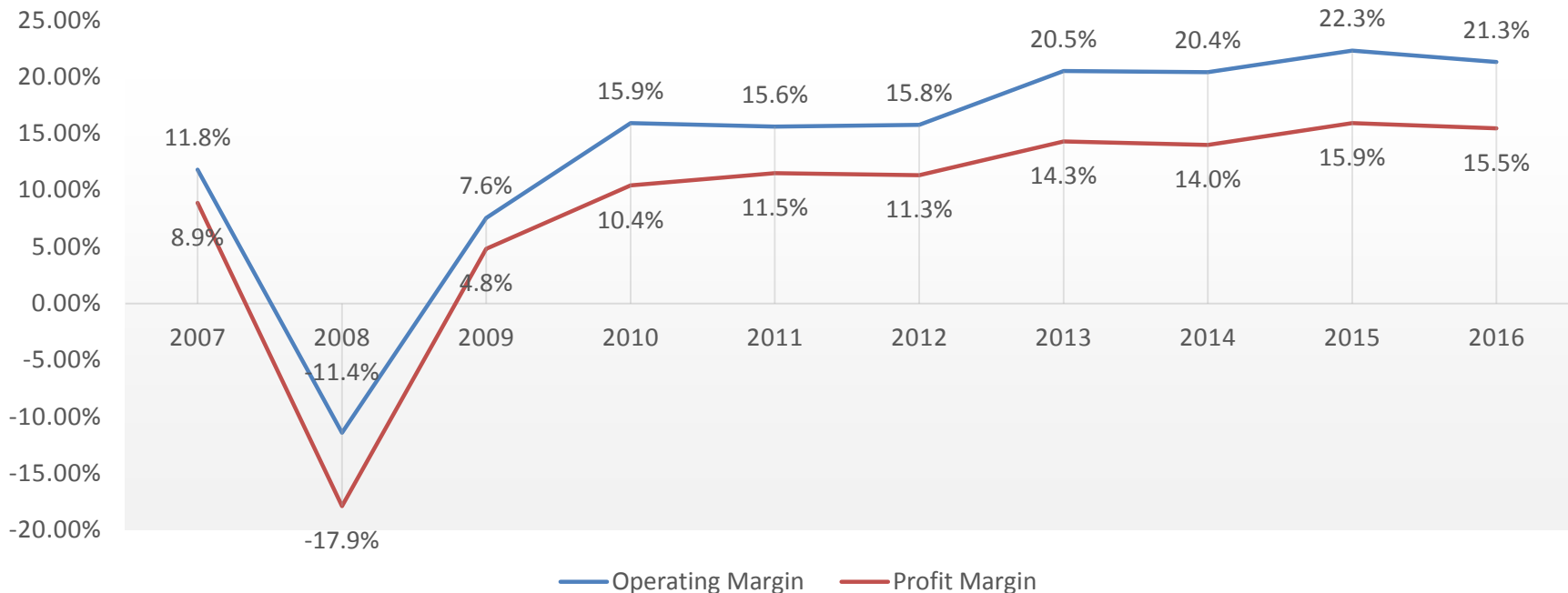




Improving Margins

Margins have been improving since the financial collapse

- Higher margins then before the financial collapse





Earnings and Earnings Growth Rate

Financial earnings increasing at a slower rate

- Flat earnings growth for 2015. 2016 YTD earnings growth at -5%
- Lower sales but improving margins has lead to 2017 level earnings

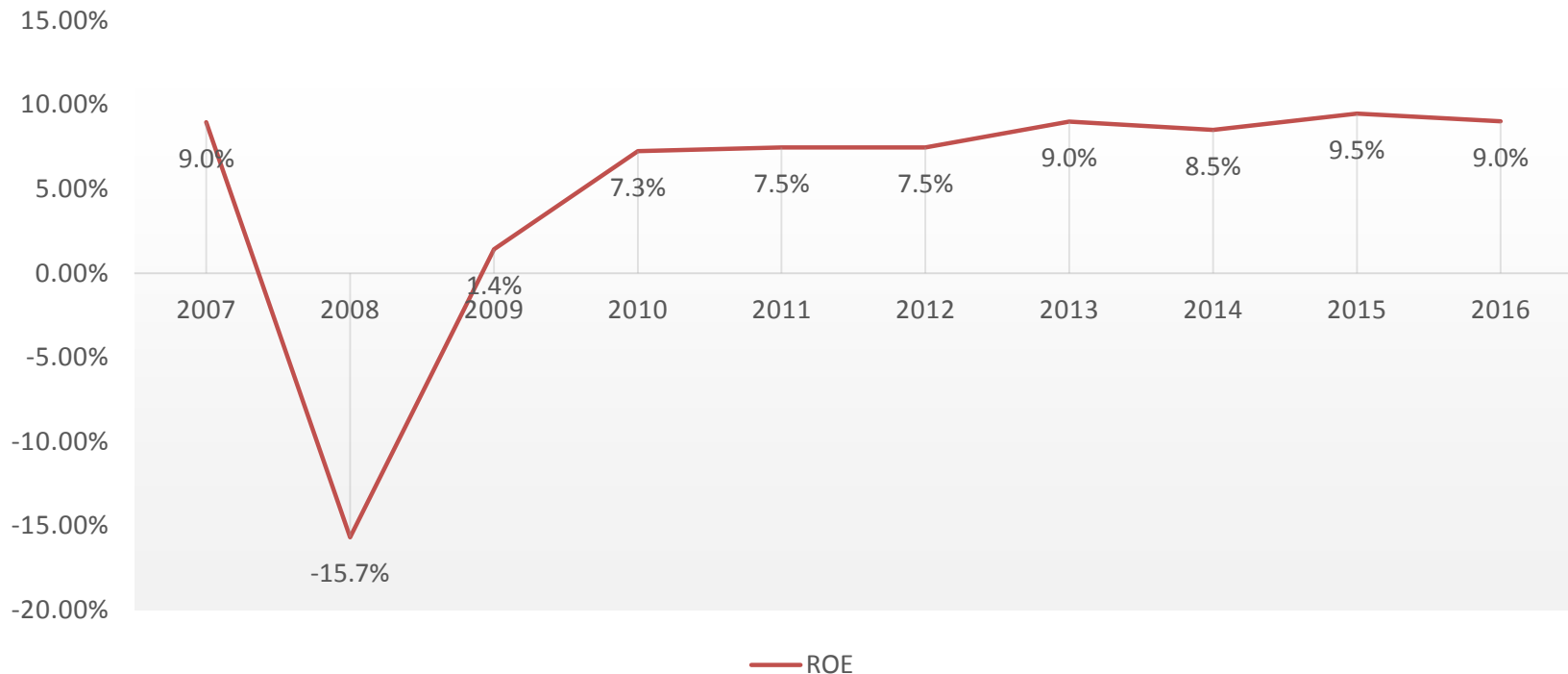




Return on Equity

ROE recovered substantially since 2008

- Improvements stagnant since 2013





Over the past 10 years Financial Sector has been show what cheaper then S&P 500

- One exception is 2008 and 2009 when Earnings were negative
- On a relative basis the financial sector is cheaper with the exception of P/S

Financial Sector vs. S&P 500 - Absolute Basis

	High		Low		Median		Current	
	S&P 500	Financial	S&P 500	Financial	S&P 500	Financial	S&P 500	Financial
P/E	24.48	1236.00	12.10	11.77	16.71	14.09	19.32	14.93
P/BV	2.98	2.05	1.64	0.60	2.41	1.23	2.79	1.27
P/S	1.87	2.60	0.74	0.74	1.44	1.85	1.87	2.18
Price/EBITDA	10.87	9.12	4.40	7.21	7.33	8.29	10.86	8.15

Financial Sector vs. S&P 500 - Relative

	High	Low	Median	Current
P/E	50.490	0.973	0.843	0.773
P/B	0.688	0.366	0.510	0.455
P/S	1.390	1.000	1.285	1.166
P/EBITDA	0.839	1.639	1.131	0.750



Current SIM Fund valuation

- Each holding relatively inexpensive compared to sector
- Historically big banks have traded close to 1x BV, Citigroup is currently 40% below historical BV

Company	Ticker	% of Portfolio	Trailing PE	Forward PE	Trailing EPS	Forward EPS	P/S	P/BV
Wells Fargo	WFC	4.27%	11.39	11.43	4.09	4.08	2.6	1.37
Goldman Sachs	GS	4.08%	9.89	10.15	14.72	14.35	1.8	0.80
American Express	AXP	2.85%	11.6	11.11	5.33	5.57	1.8	2.84
Citigroup	C	4.08%	7.91	8.99	5.37	4.73	1.5	0.59
S&P 500	SPX	N/A	19.16	17.7	108.1	117.65	1.85	2.77
Fin Sector	S5FINL	N/A	14.76	13.92	20.69	21.94	2.15	1.25



Hold current 3.5% underweight position to S&P 500

- Remain fairly conservative on the key factors affecting the financial sector
- Continued delay in fed funds rate increase
- Continued global risks weighing on sector

Switch from underweight to makeweight following clear path to interest rate increases

